

## **Pensions Audit Sub-Committee**

2pm, Tuesday, 26 September 2023

### **Lothian Pension Fund - Internal Audit Update - August 2023**

#### **Item number 6.3**

#### **1. Recommendations**

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The Pensions Audit Sub-Committee is requested to note:

- 1.1 Progress with delivery of the 2023/24 Lothian Pension Fund internal audit plan with one audit complete and a further three in progress; and
- 1.2 Progress with implementation of agreed management actions from previously completed internal audits.

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# Lothian Pension Fund - Internal Audit Update - August 2023

## 2. Executive Summary

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- 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 across the period from 2 May to 25 August 2023.
- 2.2 Good progress is being made with delivery of the 2023/24 IA annual plan with the People Processes audit complete and three further audits underway.
- 2.3 A report detailing the outcomes of the People Processes audit recently completed is included for the Committee's review and scrutiny.
- 2.4 As at 10 August 2023, LPF had 22 open management actions with 3 actions passed the original implementation date. A total of 5 actions have been closed since May, and 14 new actions raised following completion of audits.

## 3. Background

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### 3.1 2023/24 Internal Audit Annual Plan

The 2023/24 LPF IA plan, which comprises five audits was agreed by the Pensions Audit Sub Committee in March.

#### Internal Audit Follow-Up Process

- 3.2 IA follow up on progress with implementation of management actions arising from IA reports. A risk-based approach to follow-up is applied, with all high rated management actions validated by IA 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

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- 4.1 The 2023/24 IA annual plan agreed by Committee in March 2023 includes the five reviews, with proposed timescales for completion of these audits as follows:

Audit	Timescale
People Processes	Q1/Q2 - <b>Complete</b>
Senior Manager Certification Regime	Q2/Q3 Aug to Oct – <b>In progress</b>

Business Continuity and incident response	Q2/Q3 Aug to Oct – <b>In progress</b>
Information Security Arrangements	Q2/Q3 Sep to Dec – <b>In progress</b>
Project Forth – Targeted review	To be confirmed

### **Outcomes of the People Processes audit**

- 4.2 The People Processes audit is now complete and a report detailing the outcomes is included at Appendix 1 for review and scrutiny by Committee. The overall assurance rating for this audit is Substantial Assurance, with 3 low rated findings raised, 2 of which were implemented prior to the finalisation of the report.
- 4.3 Our review concludes that the adequacy and operating effectiveness of the controls in place for people processes are generally satisfactory and support the achievement of LPF objectives. Our findings are intended to enhance and strengthen LPF’s people process control framework across the following areas:
- documentation for scoring metrics and interview packs
  - documentation for half-year performance reviews
  - opportunities to enhance the HR policies.

### **Status of Open IA management actions as at 10 August 2023**

- 4.4 As at 10 August 2023, LPF had 22 agreed management actions (6 high, 12 Medium and 4 Low) which were raised across the following audits:
- Information Governance (14)
  - Third Party Supplier Management (5)
  - Risk Management (2)
  - Technology Model Development (1)
- 4.5 Three management actions have passed their original implementation date; however, a revised date of 31 December 2023 has been provided by management for these three actions, reflecting ongoing actions. Details are included at items 4, 5 and 6 on Appendix 2.
- 4.6 The remaining 19 management actions are not yet due for completion and implementation is currently being progressed by LPF. Details of the management actions and progress, where relevant are provided at Appendix 2.

## **5. Financial impact**

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- 5.1 Failure to close management actions and address the associated risks in a timely manner may have financial impacts which are not yet measurable.

## **6. Stakeholder/Regulatory Impact**

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- 6.1 IA recommendations are raised when control gaps or deficiencies are identified during audits. If management actions are not implemented, LPF will be exposed to the risks associated with the key processes, including the potential risk of non-compliance with applicable regulations.

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

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- 7.1 [Public Sector Internal Audit Standards](#)
- 7.2 [Lothian Pension Fund – 2023/24 Internal Audit Annual Plan](#) – March 2023

## **8. Appendices**

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- Appendix 1 Internal Audit Report – People Processes August 2023
- Appendix 2 LPF outstanding audit actions as at 10 August 2023



# **Internal Audit Report**

## **Lothian Pension Fund – People Processes**

23 August 2023

LPF2301

<b>Overall Assessment</b>	<b>Substantial Assurance</b>
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# Contents

- Executive Summary .....3
- Background and scope.....4
- Findings and Management Action Plan.....5
- Recommendations and Management Action Plan: Documentation for half-year performance reviews .....6
- Appendix 1 – Control Assessment and Assurance Definitions.....8

This Internal Audit review is conducted by the City of Edinburgh Council for the Lothian Pension Fund under the auspices of the 2023/24 internal audit plan approved by the Pensions Audit Sub-Committee in March 2023. 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 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 members as appropriate.

# Executive Summary

Overall Assessment	Substantial assurance
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## Overall opinion and summary of findings

The adequacy and operating effectiveness of the controls in place for people processes are generally satisfactory and support the achievement of Lothian Pension Fund (LPF) objectives.







We noted the following areas for improvement:

- sample testing of recruitment highlighted that the interview pack and the candidate scoring were not always recorded on PeopleHR
- sample testing of documentation for half-year performance reviews noted that documentation had not always been completed on PeopleHR in line with the agreed timetable.
- there are opportunities to enhance the detail and accuracy of the HR policies to ensure they are clear and aligned to good practice.

## Areas of improved controls and good practice

- a comprehensive suite of human resources (HR) policies is in place, which can be easily accessed by colleagues
- there is effective oversight of the effectiveness of HR processes by both the LPFE Board and the People Group
- the new PeopleHR system allows for greater granularity on the scoring of candidates and the system also generates an average score based on the submissions of different hiring managers, in addition to improved workflow processes for candidate recruitment
- the new system also allows multiple people to contribute to the leavers process so that different tasks can be completed independently, driven by notifications from the system
- the timetable for the remuneration process has been adjusted to allow more time for the work to be completed effectively
- the LPFE Board considers succession planning each year with analysis performed across each department and all roles of the Senior Leadership Team (SLT) individually.

## Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Compliance			Finding 1 –Documentation for scoring metrics and interview packs Finding 2 – Documentation for half-year performance reviews	Low Priority
2. Policies and procedures			Finding 3 - Opportunities to enhance the HR policies	Low Priority
3. Systems			Not applicable – no findings	N/A

[See Appendix 1 for Control Assessment and Assurance Definitions](#)

# Background and scope

The Lothian Pension Fund (LPF) has approximately 100 employees who administer the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. LPF is the second largest LGPS in Scotland with approximately 90 employers and 84k members. LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds.

LPF's People and Communications team has responsibility for numerous functions within the organisation including internal and external communications, the HR function, health and safety, and the arrangements for business continuity.

Similar reviews in this area have been completed in previous years by Azets. The scopes, outcomes, and progress with implementation of management actions from those reviews will be considered and assessed in line with current risks and controls.

A new HR system (PeopleHR) is currently being introduced, is expected to be fully in place in 2023, and will replace the current system BambooHR.

The LPF People and Communications Governance Manual was developed in 2021 and was last reviewed in May 2023. The manual sets out the governance structure that covers the People and Communications team and is reviewed by the People Group with overview from both the Compliance and Risk function as well as the LPFE Board.

## Scope

The scope of this review was to assess the adequacy and operating effectiveness of established people processes to ensure robust controls are in place, complied with and support achievement of LPF objectives.

The review also included consideration of the employee lifecycle, the responsibilities of the People and Communications team which includes brand, people practices, strategic communications, and colleague, member, and employer engagement and the mapping of HR data processes to People HR.

## Risks

- Staff Resource - within the Fund not sufficient to carry out core tasks
- Recruitment – failure to recruit, engage and retain talent leads to workforce capability gaps with implications for oversight, control, administration, and achievement of service plan goals
- Key Person - risk of disruption due to key person absence or departure, caused by over-reliance without succession plans or cover, leading to material impact on business operations.

## Limitations of Scope

The review did not cover communications or health and safety which are the responsibility of the People and Communications Team.

## Reporting Date

Testing was undertaken between 31 July and 10 August 2023.

Our audit work concluded on 10 August, and our findings and opinion are based on the conclusion of our work as at that date.



# Findings and Management Action Plan

## Finding 1 – Documentation for scoring metrics and interview packs

Finding Rating	Low
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All candidates who go through the LPF recruitment processes are scored on their performance in the application process. Candidates who successfully move to the interview stage are assessed against pre-set attributes, with the outcomes of the interview then being documented by the hiring manager in an interview pack. The scoring and completed interview pack should be added to PeopleHR.

From our testing of recruitment in the year we noted, for 2 out of 3 vacancies sampled, that although the scoring had been performed and the interview pack completed, they had not been added to PeopleHR.

### Risks

#### Lack of audit trail of successful candidates

- LPF does not retain the relevant documentation and audit trail to adequately demonstrate the process followed and to support the decision made to fill a vacancy.

## Recommendations and Management Action Plan: Documentation for scoring metrics and interview packs

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officers	Timeframe
1.1	Management should introduce processes to ensure that hiring managers attach all the relevant documentation to evidence the outcome of all interviews on PeopleHR before a decision on a vacancy is approved.	No action required  Management have completed this action by the time of finalising this report with the interview pack and scoring relating to the interviews selected for sample testing was recorded on PeopleHR	N/A	N/A	N/A

## Finding 2 – Documentation for half-year performance reviews

Finding Rating	Low
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In line with the agreed policies and procedures, all LPF employees are required to agree performance goals at the start of each year and have both a half-year and a full-year performance appraisal.

At the time of our fieldwork, we noted that all colleagues had had their performance goals agreed and documented on PeopleHR.

However, although colleagues should have completed their half-year performance appraisal by 31 July, we noted that, for the 98 LPF colleagues:

- 6 had not completed their half-year assessment
- 21 had completed the half year review but had not fully submitted the assessment on People HR
- 71 had fully completed and submitted their half year review on People HR.

Management have advised that these issues are due to annual leave and unexpected absence, and they are proactively tracking the outstanding appraisals and, if a line manager's absence is extended, the completion of the half-year assessment for these 6 individuals will be escalated and completed by another manager.

### Risks

#### Incomplete appraisal process for staff

- LPF are not adequately appraising all colleagues in line with the agreed policy to ensure they are given the correct, support, training and performance management on a consistent basis.

### Recommendations and Management Action Plan: Documentation for half-year performance reviews

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officers	Timeframe
2.1	Management should ensure that the outstanding half-year appraisals are performed, and recorded in PeopleHR, in a timely manner.	No action required  All half year appraisals have been completed and submitted on PeopleHR for LPF staff at the time of finalising this report.	N/A	N/A	N/A

Finding Rating	Low
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### Finding 3 – Opportunities to enhance the HR policies

Our review of the HR policies provided noted the following opportunities to enhance and improve the HR policies, to be in line with best practice in the sector:

- employees can opt out of the 48-hour cap on weekly working hours (the Flexible Working Policy currently states employees must not work more than 48 hours)
- the Parent Leave Policy notes it applies to all employees regardless of gender meaning that employees are entitled to all arrangements listed (including up to 52 weeks of leave and keeping in touch (KIT) days), however, the policy details Occupational and Statutory Maternity pay but does not discuss Occupational or Statutory Paternity Pay
- an employee can take parental leave in blocks of days rather than weeks if they receive, for example, disability living allowance for their child. The Special Leave Policy could be clarified to reflect this

#### Risks





##### HR Policies not in line with industry best practice

- HR policies are not clear and complete leading to inconsistencies in how employees are treated.

### Recommendations and Management Action Plan: Opportunities to enhance the HR policies

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officers	Timeframe
2.1	Management should review the HR policies and make appropriate updates to the HR policies.	We will review the policies and make changes to address the points noted in this finding.	David Vallery, Chief Executive Officer	Helen Honeyman, Head of People and Communications Stephanie Duddy, People Business Partner	30/09/2023

# Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory		Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity		Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity		Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	N/A	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding Priority Ratings	
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
<b>Low Priority</b>	An issue that results in a small impact to the achievement of objectives in the area audited.
<b>Medium Priority</b>	An issue that results in a moderate impact to the achievement of objectives in the area audited.
<b>High Priority</b>	An issue that results in a severe impact to the achievement of objectives in the area audited.
<b>Critical Priority</b>	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 - LPF Internal Audit Management Actions as at 10 August 2023

Ref	Audit	Audit progress	Rec Title	Agreed Management Action	Rating	Status	Est Date	Revised Date	Management Update
1	LPF2003 Technology Model Development	86%	Rec 3.1.2: Post-Implementation Activities	LPF have produced user manuals and documentation for key/business critical systems and will review the requirements and suitability of the currently available generic documentation for the others during 2022.	Medium	Started	31/12/2022	31/12/2023	All critical systems have documentation. Remaining systems to be reviewed to ascertain which still require operational procedures.
		7 actions 6 complete 1 outstanding 1 overdue							
2	LPF2103 Risk Management	33%	Rec 2.1 Maintenance of risk registers	We will look to re-review the sub-group registers (and tie-in with main group register) with these points in mind We will consider within Risk Management Group (RMG) and report back through the usual channels with any updates arising.	Low	Started	31/03/2023	31/12/2023	LPF's corporate risk register has been reviewed and updated to ensure as clearer articulation and evaluation of risks, supported by a revised risk assessment methodology. A risk taxonomy and definitions have been agreed to ensure consistency with reporting, and changes to the risk management framework have been communicated to all staff.
		3 actions 1 complete 2 outstanding 2 overdue							
3			Rec 1.1: Aligning corporate risks with strategic objectives and risk definitions	We will look to re-review our risks with this finding in mind and use it as an opportunity to step back and consider more holistically the risks we capture and how we can effectively manage and cascade granularity of definition with both ongoing operational risk management and reporting/governance in mind. The Risk Management Group (RMG) does seek to do this on an ongoing basis, and to strike the important balance between maintaining and reporting on the right number of risks (omitting gaps) and distracting the focus away from critical risks/strategic analysis with too much detail, but this is a helpful and timely point to review this. We will consider within RMG and report back through the usual channels with any updates arising.	Medium	Started	31/03/2023	31/12/2023	LPF's corporate risk register has been reviewed and updated to ensure a clearer articulation and evaluation of risks, supported by a revised risk assessment methodology. A risk taxonomy and definitions have been agreed to ensure consistency with reporting, and changes to the risk management framework have been communicated to all staff.
4	LPF2202 Information Governance	7%	Rec 1.1 - Policy, Standards & Procedures Implementation	LPF will incorporate data strategy, data archiving, and information governance controls into new or existing documentation. RACI will be covered at 4.2.	High	Pending	31/12/2023		Data and information related policies will be reviewed and updated in Q4 2023
5		15 actions 1 complete 14 outstanding 0 overdue	Rec 1.3 - Centralised management of policies and procedures	LPF will implement a group-wide approach for centralised management of policies and procedures.	High	Started	31/12/2023		Work has commenced to trial solution.
6		Rec 2.1 - Documented Access Management Approach	LPF's existing approach to Joiner Movers Leavers will be documented. Documentation of access rights and processes will be co-ordinated across JML and new Change & Access policies and procedures.	High	Started	31/12/2023		Change Management process has been launched in Q3 2023, and training provided to all LPF colleagues. Existing policies to be reviewed and updated to ensure they document existing measures.	
7		Rec 2.2 - Access Management for external parties	LPF's draft Change Management and Identity and Access policies will be updated to cover granting, management, and removal of users. Measures re external party access will also be documented.	High	Started	31/12/2023		Change Management process has been launched in Q3 2023, and training provided to all LPF colleagues. Existing policies to be reviewed and updated to ensure they document existing measures.	
8		Rec 3.1 - Review of existing documents and data classification	As part of LPF's planned data classification implementation, existing documents will be reviewed to ensure they reference, and align with, data classification approach.	Medium	Started	31/12/2023		Data Classification approach has been agreed. Existing policies to be reviewed and updated during Q4 2023.	
9		Rec 3.2 - Update of Data Classification policy to include special category data and define data asset	LPF will update data classification policy to specify approach to special category data.LPF will define 'data asset' and align policies to this definition.	Medium	Started	31/12/2023		Data Classification approach has been agreed. Existing policies to be reviewed and updated during Q4 2023.	
10		Rec 3.3 - Retention schedule guidance	LPF will:1. create documented guidance on how retention periods are determined, including how CEC's requirements are tailored to LPF.2. update retention schedule to align with LPF's data assets	Medium	Pending	31/12/2023		Data and information related policies will be reviewed and updated in Q4 2023	
11		Rec 4.1 - Information governance forum	LPF will assign responsibility for information governance to a governance forum.	Medium	Started	31/12/2023		Risk Management Group (RMG) will receive MI on information governance matters. RMG terms of reference have been updated with a standing agenda item to cover information governance.	

Ref	Audit	Audit progress	Rec Title	Agreed Management Action	Rating	Status	Est Date	Revised Date	Management Update
12			Rec 4.2 - Information governance roles and responsibilities (RACI)	LPF's information governance policy currently details roles & responsibilities (including CEC's DPO) but not in a RACI format. This will be updated with a clear RACI matrix.	Medium	Pending	31/12/2023		Data and information related policies will be reviewed and updated in Q4 2023
13			Rec 4.3 - Review of IAO title	LPF will review the use of IAO title and establish a clear definition and use.	Medium	Pending	31/12/2023		Data and information related policies will be reviewed and updated in Q4 2023
14			Rec 5.1 - Compliance Monitoring	LPF will incorporate information governance measures into existing compliance monitoring plan.	Medium	Pending	31/12/2023		LPF's CMP will be updated in Q4 2023
15			Rec 5.2 - Formalising information security monitoring approach	LPF will formalise and document the current approach to monitoring information security e.g., regular IT security checks of information security at third parties.	Medium	Started	31/12/2023		A new system has been procured to allow better tracking of IT security monitoring at third parties. This will be formalised and closed during Q4 23.
16			Rec 6.1 - Information Asset register review and update	LPF will review and update its information asset register, and ensure the asset register, system list, third party supplier list, and retention schedule align.	Low	Pending	31/12/2023		Data and information related policies will be reviewed and updated in Q4 2023
17			Rec 6.2 - Update of registers to illustrate system dependencies	LPF will update existing registers (which may include third party supplier list, system lists, refreshed information asset register) to capture details; and create overview diagram(s) to illustrate the flow of business-critical systems.	Low	Pending	31/12/2023		Data and information related policies will be reviewed and updated in Q4 2023
18	<b>LPF2203 Third Party Supplier Management</b>	64% 14 actions 9 complete 5 outstanding 2 overdue	Rec 1.1 Business Case Documentation for critical suppliers	LPF will review records for existing critical suppliers and ensure that business case documentation is stored in correct supplier files. Supplier management policy will be updated to specify where supplier records, such as business case, should be stored.	High	Pending	30/09/2023		On track to complete by due date
19			Recs 1.2 and 1.3 Training for Tier 1 supplier owners / due diligence	1.2 LPF will carry out targeted training for Tier 1 supplier owners on monitoring and consider appropriate oversight via RMG reporting. 1.3 As part of action 1.2, targeted training will cover annual due diligence. Supplier framework document review will consider due diligence templates or checklists with set items, tailored to specific tiers.	High	Pending	30/09/2023		On track to complete by due date
20			Rec 5.1 Enhancements to and review of supplier database	LPF will enhance existing supplier database to include additional data fields, including dates of IT assessment and DPIA, and links to full records. A review of the database will be established, with results provided to senior management as part of RMG oversight.	Medium	Started	30/09/2023		Supplier database in process of being enhanced, as part of wider framework review. On track to complete by due date.
21			Rec 3.1 Review of supplier management framework	LPF will review existing Supplier Management Framework document and all related supporting document (templates, checklists), and update. New supporting documents will be created where necessary	Medium	Started	31/12/2023		Supplier Framework and supporting documents in process of review and update. Revised and enhanced documents for contract reviews and supplier exits have been approved. Full framework expected to be implemented in Q4 23.
22			Rec 6.1 Supplier management training and awareness	LPF will carry out training and awareness following update of all documents and processes referred to in other actions; and consider how to incorporate into existing annual training plan and onboarding.	Low	Pending	31/12/2023		LPF-wide training and awareness will be carried out in Q4 23 after review of supplier management framework is completed.