

Pensions Audit Sub-Committee Minutes

2pm, Tuesday 6 December 2022

Present:

John Anzani (Convener); Councillors Phil Doggart and Neil Ross.

Pension Board Member present:

Nick Chapman

Other Attendees:

Andy McKinnell (Independent Professional Observer) and Laura Calder (Senior Audit Manager, City of Edinburgh Council)

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present and the Convener declared the meeting open.

2. Order of Business

The Clerk confirmed that there was no change to the order of business.

3. Declaration of Interests

Decision

Councillor Doggart declared a non-financial interest in item 8 below (Lothian Pension Fund Internal Audit External Quality Assessment) as a contributor to the external audit assessment.

4. Minutes

Decision

To approve the minute of the Pensions Audit Sub-Committee of 27 September 2022 as a correct record.

5. Pension Board oversight

The Pension Board representatives confirmed that the Pension Board would provide comment any relevant matters during the meeting.

6. Agenda Planning

An overview of proposed reports for Pensions Committee and Pensions Audit Sub-Committee meetings for March and June 2023 was presented.

Decision

- 1) To agree that an additional meeting of the Pensions Audit Sub-Committee would be held on 21 March 2023.
- 2) To note that the Convener would consult other Audit Sub-Committee members if any change was required to the additional meeting arrangements.
- 2) To note the agenda planning document for the March and June 2023 meetings.
- 3) To note that the Pension Board Members were invited to comment on agenda items during Committee meetings.
- 4) To note that a review of the committee agenda planning process would take place in early 2023 and that a proposed way forward would be presented to Committee in March.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

7. Lothian Pension Fund – Internal Audit Update at 9 November 2022

An update was provided on progress of Internal Audit assurance activity on behalf of Lothian Pension Fund (LPF) carried out by the City of Edinburgh Council's internal audit team.

Delivery of the four audits included in the 2022/23 internal audit annual plan was underway with the first audit complete and planning for the remaining three audits in progress.

At 9 November 2022, LPF had fourteen agreed management actions. Two actions relating to Cessations and Technology Model Development were past their original implementation date. However, revised dates had been provided for both actions which were expected to be completed by 31 December 2022.

The Senior Audit manager reported to members that the Cessations outstanding action had closed on 6 December 2022.

The outcomes of the Project Forth Programme Assurance audit was also presented for the Sub-Committee's review and scrutiny.

Decision

- 1) To note the outcomes of the recently completed Project Forth Programme Assurance audit.
- 2) To progress with planning delivery of the remaining three Lothian Pension Fund audits which would support delivery of the 2023/24 annual audit opinion.
- 3) To progress with implementation of agreed management actions from previously completed internal audits.
- 4) To note that the Cessations outstanding action had closed on 6 December 2022.
- 5) To congratulate the Senior Audit Manager on her appointment as Chief Internal Auditor with the City of Edinburgh Council.

(References – Pensions Audit Sub-Committee 27 September 2022 (item 9); report by the Senior Audit Manager, City of Edinburgh Council, submitted)

8. Lothian Pension Fund – Internal Audit – External Quality Assessment

During 2021/22 the Chartered Institute of Internal Auditors (IIA) undertook an External Quality Assessment (EQA) of the City of Edinburgh Council's internal audit function in line with the requirements of the Public Sector Internal Audit Standards.

The EQA concluded that the Council's internal audit function generally conformed with the PSIAS which set out the expected standards for internal auditing including a code of ethics, core principles and international standards.

Two recommendations were made by the IIA to address partial conformance with standards. Management responses and action dates had been agreed.

The EQA report also identified a series of continuous improvement opportunities and suggestions which internal audit should use as a basis for future development. Internal audit had implemented a range of improvement actions to take forward these opportunities.

Decision

- 1) To note the outcome of the External Quality Assessment of the Council's Internal Audit function completed by the Chartered Institute of Internal Auditors (IIA) in March 2022.
- 2) To note the IIA recommendations to address the issues identified together with Internal Audit's management response and action dates.
- 3) To note the continuous improvement opportunities identified in the EQA and improvement actions taken by Internal Audit to realise these opportunities.

- 4) To note that updates on Internal Audit's EQA improvement activities would be provided to the Sub-Committee on a quarterly basis through the Internal Audit quarterly update report.

(References – Pensions Audit Sub-Committee 27 September 2022 (item 9); report by the Senior Audit Manager, City of Edinburgh Council, submitted)

9. Lothian Pension Fund - Internal Audit Review 2022

It was proposed to introduce a programme of internal audit for LPFI and LPFE effective from the 2023/24 financial year. The programme would be planned and implemented as part of an integrated programme of internal audit with the Fund and the second line assurance arrangements undertaken and arranged by the risk function of LPF.

The aim of the proposed new arrangements would be to enable a more tailored and efficient process to meet the needs of LPF and would align to the supplier strategy as set out in the 2022/23 strategy and business plan.

Any future audit reports and Annual Audit Opinion would still be made available to the City of Edinburgh Council and therefore there was not expected to be any change in oversight by the Council in its role as Administering Authority.

Decision

To note the proposals being considered to extend and improve the scope and provision of internal audit services for the LPF Group and the intention to bring final proposals to the March 2023 Pensions Committee for decision.

(References – Pensions Audit Sub-Committee 27 September 2022 (item 6); report by the Chief Executive Officer, Lothian Pension Fund, submitted)

10. EU Tax Claims and Other Income Tax Recoveries

A summary was provided of activity on EU and other special tax claims made on behalf of Lothian Pension Fund. No additional claims had been made during the period covering the last two reports and the amount recovered to date remained at £1.37m.

Progress on outstanding claims was reported with the main developments being that Lothian Pension Fund had withdrawn from the Manninen and Manufactured Overseas Dividend claims and Wtax had made additional Fokus claims in Germany on a no win no fee basis.

Decision

- 1) To note the report.
- 2) To note that the Fund had withdrawn from all Manninen and Foreign Income Dividend and also Manufactured Overseas Dividend reclaims.

- 3) To note that, as the success of these reclaims was uncertain, they only appeared as a contingent asset note in the Fund's audited annual accounts. Withdrawal from these reclaims had no impact on the bottom line figures reported.
- 4) To note that, in future, progress on Fokus reclaims would be covered in the Investment Income Cross Border Withholding Tax report.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

11. Pensions Data Quality Update

Information was provided of the ongoing work to enhance the quality of the pension administration membership record data. In accordance with the Pension Administration Strategy, the Fund continued to improve the flow of data from employers through regular reporting and liaison.

Members noted that this year the Fund had focused on cleansing member records for the annual benefit statement production and The Pensions Regulator Scheme return. The Fund had also been preparing for the McCloud remedy and the Pensions Dashboard Programme.

Decision

- 1) To note the report.
- 2) To agree that future reporting should include an alternative metric to demonstrate the member experience.

(Reference – report by the Chief Operations Officer, Lothian Pension Fund, submitted)

12. Investment Income Review Cross Border Withholding Tax

Information was provided on a benchmarking assurance review prepared by Ernst & Young into the effectiveness of the procedures in place to manage the tax exposure on the investment income of the Lothian Pension Fund and the Scottish Homes Pension Fund.

The review showed that Northern Trust was generally applying the correct withholding tax rates on investment income. The Fund had expressed concerns at the lack of progress in some markets to reclaim withheld tax which it was following up with Northern Trust as global custodian directly.

A summary of the opportunities and issues identified was also provided.

Decision

- 1) To note the report.
- 2) To note that, whilst the review by Ernst & Young showed that Northern Trust was generally applying the correct withholding tax rates on investment income, the Fund's

global custodian had been reminded of its obligation to take all appropriate steps to expedite receipt of withholding tax reclaims.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

13. Risk Management In-Depth Review

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of LPF's risk analysis and statement of risk appetite.

The Risk Management Group continued to meet regularly to assess all elements of the LPF Group's risk framework including the risk appetite, register, overall assurance position and any more granular risks escalation from other sub-groups.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Chief Risk Officer, Lothian Pension Fund, submitted)

14. Global Custody Supplier Management and Services Performance

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

The key performance indicator report for the 12 months ended 30 September 2022 provided by Lothian Pension Fund's custodian Northern Trust was presented.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

15. Information Security Update

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

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An update was provided on the implementation of Lothian Pension Fund's information security management system.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(References – Pensions Audit Sub-Committee 27 September 2022 (item 12); report by the Chief Operations Officer, Lothian Pension Fund, submitted)