

## **Pensions Audit Sub-Committee Minutes**

**2pm, Tuesday 23 June 2020**

### **Present:**

Councillors Rose (Convener) and Child; John Anzani.

### **Pension Board Members present:**

Jim Anderson and Alan Williamson.

### **Other Attendees:**

Andy McKinnell, Independent Professional Observer and Nick Bennett, Scott Moncrieff (External Auditor)

### **1. Quorum**

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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**

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

### **3. Declaration of Interests**

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#### **Decision**

To note there were no declarations of interest.

### **4. Minutes**

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#### **Decision**

To approve the minute of the Pensions Audit Sub-Committee of 10 December 2019 as a correct record.

### **5. Pension Board oversight**

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

## **6. Agenda Planning**

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An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings for September and December 2020 was presented.

### **Decision**

- 1) To note the agenda planning document.
- 2) To note that the Pension Board Members were invited to comment on agenda items during Committee meetings.
- 3) To agree that Lothian Pension Fund (LPF) officers would review the level of business reported to both the Audit Sub-Committee and the Pensions Committee with a view to reducing duplication where appropriate taking cognisance of due process and governance requirements.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

## **7. Summary of March Committee Reports**

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A number of papers which would, under normal circumstances, have been considered and noted in the March cycle of meetings, were presented formally to members.

A brief overview of each report was provided setting out the background in relation to the fuller update previously provided by LPF officers to Committee and Pension Board members for review and feedback.

### **Decision**

To note the outstanding March Committee reports re-circulated and formally tabled.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

## **8. Lothian Pension Fund - Internal Audit Opinion and Annual Report for the Year Ended 31 March 2020**

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Details were provided of Internal Audit's (IA) annual opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2020. This opinion was based on the outcomes of the three audits included in the LPF 2019/20 IA annual plan, and the status of open and overdue IA findings as at 31 March 2020.

The report detailed IA's opinion that LPF's control environment and governance and risk management frameworks had been recorded as generally adequate but with enhancements required which had resulted in an amber rated internal audit opinion with assessment towards the middle of this category. This assessment remained unchanged in comparison to the 2018/19 internal audit opinion.

The key themes, emerging from IA's opinion and detailed in the report for the three completed 2019/20 audits, were around (i) the need for LPF to ensure the continued effectiveness of their third-party supplier relationship management framework, and (ii) to

focus on the adequacy of cloud based system controls for systems provided and maintained by external suppliers used by LPF to support their ongoing investment and fund administration activities.

There was a robust discussion on IA's opinion.

#### **Decision**

- 1) To note the IA opinion for LPF for the year ended 31 March 2020.
- 2) To refer the IA opinion to the Pensions Committee for noting.
- 3) To ask the Chief Internal Auditor to provide an update on progress on the management actions being taken to address the internal audit findings to the next meeting of the Audit Sub-Committee in September.

(Reference – report by the Chief Internal Auditor, City of Edinburgh Council, submitted.)

### **9. Lothian Pension Fund – Proposed Internal Audit Plan for 2020/21**

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LPF's proposed Internal Audit Plan for the period 1 April 2020 to 31 March 2021 was presented to the Committee for approval.

A total of three reviews and ongoing IA follow up on implementation of previously raised findings were included in the proposed plan. that the plan raises the prospect of a combined review of LPF risk management and assurance framework in the financial year 2021/22.

The Council's IA charter had been approved by the Council's Leadership Advisory Panel in March 2020 which fulfilled the requirements of the Public Sector Internal Audit Standards.

#### **Decision**

- 1) To note the LPF's 2020/21 Internal Audit Plan.
- 2) To refer the Internal Audit Plan to the Pensions Committee for approval.

(Reference – report by the Chief Internal Auditor, City of Edinburgh Council, submitted.)

### **10. External Audit Annual Plan 2019/20 by Scott Moncrieff**

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Scott-Moncrieff, the external auditor to Lothian Pension Fund and Scottish Homes Pension Fund presented the planned programme of work to support the statutory audit 2019/20. The full programme was set out in Appendix 1 of the report by the Chief Finance Officer, LPF.

The external auditor advised that, due to the ongoing Covid-19 pandemic, the Accounts Commission had extended the appointment of Scott Moncrieff as external auditor for a further one year beyond the previously approved five year tenure to 2021/22.

#### **Decision**

- 1) To note the planned programme of work to support the statutory audit 2019/20.

- 2) To note that suitable provision had been made in the approved budget 2019-20 for the audit fee.
- 3) To note that progress against the Group External Audit Annual Plan 2019-20 would be reported to future meetings of the Audit Sub-Committee and the Pensions Committee.

(References – Pensions Committee 20 March 2017 (item 5); report by the Chief Finance Officer, LPF, submitted.)

## **11. Lothian Pension Fund Unaudited Annual Report (and Financial Statements) 2020**

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Details were provided of the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund

In the context of sizeable falls in both the global and UK equity markets over the financial year, the Accounts showed that the Lothian Pension Fund (Group) net asset valuation had decreased from £7,817m to £7,497m, a reduction of 4.3%. Given its mature membership profile and gilts investment strategy, the Scottish Homes Pension Fund had remained static at £166m.

Members received a presentation from the Fund's Finance Manager on the detail of the Annual Report and Financial Statements.

### **Decision**

- 1) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2) To commend the LPF staff team for their work in preparing and presenting the annual report and accounts in the new refreshed format.

(Reference - report by the Chief Finance Officer, LPF, submitted.)

## **12. Risk Management Summary**

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In line with LPF's ongoing risk management procedures, an overview was provided of LPF's risk analysis.

An additional meeting of the Risk Management Group had been held on 23 April to assess the Group risk environment in the prevailing circumstances of the COVID-19 pandemic and material items included in the risk register.

More granular risks arising from the pandemic had also been identified and closely managed at an operational level by the Recovery Group established expressly for this purpose.

### **Decision**

To note the Quarterly Risk Overview and the LPF Group's approach to risk management.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

### **13. Lothian Pension Fund Group Controls and Compliance**

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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 6 and 9 of Schedule 7(A) of the Act.

A summary was provided of the key developments in relation to the operational developments and controls of the LPF group.

Key updates, consistent with last year, included:

- ICT and systems
- People and HR
- Governance
- Assurance Mapping

#### **Decision**

To note the update on the LPF Group's systems, controls and assurance mapping in relation to current business activity and structures.

(Reference - report by the Chief Executive Officer, LPF, submitted.)