



Pensions Committee

20 August 2021, 2pm

Lothian Pension Fund - Internal Audit Opinion and Annual Report for the Year Ended 31 March 2021

1. Recommendations

The Pensions Committee is requested to note the Internal Audit opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2021.

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Lothian Pension Fund - Internal Audit Opinion and Annual Report for the Year Ended 31 March 2021

2. Executive Summary

- 2.1 This report details Internal Audit's (IA) annual opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2021. Our opinion is based on the outcomes of two audits included in the LPF 2020/2021 IA annual plan, and the status of LPF's open and overdue IA findings as at 31 March 2021.
- 2.2 IA considers that the LPF control environment and governance and risk management frameworks require some improvement, and is therefore reporting a limited 'amber' rated opinion (see Appendix 1), with our assessment towards the lower end of this category.
- 2.3 This opinion is 'limited' as IA does not provide assurance across the full population of LPF risks.
- 2.4 Consequently, the Committee should consider the assurance outcomes provided by other sources when forming their view on the design and effectiveness of LPF's control environment and governance and risk management frameworks.
- 2.5 This assessment has improved in comparison to the 2019/20 IA opinion, when this rating was towards the middle of the amber 'some improvement required' category.
- 2.6 The key themes emerging from the outcomes of the two completed 2020/21 audits highlight the need for LPF to improve the design and effectiveness of the governance; records management; and risk management processes supporting their bulk transfer and cessations processes.

3. Background

- 3.1 The Public Sector Internal Audit Standards (PSIAS) provide a coherent and consistent internal audit framework for public sector organisations. Adoption of the PSIAS is mandatory for IA teams within UK public sector organisations, and PSIAS require annual reporting on conformance.
- 3.2 It is the responsibility of the Council's Chief Internal Auditor to provide an independent and objective annual opinion on the adequacy and effectiveness of LPF's control environment and governance and risk management frameworks in line with PSIAS requirements. The opinion is usually provided to the Pensions Audit Sub-Committee, and should be used to inform the LPF Annual Governance Statement.
- 3.3 Our opinion is based on the outcome of LPF audits completed in the 2020/21 financial year, and the status of open internal audit findings as at 31 March 2021.

- 3.4 An agile audit of the LPF Technology Model Development was also included in the 2020/21 annual plan, however, given project implementation timeframes, this review commenced in August 2021 and will conclude in 2021/22 for inclusion in the 2021/22 IA annual opinion.
- 3.5 Given LPF's dependence on the City of Edinburgh Council for a number of support services (most notably Digital Services in partnership with CGI for provision of network; security; and technology support services), we have also considered the outcomes of relevant work performed on the Council's control environment and governance and risk management frameworks.
- 3.6 The Council's 2020/21 annual IA opinion was presented to the Governance, Risk, and Best Value Committee in August 2021, and was a limited 'red' significant improvement required opinion, with our assessment towards the lower end of this category. This highlighted that significant improvement in the design and effectiveness of the Council's control environment and governance and risk management frameworks was required given the significant and numerous control weaknesses identified from the audits completed across the Council during the year, and the status of open and overdue IA findings as at 31st March 2021.

4. Main Report

4.1 2020/21 Internal Audit Opinion

- 4.1.1 IA considers that the LPF control environment and governance and risk management frameworks require some improvement, and is therefore reporting a limited 'amber' rated opinion (see Appendix 1), with our assessment towards the lower end of this category.
- 4.1.2 This opinion is 'limited' as IA does not provide assurance across the full population of LPF risks.
- 4.1.3 This opinion reflects some significant; moderate; and minor areas of weakness in the LPF control environment and governance and risk management frameworks identified from the audits performed, and the risks associated with open IA findings as at 31st March 2021 that may put the achievement of organisational objectives at risk.
- 4.1.4 IA is not the only source of assurance provided to LPF as there are a number of additional assurance sources (for example, external audit who provide assurance on the LPF financial statements and key financial controls) that the Committee should consider when forming their view on the design and effectiveness of the LPF control environment and governance and risk management frameworks.

- 4.1.5 This opinion is subject to the inherent limitations of IA (covering both the control environment and the assurance provided over controls) as set out in Appendix 2.

4.2 Audit outcomes

- 4.2.1 Two IA reviews were completed during the year, with one assessed as 'Effective' (green); and one assessed as 'Some Improvement Required' (amber). Further detail is included below and also at Appendix 3.

Bulk Transfers – Effective (green)

- 4.2.2 Our review of the LPF bulk transfer process (the movement of pension rights from one pension fund to another) for the first of two tranches of funds being transferred by an employer into LPF confirmed that the process was adequately designed and operated effectively, and provided assurance that risks were effectively managed. Consequently, LPF's objective to completely and accurately transfer the remaining member pension rights from the employer should be achieved in line with LPF's Funding Strategy Statement and applicable regulatory requirements
- 4.2.3 One medium (amber) and one low (green) rated IA findings were raised highlighting the need to ensure that:
- there was adequate management review of project plans and progress reports provided by third party project managers to ensure completeness of information provided and confirm that it accurately reflects the current project status;
 - a detailed data transfer issues log is created, maintained, and independently reviewed; and
 - that there is appropriate segregation of duties and evidence of independent review of the transfer of standing member and payroll data, and planned member communications.
- 4.2.4 The final Bulk Transfers report is included at Appendix 5.

Cessations – Some Improvement Required (amber)

- 4.2.5 Our review of LPF's cessations or exit process confirmed that whilst some significant and moderate control weaknesses were identified in the design and effectiveness of the control environment established to support cessations, reasonable assurance was provided that employer cessation risks are being managed, and that LPF's objectives to support affordable employer cessations in line with Scottish Local Government Pensions Scheme (SLGPS) regulatory requirements should be achieved.
- 4.2.6 One high and one medium rated findings were raised reflecting the need for LPF to:
- create and consistently apply a cessation checklist to confirm that all steps of the process have been completed; detail LPF employee responsibilities for each part of the process; and record the file location of key documents;

- maintain stronger documentation evidencing the review and analysis performed on employer's funding proposals to confirm their affordability, and develop and apply guidance on due diligence to be performed to identify potential security options;
- improve records of communication with the actuary;
- improve employee cessation risk management processes; and
- improve governance arrangements for the Employer Oversight Group.

4.2.7 Whilst the overall report rating and the rating of finding raised have been agreed, LPF and IA are currently agreeing LPF's management responses to IA's recommendations. It is expected that these will be finalised by September 2021, with the final report then presented to the Pensions Audit Sub-Committee for review and scrutiny.

4.3 Status of Internal Audit Findings as at 31 March 2021

4.3.1 LPF had one medium overdue IA finding as at 31 March 2021 that related to the Settlement and Custodian Services review completed in 2019/20 highlighting the need to improve regulatory and risk management oversight of custodian processes performed by Northern Trust.

4.3.2 Evidence had been provided by LPF on 9th February 2021 to support closure of this finding, however this did not fully address the risks raised in the original finding. A similar finding has also been raised in the Cessations review completed in 2020/21. Further detail is included at Appendix 4.

4.4 Comparison to prior year

4.4.1 An amber rated opinion was reported in 2019/20 with IA's assessment towards the middle of this category. This assessment has improved in the 2020/21 financial year, with our assessment now towards the lower end of this category.

4.4.2 A direct comparison between annual Internal Audit opinions is not always possible as the scope of the audits included in the annual plans and the risks associated with open and overdue IA findings will vary in line with the changing LPF risk profile.

4.4.3 The 2019/20 mid-category amber rated opinion was directly attributable to the outcomes of the three reviews completed, assessed as red (significant improvement required); amber (some improvement required); and green (effective) with a total of 7 (1 high; 3 medium; and 3 low) IA findings raised.

4.4.4 In contrast, the outcomes of the two LPF audits completed in the 2020/21 financial year were assessed as amber (some improvement required) and green (effective) with a total of 4 (1 high; 2 medium; and 1 low) IA findings raised, resulting in the movement towards the lower end of this category.

4.4.5 Additionally, the status of open IA findings at 31 March 2021 has improved with only one medium rated finding overdue in comparison to one high and one medium rated findings in 2019/20.

4.4.6 Further detail is included at Appendices 3 and 4.

4.5 Internal Audit Independence and Conformance with Public Sector Internal Audit Standards

4.5.1 PSIAS require that IA must be independent and that internal auditors must be objective in performing their work. To ensure conformance with these requirements, IA has established processes to ensure that both team and personal independence is consistently maintained and that any potential conflicts of interest are effectively managed.

4.5.2 We do not consider that we have faced any significant threats to our independence during 2020/21, nor do we consider that we have faced any inappropriate scope or resource limitations when completing our work.

4.5.3 IA has fully conformed with PSIAS requirements during the period 1 April 2020 to 31 March 2021.

5. Financial impact

5.1 There are no direct financial impacts arising from this report, although failure to close IA findings raised and address the associated risks in a timely manner may have some inherent financial impact where associated financial risks have been identified.

6. Stakeholder/Regulatory Impact

6.1 IA findings are raised as a result of control gaps or deficiencies identified during audits. If agreed management actions are not implemented to support closure of Internal Audit findings, LPF will be exposed to the risks set out in the relevant IA reports.

7. Background reading/external references

7.1 [Public Sector Internal Audit Standards](#)

7.2 [Agile Auditing and Consultancy Support – Paper 8.2](#)

7.3 [City of Edinburgh Council IA annual opinion 2020/21 – Paper 8.1](#)

8. Appendices

Appendix 1 Internal Audit Annual Opinion Definitions

Appendix 2 Limitations and responsibilities of internal audit and management responsibilities

Appendix 3 LPF reviews completed between 1 April 2020 and 31 March 2021

Appendix 4 Status of LPF Internal Audit Findings as at 31 March 2021

Appendix 5 Final report – Bulk Transfers

Appendix 1 – Internal Audit Annual Opinion Definitions

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined. We have adopted the approach set out below to form an opinion for Lothian Pension Fund.

We consider that there are 4 possible opinion types that could apply to LPF. These are detailed below:

1. Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
2. Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
3. Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
4. Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute.

Appendix 2 - Limitations and responsibilities of internal audit and management responsibilities

Limitations and responsibilities of internal audit

The opinion is based solely on the internal audit work performed for the financial year 1 April 2020 to 31 March 2021. Work completed was based on the terms of reference agreed with management for each review. However, where other matters have come to our attention, that are considered relevant, they have been considered when finalising our reports and the annual opinion.

There may be additional weaknesses in the LPF control environment and governance and risk management frameworks that were not identified as they were not included in the 2020/21 LPF annual internal audit plan; were excluded from the scope of individual reviews; or were not brought to Internal Audit's attention. Consequently, management and the Committee should be aware that the opinion may have differed if these areas had been included, or brought to Internal Audit's attention.

Control environments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the impact of unplanned events.

Future periods

The assessment of controls relating to LPF is for the year ended 31 March 2021. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other areas; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

It is Management's responsibility to develop; implement; and maintain effective control environments and governance and risk management frameworks that are designed to prevent and detect irregularities and fraud. Internal audit work should not be regarded as a substitute for Management's responsibilities for the design and operation of these controls.

Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, performs additional work directed towards identification of potential fraud or other irregularities. However, internal audit procedures alone, even when performed with due professional care, do not guarantee that fraud will be detected. Consequently, internal audit reviews should not be relied upon to detect and disclose all fraud, defalcations or other irregularities that may exist.

Appendix 3 - LPF reviews completed in 2020/21 and 2019/20

2020/21 Annual Plan	Findings				Report Rating
Review	High	Medium	Low	Advisory	
Bulk Transfers	-	1	1	-	Effective
Cessations	1	1	-	1	Some Improvement Required
Total Findings Raised	1	2	1	1	
<i>Total 19/20 (3 reports)</i>	<i>1</i>	<i>3</i>	<i>3</i>	<i>-</i>	

2019/20 Annual Plan	Findings				Report Rating
Review	High	Medium	Low	Advisory	
Charles River Project – pre-implementation system testing	-	1	-	-	Effective
Pension entitlement calculations	-	-	2	-	Some Improvement Required
Settlement and custodian services	1	2	1	-	Significant Improvement Required
Total Findings Raised	1	3	3	-	

Appendix 4 – LPF Overdue Internal Audit Findings as at 31 March 2021

Review	High	Medium	Low	Status - 31 st March 2021	Days / Months Overdue at 31 st March 2021	Status – 3 rd August 2021
Settlement and Custodian Services – Regulatory and Risk Management Oversight	-	1	-	Overdue - original due date was 30 th September 2020. Finding was proposed for closure by LPF on 9 th February 2021, however this did not fully address the risks raised in the original finding, and further action is required to support closure	4 months / 131 working days	Open – not yet closed
Total 2020/21	-	1	-	As Above		
<i>Total 19/20</i>	<i>1</i>	<i>1</i>	<i>-</i>	<i>2 findings were overdue at 31 March 2020 Evidence had been provided to IA for both findings, however further action was required to support closure.</i>		

Appendix 5

The City of Edinburgh Council **Internal Audit**

Lothian Pension Fund Bulk Transfers

Final Report

13th August 2021

LPF 2001

Overall report rating:

Effective

The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed and the Lothian Pension Fund's objectives should be achieved.

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This internal audit review is conducted for the Lothian Pension Fund ("LPF") under the auspices of the 2020/21 internal audit plan approved by the Pensions Audit Sub Committee in June 2020. The review is designed to help the Lothian Pension Fund assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are a number of specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the Lothian Pension Fund. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and Pensions Committee members as appropriate.

1. Background and Scope

Background

Bulk transfers concern movement of pension rights from one pension fund to another. Bulk transfers can be initiated by employers for various reasons including realising operational and administrative efficiencies. The process involves an evaluation of the liabilities and assets associated with the transferring members; transferring complete and accurate standing member data; transfer of assets to cover the member obligations; an assessment of the impact of funding and required recovery approach; and ensuring the operational continuity of all obligations to members.

Based upon a recommendation from their Pensions Committee, Visit Scotland initiated a bulk transfer of their ten disparate Local Government Pension Scheme ("LGPS") (ceding funds) into the LGPS fund administered by LPF in Edinburgh and the Lothians.

LPF engaged Hymans Robertson for third party project management support, and has administered the process with support from Aquila Heywood (providers of the Altair pension administration and payroll system used by LPF).

Applicable Regulations

The regulatory requirements supporting bulk transfers into local government pension schemes are specified in the Local Government Pension Scheme (Scotland) Regulations 2018 sections 93 to 97.

LPF has a publicly available Funding Strategy Statement (FSS) last updated in 2020 that is a non-exhaustive summary of the Fund's approach to funding liabilities. Details of the overriding principles that help ensure compliance with bulk transfer regulatory requirements are included at Section 7.11 and Appendix B of the FSS and confirms that the receiving employer must either be sufficiently funded to accept the transferring members i.e. their assets and liabilities, or that it must initiate an immediate deficit recovery via a lump sum or staggered payment subject to a review of the employer covenant. It also details the responsibilities of the employer (Visit Scotland); the Fund; and the Fund's Actuary.

LPF Bulk Transfer Approach and Timescales

To initiate the bulk transfer process, Visit Scotland advised the Fund that they wished to complete a bulk transfer of members from their disparate funds into the LGPS administered solely by LPF.

LPF's Pensions Committee commissioned the LPF's Actuary to carry out bulk transfer negotiations with the ceding funds. The actuaries at each fund were also responsible for agreeing the assumptions and transfer values payable based on applicable policies and negotiating the final transfer value cash payment date and amount.

A data sharing agreement was established between each ceding fund and LPF to support the transfer of data. This process was managed by Aquila Heywood via the Altair system, as both the ceding and LPF funds are administered via this system.

After a period of due diligence over the transferring data, standing member data (including but not limited to: name, date of birth, address, employment and pension history) and members' payroll data need to be extracted, cleansed, uploaded and reconciled prior to the 'go live' transfer date.

Following review of the member data, LPF agreed that the transfer should occur in two distinct tranches based upon the ability of the member payroll data to integrate with the Altair pension administration and payroll system used by LPF. The first tranche of members (three funds) transferred in September 2020 (data records and interim funds only) and the second tranche of members (seven funds) transferred on 31 December 2020.

For tranche 1, LPF performed two parallel payroll runs in July and August 2020 to prepare for a September 2020 transfer date. The parallel runs for Tranche 2 were completed for November and December 2020 with the final transfer of data on 31 December 2020.

The bulk transfer process requires the transfer of assets allocated to the employer's notional section of each ceding Fund to be made available to meet the transferring members' liabilities from LPF funds. To date, a small proportion of the funding required for the members has been made from the ceding funds to LPF to cover pensioner payroll payments for a limited period. This advance or interim payment will be taken into account in the final full asset transfer.

Scope

The review assessed the design and operating effectiveness of the key controls supporting the bulk transfer process applied to tranche 1 during the period 5 May to 30 October 2020 to ensure that it was completed in line with applicable LGPS regulatory requirements, with focus on the following areas:

- complete and accurate transfer of standing member data;
- ensuring continuity of members' pension benefits and collection of regular employer and employee contributions in respect of active members;
- oversight and project management of the consolidation of the employer's LGPS exposure into the funds managed by LPF; and
- ensuring a complete and accurate valuation of the incoming members' liabilities and accompanying assets and liabilities using LPF assumptions to determine the impact on the funding position of the employer within the LPF and any required contribution to address a deterioration. Our areas of audit focus as detailed in our terms of reference are included at Appendix 2.

Limitations of Scope

The following areas were specifically excluded from the scope of the audit:

- The scope of the audit was limited to the relevant LGPS regulations in Scotland applicable to the transfer, with regard to a transfer of assets and liabilities from one fund to another fund within the same LGPS Defined Benefits (DB) scheme with a strong covenant by scheme sponsors i.e. local authority having tax raising powers. Whilst much of the FCA and The Pension Regulator's (TPR) approach to bulk transfers focuses on consumer protections associated with transfers out of safeguarded DB schemes, with consideration to corporate schemes without a tax-raising strength of covenant and unregulated investment products, the audit looked to raise advisory findings on any aspects of the FCA or TPR rules that are directly relevant to the circumstances of the transfer and inform best practice for LPF.
- Tranche 2 control effectiveness - as this review was scheduled to complete prior to the scheduled second bulk transfer tranche in December 2020, the scope was limited to review of the design of the controls supporting tranche 2 and will not assess how effectively they have been applied. It was expected that any significant recommendations and lessons identified from our review of tranche 1 would be applied to tranche 2, where timing allows.
- Hymans Robertson (HR) project management – Hymans Robertson were not engaged to support completion of the audit. Assurance on the effectiveness of project management arrangements was obtained by assessing oversight and scrutiny of HR deliverables performed by LPF.

Reporting Date

Our audit work concluded on 22 December 2020 and our findings and opinion are based on the conclusion of our work as at that date.

2. Executive summary

Total number of findings: 2

Summary of findings raised	
Low	1. Project Management Assurance
Medium	2. Data Transfer and Reconciliation Controls and Segregation of Duties

Opinion

Our review confirmed that the control environment and governance and risk management frameworks that supported the first Visit Scotland bulk transfer process was adequately designed and operated effectively, providing assurance that risks were effectively managed, and that LPF's objective to completely and accurately transfer member pension rights from Visit Scotland to LPF by 31 December 2020 should be achieved in line with LPF's Funding Strategy Statement and applicable regulatory requirements.

However, our review of controls in relation to LPF's oversight of project management services provided by Hymans Robertson, and member data transfer and reconciliation controls identified some moderate control design and effectiveness weaknesses that should be addressed prior to completion of any subsequent and potentially more complex bulk transfers.

Consequently, one Low and one Medium rated findings have been raised highlighting the need for:

- Adequate management review and scrutiny of project plans and progress reports provided by third party project managers to ensure that information provided is complete and accurately reflects the current status of the project, with appropriate action taken where this is not the case (finding 1);
- Creation, maintenance and independent review of a detailed data transfer issues log that records all member and payroll data transfer issues and tracks these through to resolution (finding 2);
- more robust processes and controls to ensure appropriate segregation of duties and evidence of independent review of the transfer of standing member and payroll data, and planned member communications (finding 2);

Areas of good practice

The following areas of good practice were also noted during our review:

- **Early engagement with actuary and ceding funds** – there was strong evidence of proactive and early communication and engagement with the actuaries and ceding funds with regards to the Visit Scotland bulk transfer, with a document request list sent by LPF to the ceding funds in October 2019, providing them with sufficient time to gather and prepare all required information.
- **Regular engagement with the employer throughout** – as one of the key stakeholders of this bulk transfer event, there was a clear, well evidenced trail of communication between the employer and LPF. This helped ensure that vital pieces of information with regards to employer contribution rates applying across the existing and transferred membership were communicated.

3. Detailed findings

1. Project Management Assurance

Low

Review of the effectiveness of LPF's oversight over the project management services provided by Hymans Robertson identified a number of inconsistencies in the monthly RAG highlights report, produced by Hymans Robertson, with no evidence that these had been queried by LPF management.

Specifically, monthly deadline dates for a number of project activities were delayed and changed, however, the project RAG (red, amber, green) status was not changed from green, despite the apparent delays

This is clearly evidenced in the "Data sharing agreement signed by all Ceding Funds" and "Final Actuaries letters signed" deliverables, where

1. The deadline for signing of all Data Sharing Agreements was confirmed as 4 August 2020 in the project plan. However, evidence provided confirmed there were five ceding funds that signed after this date: Falkirk (22nd September), Orkney (7th October), D&G (5th October), Tayside (14th October), and SBC (23rd October). The project RAG report confirms that this activity was completed at "end of August 2020".
2. The deadline for signing of all actuaries' letters by ceding funds was noted as 18 September 2020 in the project plan but the final date of closure per the update reports was 23 September 2020.

Risk

The potential risks associated with our findings are:

- LPF does not have a clear and explicit understanding of the overall project status and progress towards achieving key deliverables.
- The project 'go live implementation date may not be achieved if key deliverables and dependencies are not delivered / addressed in sufficient time.

1.1 Recommendation: Management oversight of external project management

LPF management should review and project plans; delivery progress; and the overall project RAG (red, amber, green) status to confirm their completeness and accuracy, and actively challenge external project managers to understand the reasons for any delivery delays, and their overall impact on the project.

Details of this review and challenge should be recorded in project board / governance meeting minutes and logs, with appropriate action implemented by the external project manager to ensure that any concerns raised by the LPF management team are effectively addressed.

1.1 Agreed Management Action: Management oversight of external project management

LPF commissioned specialist project management services from Hymans Robertson LLP in order to draw upon its expertise and experience in large scale LGPS bulk transfers. Accordingly, in light of the audit feedback, LPF sought and received comment from the company thereon. The key extract is:

"Each Highlight report has the narrative to acknowledge that dates can and do move throughout the project – an example is noted as follows:

- Some milestone dates in the highlight report have altered since the last report, this is due to movement on some activities and refining of the plan.

We would only expect to change any RAG status if there was a negative impact as a result of any delays. In a project like this, we know that there are a number of activities where issues can arise that are outside of our control, however we can build in contingency to help manage them. In both scenarios, the signing of the Actuaries letters and the provision of DSAs, there was no negative impact on critical activities, therefore the RAG would remain Green and on track. Progress on each of these areas were discussed at the project meetings. As a result of the feedback, for future reports, the description of the RAG status at the foot of the highlight report will be updated to be more specific around the impact of any date changes to avoid any ambiguity.”

LPF echoes the sentiments expressed by Hymans Robertson LLP. Accordingly, with an expectation that a RAG status would only change if there was a negative impact as a result of any delays, LPF considers that the project management provided appropriate oversight and control. As stated, however, to avoid any potential ambiguity in future, suitable clarification will be embedded in procedures for any similar exercises.

Owner: Stephen Moir, Executive Director of Corporate Services

Contributors: Hugh Dunn, Service Director, Finance and Procurement; David Vallery, Chief Executive, Lothian Pension Fund; Struan Fairbairn, Chief Risk Officer, Lothian Pension Fund; John Burns, Chief Finance Officer, Lothian Pension Fund

Implementation Date:

31 December 2024 to allow time for completion of future bulk transfers

2. Date Transfer and reconciliation controls and segregation of duties

Medium

Review of the internal review controls established to support member data transfer and communications during tranche 1 of the Visit Scotland bulk transfer confirmed that:

1. **Data transfer issues log** – no issues log was established and maintained that recorded the full population and actions taken to address data errors identified during the payroll and member data cleansing and reconciliation exercise performed prior to the live transfer from the ceding funds into LPF’s Altair administration system.

Instead, data cleansing outcomes were recorded in a number of excel spreadsheets with supporting comments that detailed the issue and informed the necessary corrective actions. Consequently, there was no clear audit trail from identification through to resolution of the error, and confirmation that all issues were closed. Management has confirmed that all issues identified during the data cleansing and reconciliation process were addressed.
2. **Segregation of duties for data transfers** – one member of the LPF team was solely responsible for cleansing and reconciling payroll and member data; addressing any data issues; and signing off issues as having been corrected.
3. **Informal review of the parallel payroll reconciliation** – evidence of satisfactory completion of the parallel payroll run performed between the ceding fund data, and data loaded into the LPF Altair payroll system was confirmed by message through the Council’s instant communication platform between the two LPF team members involved in the process, and was not formally recorded.
4. **Review of Phase 3 member communications** – there was no evidence of review of the list of Phase 3 member communications prepared by LPF to confirm the completeness and accuracy of the type of letter members should receive together with any specific communications regarding the transfer of their pension.

Risks

The potential risks associated with our findings are:

- an incorrect data transfer that impacts the accuracy and valuation of members' future benefits and reduces data quality scores that LPF must report to The Pensions Regulator.
- communications are not issued to the full population of new members, and / or members do not receive the correct information in relation to the changes impacting their pension arrangements.

2.1 Recommendation: Maintenance and oversight of a data transfer issues log

1. For any future data transfer exercises, LPF should maintain a data transfer issues log that should include but not be restricted to:
 - a description of the errors identified;
 - the date they were identified;
 - the significance of the errors (for example, high, medium and low);
 - what action is being / has been taken to correct the error;
 - who is addressing / has addressed the error; and
 - date of resolution.
2. The issues log should be reviewed by an independent team member to:
 - confirm that all issues identified have a clear action, owner, and implementation date for resolution;
 - confirm that there is satisfactory progress with resolution of all significant issues prior to implementation date; and
 - ensure that any concerns in relation to lack of implementation progress is escalated to senior management.
3. A sample review of actions completed to address data quality issues identified should be performed prior to live implementation to confirm that issues have been closed appropriately, and that evidence has been retained (where possible) to support their closure.
Appropriate evidence of this review (including details of the sample testing methodology applied) should also be retained.

2.1 Agreed Management Action: Maintenance and oversight of a data transfer issues log

Clarification: As part of the process (outlined in the implementation study), the Fund's software supplier Aquila Heywood provided system generated reports reconciling the number of members transferred and several data items. This provided assurance that data taken from the ceding funds and loaded into LPF TEST service was identical. Any issues would have been flagged up at that time.

Following receipt of these reports (which showed that the information between ceding fund and LPF tallied), LPF carried out a further data cleansing exercise using a portal created by the Actuary. This is an additional step in the process that LPF chose to do to ensure the quality of transferred data (please see Appendix B of the Fund's Funding Strategy Statement).

The number of errors identified by this further cleanse was extremely small and covered only minor issues. An example was a postcode warning for an overseas pensioners – this is due to the difference in formats of UK and overseas postcodes. The small number of errors identified could be resolved very quickly and easily. Further data quality assurance was obtained in carrying out more than one parallel payroll run.

LPF acknowledges that this transfer included a relatively small number of members and that data in this case was of a high standard, and that subsequent transfers may involve greater member numbers and poorer quality data.

LPF accepts the recommendation.

Owner: Stephen Moir, Executive Director of Corporate Services

Contributors: Hugh Dunn, Service Director, Finance and Procurement; David Vallery, Chief Executive, Lothian Pension Fund; Struan Fairbairn, Chief Risk Officer, Lothian Pension Fund; John Burns, Chief Finance Officer, Lothian Pension Fund

Implementation Date:

31 December 2024 to allow time for completion of future bulk transfers

2.2 Recommendation: Completion of parallel payroll runs

When performing parallel payroll runs to confirm the accuracy of payroll data prior to live transfer, LPF should implement a formal process for confirming satisfactory completion of the payroll run and / or ensuring that all issues identified are recorded in the issues log (refer recommendation 1.1.).

This could be confirmed via email to management confirming, as a minimum:

- the source of the data used;
- the month for the payroll run;
- the name of the team member who initiated and performed the payroll run;
- the name of the other team member who closed the payroll run;
- confirmation that significant issues were / were not identified and will be addressed prior to live implementation; and
- confirmation regarding whether the live implementation date can still be achieved.

2.2 Agreed Management Action: Completion of parallel payroll runs

Clarification: Parallel payroll runs were carried out using a process set out by the Fund's software supplier which has been developed and used successfully on many other occasions, together with documented processes for running payroll which are already fully documented and integrated within LPF. LPF's decision to carry out more than one parallel payroll run provided additional assurance that information supplied was correct.

LPF accepts the recommendation.

Owner: Stephen Moir, Executive Director of Corporate Services

Contributors: Hugh Dunn, Service Director, Finance and Procurement; David Vallery, Chief Executive, Lothian Pension Fund; Struan Fairbairn, Chief Risk Officer, Lothian Pension Fund; John Burns, Chief Finance Officer, Lothian Pension Fund

Implementation Date:

31 December 2024 to allow time for completion of future bulk transfers

2.3 Recommendation: Review of membership communication listing

For future communications with members, LPF should ensure that:

- a reconciliation is performed between the total members on the communication list to the complete list of transferring members from the ceding funds;
- an independent review of is performed of the nature of communications (communication labels) to be provided to members to confirm their accuracy based on membership status and other relevant information;
- the listing contains details of the preparer and reviewer, and relevant dates; and

- the reviewed listing is distributed by email communication to ensure a trail of accountability.

2.3 Agreed Management Action: Review of membership communication listing

Clarification: Following the successful completion of the transfer, a system generated report listed all member data required for communications. This report was generated for members of each ceding fund and showed member status and member address. No differentiation in communication was required for active and deferred members (i.e. all active members received the same letter, and all deferred members received the same letter). As reports were produced by ceding fund and member status was included, the data was available in order to successfully identify which pensioner letter was to be used. Prior to sending letters, proofs were spot-checked against the initial report and LPF's Communications Partner reconciled the numbers back to the original report and confirmed with the Employer and Member Payroll Manager.

LPF accepts the recommendation.

Owner: Stephen Moir, Executive Director of Corporate Services

Contributors: Hugh Dunn, Service Director, Finance and Procurement; David Vallery, Chief Executive, Lothian Pension Fund; Struan Fairbairn, Chief Risk Officer, Lothian Pension Fund; John Burns, Chief Finance Officer, Lothian Pension Fund

Implementation Date:

31 December 2024 to allow time for completion of future bulk transfers

Appendix 1: Basis of our classifications

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on the operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation of the Council which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation of the Council.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation of the Council.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the Council.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2: Areas of audit focus

The areas of audit focus and related control objectives that were included in the review are:

Audit Area	Control Objectives	Risks
LGPS Regulatory Compliance	<ul style="list-style-type: none"> The Fund has planned sufficiently to ensure compliance with its Funding Strategy Statement through the course of the bulk transfer. Furthermore, the Fund has ensured that its bulk transfer approach is compliant with LGPS regulations. 	<ul style="list-style-type: none"> The bulk transfer is not carried out in accordance with its funding strategy statement. The agreed upon approach to bulk transfers is not LGPS compliant.
Project Management Assurance	<ul style="list-style-type: none"> Throughout the course of the bulk transfer process, the Fund has maintained ongoing oversight of the third-party project manager deliverables to confirm that the process has been carried out in accordance with the Fund's expectations and in line with the agreed plan. All stakeholders (for example: members; the employer; pensions committee; actuary; Scottish Public Pensions Agency) have been identified and informed of the decisions made and the impact these may have. 	<ul style="list-style-type: none"> Key target dates are not met, leading to delays to the process or impacting the service provision to members. Transfer of data is not completed in a secure manner leading to loss or misappropriation of personal member data. Issues with the bulk transfer process do not have sufficient oversight and are not escalated and corrected, leading to errors in member standing data or payroll information. The Fund is not involved in the decision making process and has not provided approval for key decisions. Issues noted post "Go Live" are not corrected in a timely manner, leading to errors in member payments and additional administrative burden Not all stakeholders have been made aware of the process and are not sufficiently informed as to the impact the bulk transfer process may have.
Reconciliation of Member Data	<ul style="list-style-type: none"> The Fund has designed and implemented appropriate controls over the data transfer process including data cleansings, thorough reconciliation between source and upload data, remediation of data integrity issues, and appropriate approval prior to "Go Live". 	<ul style="list-style-type: none"> A lack of data validation prior to upload could lead to delays and inefficiencies to the bulk transfer process. The data transfer process is not complete and accurate leading to incorrect standing member data help on the Fund's Altair administration system. Payroll data is inaccurate leading to delays to, or errors in, member payments; impacting member relations or leading to financial loss to the Fund

Audit Area	Control Objectives	Risks
Notification of new employer contribution rate(s)	<ul style="list-style-type: none"> The Fund has notified the employer of any new contribution rate payable (where applicable) in respect of all or some active members after Go Live date 	<ul style="list-style-type: none"> The Fund does not collect appropriate contributions in respect of active members accepted
Use and management of Actuaries	<ul style="list-style-type: none"> The Fund has sufficient involvement and oversight over their actuarial decision-making policy, specifically over the valuation of accepted member liabilities and understands the strength of the employer covenant and also over the approach taken to assess the interim payment prior to total asset transfer. The Fund's actuary has ensured agreement with the transferring funds' actuaries to minimize delays to the overall completion of the bulk transfer process. Specifically, agreement is obtained over the valuation techniques and the assumptions used when calculating the quantum of the asset transfers. There is a plan to ensure valuations and actuarial agreements are completed in time to prevent a delay to normal Fund activities, including: cut off for liability reporting, preparation of the 2020 triennial valuation Rate and Adjustments Certifications (detailing contributions due from all LPF employers), 	<ul style="list-style-type: none"> Not all fund actuaries are in reconcilable agreement over the valuations techniques or assumptions used leading to a delay to the transfer process. There could be a delay in determining the impact on the funding position of the employer in the Fund after the bulk transfers are completed and determining how quickly any deterioration should be addressed. The bulk transfer process could leave the Fund insufficiently funded to meet short term pensioner payroll obligations - The actuarial decision making process for the bulk transfers could delay normal Fund activities, resulting in a failure to meet statutory triennial valuation reporting deadlines.
Fund and member assets (from ceding funds)	<ul style="list-style-type: none"> Where fund assets are retained in the transferring funds, due care is taken to ensure the completeness and accuracy of the holdings and investment returns over the period up to payment date are credited in accordance with terms agreed between actuaries. The Fund's Statement of Investment Principles is updated, if required, to 	<ul style="list-style-type: none"> While the Fund is not in control of the assets required to fund the transferring members, obligations for ownership and valuation is not under the Fund's control environment. The transfer of members could impact the maturity profile of the Fund, leading to an unsuitable investment balance and too high a cash holding. Additional voluntary contribution assets held by members are not sufficiently administered post bulk transfer.

Audit Area	Control Objectives	Risks
	<p>account for the new maturity profile of the Fund with appropriate involvement from the Fund's Investment Committee.</p> <ul style="list-style-type: none"> • The transfers of additional voluntary contributions and related investments have been considered with a clear plan for administration post bulk transfer. 	