

Pensions Audit Sub-Committee

2pm, Tuesday, 6 December 2022

Lothian Pension Fund - Internal Audit Update as at 9 November 2022

1. Recommendations

The Committee is requested to note:

- 1.1 The outcomes of the recently completed Project Forth Programme Assurance audit;
- 1.2 Progress with planning delivery of the remaining three Lothian Pension Fund audits which will support delivery of the 2023/24 annual audit opinion; and
- 1.3 Progress with implementation of agreed management actions from previously completed internal audits.

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Lothian Pension Fund - Internal Audit Update as at 9 November 2022

2. Executive Summary

- 2.1 This report provides details of the progress of Internal Audit's (IA) assurance activity on behalf of Lothian Pension Fund (LPF) overseen by the City of Edinburgh Council's (the Council) IA function.
- 2.2 Delivery of the four audits included in the revised 2022/23 IA annual plan agreed by Committee in September 2022 is underway, with the first audit complete and planning for the remaining three audits in progress.
- 2.3 As at 9 November 2022, LPF had 14 agreed management actions and two actions are passed their original implementation date. Revised dates have been provided for both actions, which are expected to be complete by 31 December 2022.
- 2.4 A report detailing the outcomes of the Project Forth Programme Assurance audit is included for the Committee's review and scrutiny.

3. Background

2022/23 Internal Audit Annual Plan

- 3.1 A revised 2022/23 LPF IA plan was approved by the Pensions Committee in September 2022 which consists of four audits (see 4.1 for details).

Internal Audit Follow-Up Process

- 3.2 IA follow up on progress with implementation of management actions arising from IA reports. In October 2022, a risk-based approach to follow-up was introduced in line with best practice.
- 3.3 All high rated management actions are validated when presented for closure together with a sample of medium actions. The remaining medium actions and low actions are closed via a 'self-attestation' once confirmed as complete by management.

4. Main Report

Progress with delivery of the 2022/23 LPF IA annual plan

- 4.1 The 2022/23 IA annual plan includes the following reviews:
 - Project Forth – Programme assurance
 - Information governance

- Third-party supplier management
- Adequacy of technology security assurance arrangements

4.2 The Project Forth - Programme assurance review is complete with outcomes set out in Appendix 1.

4.3 Planning is underway for the remaining three reviews which will be completed between January to March 2023 as agreed with management.

Status of Open IA management actions as at 9 November 2022

4.4 As at 9 November 2022, LPF had 14 agreed management actions (1 High; 6 Medium; 7 Low) which were raised across the following audits:

- Bulk Transfers (4)
- Cessations (1)
- Technology Model Development (2)
- Employer Contributions (4)
- Capital Calls (1)
- Risk Management (2)

4.5 Two management actions are passed their original implementation date, however revised dates have been provided for both. Details are set out below:

Audit	Date completed	Rating	Update
Cessations	November 2021	High	As reported to committee in September, the due date for this action has been revised from 31 March 2022 to 31 December 2022, due to the reducing number and unpredictable timing of cessations.
Technology Model Development	March 2022	Medium	This action relates to implementation of actions arising from Data Protection Impact Assessments and was originally estimated for completion on 30 September 2022 but has been extended to 31 December 2022. LPF have progressed the actions and are working with the Council's Information Governance Unit to complete.

4.6 The remaining 12 management actions are not yet due for completion and implementation is currently being progressed by LPF.

5. Financial impact

- 5.1 The cost for delivery of the 2022/23 IA annual plan is estimated to be circa £80k. Costs applied is based on agreed rates as specified in the IA external co-source contract and actual time spent by the Council's IA team as recorded in IA time sheets and will be discussed and agreed with LPF management.
- 5.2 This includes the costs associated with ongoing follow-up activity, and the costs involved with preparing reports, attending committee meetings, and preparing the LPF annual plan.
- 5.3 It is also important to note that failure to close management actions and address the associated risks in a timely manner may also have financial impacts which are not yet measurable.

6. Stakeholder/Regulatory Impact

- 6.1 IA recommendations are raised as a result of control gaps or deficiencies identified during audits. If agreed management actions are not implemented, LPF will be exposed to the risks set out in the relevant IA reports, including the potential risk of non-compliance with applicable regulations.

7. Background reading/external references

- 7.1 [Public Sector Internal Audit Standards](#)
- 7.2 [Lothian Pension Fund – Internal Audit Update as at 31 August 2022](#) (item 6.4)

8. Appendices

Appendix 1 Final Project Forth – Programme Assurance Internal Audit Report

Internal Audit Report

Lothian Pension Fund: Project Forth - Health Check

22 November 2022

LPF2201

Overall Assessment	Some improvement required
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This internal audit review is conducted for the Lothian Pension Fund (LPF) under the auspices of the 2022/23 internal audit plan approved by the Pensions Audit Sub Committee in September 2022. The review is designed to help LPF 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 LPF. 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.

Background and scope

Lothian Pension Fund (LPF) is directly regulated by The Pensions Regulator; the Scottish Information Commissioner; and is subject to other public sector rules and regulations. LPF’s administration is managed through subsidiary companies, to which corporate law applies.

LPF is proposing to merge with Falkirk Pension Fund (“Project Forth”). LPF have already assessed the options and taken legal advice from Shepherd & Wedderburn and want to pursue the merger. However, as LPF is a subsidiary of City of Edinburgh Council (“the Council ”) the merger would require a sign off from the Council.

Management commissioned this assurance review to assess whether the Project Forth programme, from a delivery perspective only, has been set-up for success to deliver the programme objectives for the Council and LPF, and other impacted stakeholders.

The review took place against the backdrop that approval for the proposed merger has not yet been obtained due to, primarily, delays in finalising the NewCo legal structure, which resulted in the proposed merger date being moved from March 2023 to September 2023. As such, the Business Case, plan, and all related documentation is currently being updated. There is a conscious effort to be ready for the merger, whilst not overcommitting resource. All observations and recommendations should be read in this context.

Scope

This review focussed on an initial programme health check to provide a baseline understanding of the programme, its delivery mechanisms, and of key risks and controls.

It assessed key aspects of the programme against best practice, and against the PwC 12 elements of delivery excellence (detailed aside) and provided feedback on the effectiveness to manage and address key risk and/or focus areas including ensuring appropriate governance processes and structures are in place to achieve success.

It was performed by review of programme documentation, as well as interviewing a sample of workstream stakeholders. No stakeholders from Falkirk Council Pension Fund (FCPF) were interviewed due to their capacity constraints.

Limitations of scope

We did not formally assess the operating effectiveness of controls, any insights identified through the course of the audit work have been raised accordingly. Evidence was reviewed at a point in time and is not intended to provide ongoing or retrospective assessment of the controls over a period.

Risks

The programme has not been set-up or delivered in a way that will achieve the merger objectives and benefits.

Reporting Date

The review was iterative as it covered a ‘look back’ on initial project governance documentation, as well as execution of the project plan to date. As such, no specific testing period was applicable.

Our audit work concluded on 18 November 2022, and our findings and opinion are based on the conclusion of our work as at that date.



Executive Summary

Overall opinion and summary of findings

Overall, the review did not highlight major project management gaps, significant risks or control issues. There is a conscious effort to be ready for the merger, whilst not overcommitting resource however, the replanned timeline of the proposed merger date, as well as the related business case refresh, provides an opportunity to re-align and enhance the project plan, and related governance documentation, with regards to the following:

- **Change Control** - whilst an informal process was clearly demonstrated for the above-mentioned merger date change, a formal 'top down' Change Control policy and process is not documented to ensure changes are appropriately governed (Finding 1).
- **Assurance and Learning** - discussions with Internal Audit regarding performance of 'embedded real time assurance', as well as detailed 'execution audits' over Project Forth are ongoing. The nature, extent and timing have hence not been agreed or integrated into the project plan to provide confidence in project delivery and progression through the various stage gates (Finding 2).
- **Benefits Management** - a formal process for recording, monitoring, and managing expected benefits highlighted in the Business case, should be established. Furthermore, benefits were not mapped to specific tasks on the plan (Finding 3).
- **Risk Management** - a formal 'top down' Risk Management process is not documented. Risk is considered to be managed through the Risks, Assumptions, Issues and Dependencies (RAID) log. Risks and dependencies were not mapped from the Business Case to the RAID log where appropriate (Finding 4).
- **Quality Management** - a formal 'top down' Quality Management approach and plan is not documented. This would provide assurance that the approach to quality would be managed from the outset, and that the project would achieve its intended results, while preventing or reducing quality issues which may impact the success of the project's delivery (Finding 5).

- **Operations/IT** - a formal migration plan to perform a test run by moving the bulk data to the new test system is not documented. It is acknowledged that negotiations with Heywoods are currently in progress, after which the granular detail will need to be agreed (Finding 6).
- **Delivery enabled plans** - a critical path is not yet defined in the project plan (Finding 7).

Areas of Good Practice

Our review identified the following good practices:

- **Project Governance and Reporting** - the project is run by an externally appointed Project Manager with a detailed plan. It is well governed with high levels of senior stakeholder engagement, clear organisation charts, governance meeting structures, terms of reference etc. This was corroborated by positive feedback received from interviewees.
- **Scope Management** - a very detailed business case exists which was compiled by Deloitte. It contains detailed scope related information and was used to produce the Project Initiation Document (PID).
- **Communications** - a plan covering staff, employers, Associations, Boards and Committees, Councillors etc. is documented, and executed. 'Intention' communications have also been drafted and approved at Steerco for the various outcomes i.e., if the merger does/does not take place. Change related communications were sent out to all impacted stakeholders with regards to the change merger date.
- **Stakeholder management** - stakeholders interviewed were positive about the running/management of the project and its outcomes, received clear communications (see above), had the opportunity to provide input, and there were no significant concerns with regards to the project being set-up for success.
- **Financial Management** - each workstream has their own budget. Tracking thereof is an iterative process which is overseen by the Financial Controller, who actively engages with the Finance Workstream Leads.

Findings and Management Action Plan

Finding 1 – Absence of a Change Management policy

Finding
Rating

Medium
Priority

A formal 'top down' change control governance/process policy has not been documented and communicated to project team members.

It is acknowledged that there is reference to change control in the Governance Document (V1.1) which states frequency, inputs, and outputs. There is also a change control form for the change relating to the 'Programme Completion Date Change' which is in the RAID log, and in the September 2022 Steerco pack, moving the suggested merge date from March 2023 to September 2023. Discussions with the PMO, as well as an inspection of the change control and the RAID log, provided comfort that an informal process existed, and interviewees confirmed that they would always approach the PMO with suggested changes and take their advice as to how to proceed. Management confirmed that more changes are expected after the merger is approved.

Risks

- Staff may not have guidance/understanding of key processes leading to inconsistent approach, lack of appropriate audit evidence being retained etc.

Recommendations and Management Action Plan: Change Management Policy

Recommendation	Agreed Management Action	Action Owners	Timeframe
<p>Management should formally document, approve, and communicate the current informally applied change management policy to all appropriate stakeholders. This should reference all currently used documents and should cover:</p> <ul style="list-style-type: none">• what constitutes a significant change• when/how to undertake change• the documentation levels required• potential Red, Amber, Green (RAG) ratings• resolution times for each priority level currently defined in the RAID log. <p>Once complete, this policy should be referred to in the Governance policy document (V1.1), as well as the RAID log to link all existing project governance documentation.</p>	Insert management action	CEO / CRO / PMO	XX/XX/20XX

Finding 2 – Absence of an Assurance plan

Finding
Rating

Medium
Priority

According to section 12 of the PID: *‘An external sourced Internal Audit programme will be commissioned. It will report to the JOG, and through this to the Audit Committee and/or Pension Committees of LPF and FCPF, and then in turn NewCo Board and/or Audit Committee. Both FC and CEC will be recipients of the reports. Agile, project audit methodologies and approaches will be taken to enable rapid lessons learnt and opportunity to remediate / recover / improve. No second line assurance will be undertaken’.*

Review of the ‘Project Management’ section on the ‘Plan on a page’ from the September 2022 Steerco contained: ‘Set up audit’ i.e., this project health check, as well as ‘Execution audits’.

LPF are in discussions with Internal Audit to perform ‘embedded’ assurance via attendance at Board meetings, as well as performance of ‘deep dive’ reviews on specific areas; however, the nature, extent and timing of these reviews have not yet been agreed and are hence not linked to specific project milestone stage gates.

Furthermore, there has been a conscious and deliberate deviation from the PID. This review was commissioned via the Council Internal Audit Function, rather than externally.

Risks

- The lack of independent assurance could result in project milestones being approved that have missed / lacked key elements.
- Missed improvement opportunities.

Recommendations and Management Action Plan: Assurance plan

Recommendation	Agreed Management Action	Action Owners	Timeframe
<p>The Council and LPF should agree and plan internal audit, and any other programme assurance related activities such as those over data migration. These should be entered onto the plan to support key project milestone stage gates.</p> <p>The deviation from the planned assurance as per the PID should also be tabled at Steerco for visibility/transparency.</p>	Insert management action	CEO / CRO / PMO	XX/XX/20XX

Finding 3 – Absence of a Benefits Management plan

Finding
Rating

Medium
Priority

A formal Benefits Management plan/approach is not documented. It was confirmed by an interview of the CEO/Project Sponsor that the organisation knows what to do, but that it has not yet been formalised. It is acknowledged that benefits will only be realised post-merger however, there is an opportunity to put the framework in place, communicate this to stakeholders, and incorporate it into project documentation prior to the merger. This will be a vital input into the post project evaluation proposed in the revised Business Case.

It is acknowledged that the benefits will be dependent on the structure that is ultimately approved.

Risks

- inaccurate and/or incomplete benefits recording, tracking, measurement, and reporting.
- unnecessary/non-value-added work is performed.

Recommendations and Management Action Plan: Benefits Management plan

Recommendation	Agreed Management Action	Action Owners	Timeframe
<p>A formal Benefits Management plan/approach should be documented, approved, and communicated to all appropriate stakeholders.</p> <p>Typically, this would include plans for at least:</p> <ul style="list-style-type: none">• identification• evaluation• planning• realisation• review <p>The plan/approach should be referenced in the PID, and benefits should be mapped to specific tasks, risks, and deliverables.</p>	Insert management action	CEO/CRO	XX/XX/20XX

Finding 4 – Absence of a Formal Risk Management approach

Finding Rating	Medium Priority
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From review of the RAID log, as well as from discussion with key stakeholders, most key elements of effective Risk Management have been considered; however, the overall Risk Management approach, and plan, has not been formally documented, and cascaded down to appropriate stakeholders.

Risks

- risks are not proactively identified, assessed and managed, thus reducing the likelihood of achievement of project objectives.

Recommendations and Management Action Plan: Formal Risk Management approach

Recommendation	Agreed Management Action	Action Owners	Timeframe
<p>A formal Risk Management plan/approach for identifying and capturing risks, assigning owners, and tracking and mitigating risks should be documented, approved, communicated to all appropriate stakeholders, and referenced to in the PID.</p> <p>The RAID log should be updated to include the milestones, dependencies, and benefits (see finding 5) that are impacted by each risk.</p> <p>The revised Business Case should be used as a source for this exercise; this will create clear linkage between, and visibility of, all key project documentation.</p>	Insert management action	CRO / PMO	XX/XX/20XX

Finding 5 – Absence of a Quality Management plan

Finding
Rating

Low Priority

A formal quality management approach and plan that describes the processes and metrics that will be used to manage quality, as well as defining the various responsibilities for achieving the required quality levels during the project, is not documented, and is therefore not included as part of the Project Initiation Document (PID).

Milestones, deliverables, and critical success factors are documented on Workstream Initiation Documents (WIDs), which could form the basis for a plan.

Risks

- Quality standards not maintained
- Inconsistent project results
- Performance not being maintained
- Lack of continuous project improvements
- Inconsistent project document control

Recommendations and Management Action Plan: Quality Management plan

Recommendations	Agreed Management Action	Action Owners	Timeframe
<p>A formal, risk based, quality management plan should be documented, approved by all key stakeholders, and referenced to in the PID, RAID, and all other appropriate governance documentation.</p> <p>The plan should be robust and cover, at minimum, the following elements:</p> <ul style="list-style-type: none">• quality planning,• assurance (testing)• control• continuous improvement• roles and responsibilities <p>Management should also ensure that staff used for assurance/testing are appropriately skilled i.e., have received appropriate training.</p>	Insert management action	CEO/CRO	XX/XX/20XX

Finding 6 – Absence of a Data Migration plan

Finding
Rating

Low Priority

Data to be migrated to NewCo is split into two sets.

- 1) 'Internal' LPF and Falkirk data: This includes data on shared drives, emails, and paper documentation. A 'data discovery' exercise is being executed by the IT workstream to determine the scope/quantity of other data held; this has been done before in the migration of data from Edinburgh Council to LPF.
- 2) Pensions administration data: Both LPF and FCPF use Heywoods, who will merge the two sets of data. This data is member records (including payroll information) and scanned documents. The Falkirk team are working to complete final scanning of member information forms.

It is acknowledged that this has been signposted in the detailed plan.

There is a lack of a data migration approach and plan, including test cycles in advance of the full migration, as well as related roles and responsibilities. It is acknowledged that the engagement and negotiation with Heywoods is currently in progress, after which the granular detail will be agreed.

Risks

- Accuracy, completeness, and timeliness of the data migrated to NewCo.

Recommendations and Management Action Plan: Data Migration Plan

Recommendation	Agreed Management Action	Action Owners	Timeframe
<p>As soon as is practicable after merger approval, a migration plan should be agreed with Heywoods; this should be included in all appropriate governance documentation. This should cover, at minimum:</p> <ul style="list-style-type: none">• completeness, accuracy, and timeliness of data migration• definition of an agreed 'cut off' point for existing systems• roles & responsibilities i.e., Access, administration, change control etc. <p>Any additional features / changes within the existing Heywoods application should also be documented as a user training manual post migration.</p>	Insert management action	CEO/CRO	XX/XX/20XX

Finding 7 – Absence of a ‘critical path’

Finding
rating

Low Priority

No ‘critical path’ existed on the current project plan. It is acknowledged that this is a result of the lack of approval of the merger, and hence, of the resulting legal structure. As such, the critical path could vary depending on the structure that is approved, and on the agreed merger date.

Management should, however, not lose sight of the need to document this.

Risks

- The project focus may be diverted to ‘non-core’ activities.

Recommendations and Management Action Plan: Critical Path

Recommendation	Agreed Management Action	Action Owners	Timeframe
Management should: <ul style="list-style-type: none">• define a ‘critical path’ and ensure that all workstream leaders understand it - particularly the key milestones• create an escalation process to address any threats to the critical path at the earliest opportunity - this could be done through the RAID log• document the impact of the critical path through all workstreams, considering findings 1 - 6.	Insert management action	CEO/CRO/PMO	XX/XX/20XX

Appendix 1 – Control Assessment and Assurance Definitions

Overall Assurance Ratings	
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.
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.
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.
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.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Appendix 2 – Key documents considered for review and stakeholders interviewed/engaged

Document name	Interviewee
Deloitte Business Case	Anne Mitchell - IT Workstream Lead
Workstream Initiation Document (WID)	Erin Savage - Operations and Actuarial Workstream Lead
Programme Initiation Document (PID)	John Burns (CFO) and Jason Koumides - Finance
Workstream Terms of Reference (ToR) and report packs	Alison Robb - Communications Workstream Lead
Steering group Terms of Reference (ToR) and report packs	Susan Handyside - Governance Workstream Lead
Pensions Committee Minutes	David Vallery - CEO and Project sponsor (input by email)
Project Forth Governance Document V1.1	
Risk, Actions, Issues, Decisions (RAID) log	
Heads of Terms (HoT)	
Intention Communications	