

## **Pensions Audit Sub Committee**

### **2.00pm, Tuesday 23 June 2020**

## **Lothian Pension Fund – Proposed Internal Audit plan for 2020/21**

### **Item number 5.4**

#### **1. Recommendations**

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The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 review and note the Lothian Pension Fund 2020/21 Internal Audit plan; and
- 1.2 refer the Internal Audit plan to the Pensions Committee for approval.

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# Lothian Pension Fund – Proposed Internal Audit plan for 2020/21

## 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 2020 to 31 March 2021 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 City of Edinburgh Council (the Council) thematic reviews included in the Council's 2020/21 IA plan.
- 2.3 Whilst no targeted review of the LPF risk management framework has been performed in the last five years, it is proposed that combined review of the LPF risk management and the new assurance framework that is currently being developed and implemented is performed in financial year 2021/22.
- 2.4 Public Sector Internal Audit Standards (PSIAS) 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 approved by the Council's Leadership Advisory Panel in March 2020 fulfils this requirement.

## 3. Background

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- 3.1 The LPF IA plan is driven by 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 PSIAS specifies that the risk-based plan must take into account the requirement to produce an annual internal audit opinion. Consequently, IA work performed must be appropriately scoped to cover the organisation's most significant risks, with an appropriate depth of testing performed to provide sufficient assurance on the control environment, governance and risk management frameworks to support provision of the opinion.
- 3.3 PSIAS also specifies that internal audit activity must evaluate the effectiveness of risk management processes and contribute to their improvement.
- 3.4 The methodology used to create the LPF IA plan is the same as that applied when developing the City of Edinburgh Council's (the Council) 2020/21 IA annual plan, that

will be presented to the Governance, Risk, and Best Value Committee together with the IA charter for approval in August 2020. The Council IA plan also includes the IA days required to deliver the LPF 2020/21 plan

- 3.5 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.
- 3.6 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.
- 3.7 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. Details of these additional assurance providers are included in the LPF Assurance Map that was presented to the Pensions Audit Sub Committee in June 2019 that illustrates how assurance is provided from all sources across the full population of LPF's risks

## **4. Main Report**

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### **4.1 Preparation and content of the proposed plan**

- 4.1.1 The areas proposed for inclusion in the plan were identified by considering the key risks included in the LPF risk register as at October 2019, and discussions with the LPF management team.
- 4.1.2 The October 2019 risk register included a total of 35 risks. Of these, 3 risks were rated red (materially beyond appetite with urgent resolution required); 7 amber (beyond appetite with resolution required) and 25 green (within appetite and will be monitored). The three red rated risks related to reduced funding levels caused by adverse changes in non-investment actuarial assumptions requiring higher employer contributions; failure of technology systems used by LPF; and adequacy of resources to support current or planned projects.
- 4.1.3 Whilst the proposed Internal audit reviews planned for the year to 31 March 2021 will provide assurance on two of the red rated risks included in the LPF risk register (failure of technology systems and adequacy of resources to support current or planned projects), the LPF assurance map should provide further details on coverage of the remaining risks by other independent assurance providers.

4.1.4 The scope of the three reviews planned for the year to 31 March 2021 are detailed below:

	Audit Scope	Planned days
1.	<p><u>Employer Cessation Strategies, Valuations, and Exit Calculations</u></p> <p>The audit will consider the adequacy of LPF funding strategies (including use of suspension notices) to support affordable employer cessations where non local government employers (for example charitable sector employers and trusts) have requested to leave the fund.</p> <p>The audit will also consider the completeness and accuracy of cessation valuations, exit payments and credits and will confirm that these are aligned with Local Government Pension Scheme (Scotland) Regulations 2018 (section 61).</p> <p>This audit is not aligned with risks included in the October 2019 LPF risk register, but has been highlighted as a high risk area by management.</p>	25
2.	<p><u>Bulk Transfers</u></p> <p>This audit will consider the design adequacy and operational effectiveness of processes established by LPF to support consolidation of employer funds managed by LPF, and the completeness and accuracy of any associated financial / valuation adjustments.</p> <p>The review will also assess the design and effectiveness of processes established to confirm the completeness and accuracy of consolidated member records.</p> <p>Work will be performed in two parts, with a review of LPF plans to support the transfer in April 2020, and an assessment of the effectiveness of the transfer process in June 2020.</p> <p>This audit is not aligned with risks included in the October 2019 LPF risk register, but has been highlighted as a high risk area by management.</p>	25
3.	<p><u>LPF Technology Model Development</u></p> <p>This review will assess the proposed design of the new LPF technology model to confirm that the new solution includes appropriate connectivity; network security; information and data security; and resilience controls, and appropriate business continuity arrangements to support the ongoing management and administration of LPF funds.</p> <p>This audit is aligned with the red technology general resilience and the green cybersecurity protections risks included in the LPF risk register.</p> <p>This audit will provide assurance on two red rated LPF risks - failure of technology systems used by LPF; and adequacy of resources to support current or planned projects</p>	15

	<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>	10
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## 4.2 Risk Management

- 4.2.1 Whilst sufficient information is generally collated across multiple audits to provide an understanding of the effectiveness of risk management processes to support the annual opinion, IA typically also performs targeted risk management audits to assess and provide assurance on the adequacy and effectiveness of the risk management framework across the entire organisation.
- 4.2.2 It is important to note that no specific audit of the established LPF risk management framework has been performed during the last five years.
- 4.2.3 LPF management has advised that they are in the process of designing and implementing a new self-assurance process that will provide LPF management with ongoing assurance on the effective management of risks, including compliance with applicable regulations.
- 4.2.4 Recognising that the development and implementation of this assurance is underway, and that it will directly link with the established risk management framework, it is proposed that a combined review of the LPF risk management and assurance framework is performed in financial year 2021/22.

## 4.3 Council wide thematic IA reviews

- 4.3.1 It should be noted that LPF may also be included within the scope of any relevant Council wide thematic reviews included in the 2020/21 IA plan that will be presented to the Governance, Risk and Best Value Committee for approval on 24 March 2020.

## 5. Financial impact

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- 5.1 The estimated costs associated with delivery of the LPF 2020/21 IA plan are £50,000.
- 5.2 IA has implemented use of time sheets to support accurate time recording on audits. 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.

## 6. Stakeholder/Regulatory Impact

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- 6.1 The LPF management team were consulted when developing the 2020/21 IA plan.

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

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7.1 [Public Sector Internal Audit Standards](#)

## **8. Appendices**

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8.1 None