

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

**2pm, Monday 28 September 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, Azets Audit Services, 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 23 June 2020 as a correct record.

### **5. Pension Board Oversight**

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

## **6. Internal Audit – Verbal Update on June Actions by the Chief Internal Auditor, City of Edinburgh Council**

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The Chief Internal Auditor provided members with an update on the management actions undertaken by LPF in response to the internal audit findings reported to the Sub-Committee on 23 June 2020.

There had been a significant change in the Council's risk profile due to the Covid-10 pandemic and the Council's Internal Audit Plan would be re-presented to the Governance, Risk and Best Value Committee on 29 September 2020. The LPF internal audit plan would be delivered but this would now be via a co-sourced relationship with PwC. The PwC model had been well established for the Council previously. The PwC team would carry out the fieldwork and engage with workshops at the end of the audit process and the report would be authored by them with oversight from the Council's internal audit team.

Discussions were planned for the following week with the LPF Team to introduce the PwC audit team. Once a quantified cost for the audit fee had been identified this would be reported back to the Sub-Committee.

The Chief Executive Officer, LPF advised the Sub-Committee that a substantial amount of work had been carried out by the LPF team in response to the internal audit findings. LPF recognised the demands on the Council's internal audit function and the shifting priorities for the Council due to the Covid-10 pandemic and welcomed the opportunity to work with PwC to deliver the audit work.

### **Decision**

To note that further discussion and engagement was ongoing between internal audit and the LPF team and that a further written progress update report would be submitted to the next scheduled meeting of the Sub-Committee on 8 December 2020.

## **7. Agenda Planning**

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An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings and the annual cycle was presented.

### **Decision**

- 1) To note the agenda planning document.
- 2) To note that pensions board members were invited to comment on agenda items during committee meetings.
- 3) To note that the unaudited and audited accounts would continue to be considered by both the Audit Sub-Committee and the Pensions Committee.
- 4) To agree that if there were any financial or significant textual changes between the unaudited and audited versions of the accounts, these would be highlighted and reported to the Pensions Committee.

- 5) To agree that, going forward, the annual LPF Group governance update would be reported to the Pensions Committee only.
- 6) To agree that the quarterly risk summary report would continue to be reported to the Pensions Committee in December and the in-depth risk management review would continue to be reported to the Audit Sub Committee in December.
- 7) To agree that the Internal Audit Plan would be developed in consultation with the Convener of the Audit Sub-Committee, Chief Executive Officer (LPF) with input from the Independent Professional Observer if appropriate.

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

## **8. LPF Audited Annual Report (and Financial Statements) 2020**

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Details were provided of the audited 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.

Azets Audit Services (formerly Scott Moncrieff) intended to provide an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund and intended also to confirm that there were no matters on which it was required to report by exception.

### **Decision**

- 1) To note the report by Azets Audit Services (formerly Scott Moncrieff) “Lothian Pension Funds 2019/20 Annual Audit Report to Members and the Controller of Audit” as set out in Appendix 1 of the report.
- 2) To note the audited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund as set out in Appendix 2 of the report.
- 3) To note that the audited financial statements, for the year ended 31 March 2020, of both the wholly owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in July 2020. These statements are shown in full at Appendices 3 and 4 of the report.
- 4) To support the external auditor’s thanks to the Chief Finance Officer and his team for providing high quality papers and accounts to assist the audit process.

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

## **9. Irrecoverable Overpayment of Pensions – Decisions Made Under Delegated Authority**

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Details were given of pension overpayments totalling £2,621.32 which had been deemed irrecoverable during the period 1 September 2019 to 31 August 2020.

### **Decision**

To note that the total value of pension overpayments written off between 1 September 2019 and 31 August 2020 was £2,621.32.

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

## **10. Fraud Prevention**

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An update was provided on the fraud prevention initiatives undertaken by LPF as an integral part of the control environment and the overall management of risk.

Members discussed the risks around bank validation checks and safeguards in place to protect pensioners whose payments could be delayed as a result of matching not being confirmed.

The Fund normally carried out an overseas pension existence check in partnership with Western Union and its network of agents during July each year. Due to the Covid-19 pandemic, this exercise had been postponed until October 2020.

### **Decision**

To note the updates.

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

## **11. Risk Management Summary**

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

Information was also provided on the enhancement of the LPF Group's operating model and the extension of its service delivery to other LGPS funds. In doing so, the Group had taken on additional operational risk in order to achieve fundamental benefits for its stakeholders.

The Chief Risk Officer advised members that a new risk had been added around Group culture and staff engagement and adapting to current level scenarios in line with the FCA emphasis on culture and control.

Members also discussed the inter-dependencies between failure of IT systems, cyber security and business continuity. Members also commented on the changing situation and legislation relating to reporting on climate change as part of investment portfolios and received assurance that the LPF Group were alert to this potential reporting requirement.

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.

The overall position remained stable and within appetite in the context of the longer-term risk reduction benefits of the ongoing transformation projects and the circumstances of the global pandemic.

#### **Decision**

- 1) To note the quarterly risk overview and the LPF Group's approach to risk management.
- 2) To include information on the legislation around managing climate risk in investment portfolios as part of the training session planned for members in December 2020.

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

## **12. ICT Update**

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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 following 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.

Members received an update on progress with LPF Group's digital transformation strategy.

#### **Decision**

To note the update on the implementation of the LPF Digital Strategy.

(References – Pensions Committee 26 June 2019 (item 12); report by the Chief Executive Officer, LPF, submitted.)

## **13. Annual LPF Group Governance Update**

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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 following 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.

Members received an update on the operation of the LPF Group's legal, regulatory and governance structures together with the activities of its corporate subsidiaries LPFE Ltd and LFPI Ltd.

Information was also provided on the actions being implemented following the 2019/20 governance review.

#### **Decision**

- 1) To note the annual LPF Group governance update.
- 2) To record the Sub-Committee's thanks to LPF officers for a detailed and helpful document.
- 3) To arrange a development session on governance during the latter half of 2021 for committee members and pension board members.

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