

# Pensions Committee

2pm, Wednesday 27 March 2019

## Lothian Pension Fund – Proposed Internal Audit plan for 2019/20

Item number	5.3
Executive/routine	
Wards	All
Council Commitments	<a href="#">Delivering a Council that works for all</a>

### 1. Recommendations

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The Pensions Committee (**Committee**) is requested to:

- 1.1 **approve** the Lothian Pension Fund 2019/20 Internal Audit plan.

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## Lothian Pension Fund – Proposed Internal Audit plan for 2019/20

### 2. Executive Summary

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- 2.1 The purpose of this paper is to present the Lothian Pension Fund (LPF) proposed Internal Audit plan (the plan) for the period 1 April 2019 to 31 March 2020 to the Committee for approval.
- 2.2 A total of three reviews and ongoing IA follow up on implementation of previously raised findings are included in the proposed plan which is in line with Internal Audit coverage in previous years. It should also be noted that LPF also may be included within the scope of any relevant Council wide thematic reviews included in the 2019/20 IA plan.
- 2.3 The plan has been developed with the LPF senior management team to ensure that Internal Audit (IA) assurance activity is focused on the most relevant risks for LPF.
- 2.4 It should also be noted that Internal Audit is not the sole source of assurance provision for LPF, as a number of additional external third line assurance providers are engaged (in addition to the annual external audit review of LPF's financial statements) to provide assurance across the full population range of LPF risks.
- 2.5 The current Internal Audit co-source arrangement with PwC will continue be used in 2019/20 where the required skills sets are not available within the IA team.
- 2.6 Public Sector Internal Audit Standards (the "Standards") specify that the purpose, authority, and responsibility of Internal Audit (IA) must be formally defined in an Internal Audit Charter (the "Charter") that is periodically reviewed, and presented to senior management and the board for approval. The Council's IA charter that was reviewed and approved by the Corporate Leadership Team and the Governance Risk and Best Value Committee in March 2020 fulfils this requirement.

### 3. Background

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- 3.1 The LPF IA plan is driven by Public Sector Internal Audit Standards (PSIAS) requirements; LPF's organisational objectives and priorities; and an assessment of

the risks that could prevent LPF from meeting those objectives and providing pension services to employers and members.

- 3.2 The methodology used to create the Fund’s IA plan is the same as that applied when developing the City of Edinburgh Council’s (the Council) 2019/20 IA annual plan, that was presented to the Governance, Risk, and Best Value Committee for approval on 20 March 2019. The Council IA plan also includes of the IA days required to deliver the LPF 2019/20 plan.
- 3.3 It should also be noted that IA is not the sole source of assurance provision for Lothian Pension Fund, as assurance on risks is also provided by external specialists. LPF is currently preparing an ‘assurance map’ at the request of the Pensions Audit Sub-Committee, that will illustrate how assurance is provided from all sources across the full population of LPF’s risks.

## 4. Main report

### Preparation and content of the proposed plan

- 4.1 The areas proposed for inclusion in the plan were identified by considering the key risks included in the Fund’s risk register, and discussions with the Fund management team; the convenor of the Pensions Audit Sub-Committee; and the Independent Observer to the Pensions Committee.
- 4.2 The scope of the three reviews planned for the year to 31 March 2020 are detailed below:

	Audit Scope	Planned days
1	<p><u>Charles River Project – pre-implementation system testing</u></p> <p>This review will assess the adequacy and effectiveness of pre-implementation testing performed on the new front office system.</p>	20
2	<p><u>Pensions entitlement calculations</u></p> <p>This review will assess the design adequacy and operating effectiveness of the key controls established to ensure the completeness and accuracy of a sample of pensions entitlement calculations (for example transfers out; retirals; lump sums; monthly pensions; death grants; and refunds of contributions).</p> <p>It is likely that this review will be included in subsequent plans to ensure an appropriate depth of assurance on each type of calculation across the full population of members.</p> <p>Data analytics will also be used (where possible) to support this review.</p>	20
3	<p><u>Custodian Services</u></p> <p>This review will assess the adequacy and effectiveness of the key controls supporting custodian services provided by Northern Trust to LPF; and the</p>	20

	adequacy and effectiveness of LPF's ongoing supplier management arrangements with Norther Trust.	
4	<p><u>Follow up</u></p> <p>Ongoing follow up to confirm that agreed management actions have been effectively implemented and sustained to support closure of previously raised IA findings.</p>	20

### **Council wide thematic IA reviews**

- 4.3 It should be noted that LPF may also be included within the scope of any relevant Council wide thematic reviews included in the 2019/20 IA plan that was presented to the Governance, Risk and Best Value Committee for approval on 20 March 2019.

### **General Data Protection Regulations and ongoing records management**

- 4.4 Information Governance and the extent of compliance with the new General Data Protection Requirements (GDPR) that came into force in May 2018 remain key risks for LPF. The IA assurance approach applied to the risks associated with GDPR compliance within LPF is as follows:

4.4.1 It was confirmed in 2018 that LPF would be registered under the Council's Information Commissioner's Office registration for GDPR with the Council assuming data controller responsibilities for LPF.

4.4.2 Consequently, the Fund was included within the Council wide GDPR readiness review completed in 2017/18 by the Council's Information Governance Unit (IGU). The objective of this review was to identify any significant gaps between existing processes and the new GDPR requirements, and provide service areas with action plans to ensure that these gaps were addressed.

LPF received a total of 7 actions (6 Medium and 1 Low priority) as part of this review in February 2018.

Management has advised that each of the actions had been considered by LPF as part of their GDPR action plan, as summarised in the report provided to the Pensions Committee in June 2018, and that discussion with IGU in June confirmed that each of the initial actions had either been completed or were in progress and on track.

4.4.3 IGU then completed further validation work in 2018/19 to confirm (via discussion with service areas) that satisfactory progress was evident with all GDPR action plans.

4.4.4 A 2018/19 Council wide IA GDPR review is about to commence. This will focus on the design of the IGU validation process, and select a sample of services to confirm (by testing) that there GDPR actions have been

effectively implemented and sustained. LPF will be included in the scope of this review.

- 4.4.5 No further IA assurance coverage of LPF's ongoing GDPR compliance is proposed the 2019/20 plan year.

## **5. Next Steps**

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- 5.1 Once approved by the Pensions Audit Committee, the reviews included in the 2019/20 IA plan will be performed across the year from June 2019.
- 5.2 The outcomes of the reviews included in the plan together with progress on open and overdue IA findings will then be used as the basis for the 2019/20 LPF IA annual opinion.

## **6. Financial impact**

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- 6.1 The costs associated with delivery of the LPF 2017/18 IA plan were £19,424. It should be noted that this did not include IA time spent on follow-up, and that PwC costs associated with a review of payroll outsourcing were not recharged.
- 6.2 The 2018/19 plan is in progress and will include specialist support from PwC for the review of unlisted investment valuations and application of fund administration fees and charges. It is anticipated that the costs associated with delivery of the 2018/19 plan will be higher reflecting PwC support and follow-up activity. Once calculated, these will be discussed and agreed with LPF management.
- 6.3 IA will be implementing use of time sheets to support accurate time recording on audits with effect from 1 April 2019 to support delivery of the 2019/20 IA plan. Costs applied to LPF for the 2019/20 plan year will be based on actual time spent as recorded in IA time sheets, and will be discussed and agreed with LPF management.

## **7. Stakeholder/Community Impact**

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- 7.1 The LPF management team; Convenor of the Pensions Audit Sub-Committee; and the Independent Professional Observer to the Pensions Committee were consulted when developing the 2019/20 IA plan.

## **8. Background reading/external references**

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- 8.1 [Public Sector Internal Audit Standards](#)

## 9. Appendices

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9.1 None.