



## **Pensions Audit Sub Committee**

2.00pm, Tuesday, 19 March 2024

### **Lothian Pension Fund – Proposed Internal Audit plan for 2024/25**

#### **Item number 6.6**

#### **1. Recommendations**

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The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 review the proposed Lothian Pension Fund 2024/25 Internal Audit plan and recommend to the Pensions Committee for approval.
- 1.2 note the approach to developing a forward-looking approach to assurance by considering indicative audits over a three-year period, which will be reviewed and approved annually.

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# Lothian Pension Fund – Proposed Internal Audit plan for 2024/25

## 2. Executive Summary

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- 2.1 The purpose of this paper is to present the Lothian Pension Fund (LPF) proposed Internal Audit (IA) plan for the period 1 April 2024 to 31 March 2025 to the Committee for review and approval.
- 2.2 The audit universe covers the LPF group structure and will provide assurance for the LPFI and LPFE boards where appropriate.
- 2.3 The plan will also include ongoing IA follow up on implementation of management actions arising from previous internal audit reports.
- 2.4 In discussion with management, a forward-looking approach to assurance which provides an indicative internal audit plan over a three-year period has been considered.

## 3. Background

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- 3.1 The LPF IA plan is driven by requirements of section 2010 of the [Public Sector Internal Audit Standards \(PSIAS\)](#) which requires IA to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 3.2 IA has reviewed LPF's organisational objectives and priorities, and completed an assessment of the risks that could prevent LPF from meeting those objectives and providing pension services to employers and members.
- 3.3 The PSIAS specifies that the risk-based plan must consider the requirement to produce an annual IA opinion. IA work performed must be appropriately scoped to cover LPF's most significant risks, with an appropriate depth of testing performed to provide sufficient assurance on the control environment, governance, and risk management frameworks to support provision of the annual opinion.
- 3.4 PSIAS also specifies that internal audit activity must evaluate the effectiveness of risk management processes and contribute to their improvement.
- 3.5 In 2023/24, the audit universe was expanded to include the LPF group structure and to provide a single integrated audit programme and provide assurance for the LPFE and LPFI Boards where appropriate.
- 3.6 It should be noted that Internal Audit is not the sole source of assurance provision for LPF, as several additional external second line assurance providers are engaged (in addition to the annual external audit review of LPF's financial statements) to provide additional assurance coverage.

### **Co-source internal audit provision**

- 3.7 Following a request from LPF in 2019/20, all LPF internal audit services are currently provided by the City of Edinburgh Council's co-source professional services provider PwC with oversight from the Council's Head of Internal Audit.
- 3.8 In addition, the Boards of LPFI and LPFE may seek additional assurance where necessary to fulfil required obligations, where either the Council Internal Audit service or the co-source provider does not have capacity or expertise.

### **Internal Audit Charter**

- 3.9 PSIAS also specify that the purpose, authority, and responsibility of IA must be formally defined in an Internal Audit Charter (the Charter) that is periodically reviewed and presented to senior management and the board for approval. The Council's IA charter, approved by the Council's Governance, Risk and Best Value Committee in March 2024 fulfils this requirement for LPF.

### **New Global Internal Audit Standards**

- 3.10 In January 2024, the Institute of Internal Auditors launched [new Global Internal Audit Standards \(GIAS\)](#), which will come into effect in January 2025. The new standards will require several changes to Internal Audit practice including the introduction of 'topical requirements' for all internal audits.
- 3.11 Guidance on the full requirements of the new GIAS will be released by the Institute of Internal Auditors as it develops. It is proposed that relevant updates are provided as part of the quarterly update paper and supported by necessary training sessions for both LPF colleagues and committee members delivered by IA.

## **4. Main Report**

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### **Scope of Internal Audit Assurance**

- 4.1 The scope of IA assurance provided to LPF in relation to regulatory compliance is specifically limited to confirming LPF's ongoing compliance with Local Government Pension Scheme (Scotland) requirements.
- 4.2 The audit universe was expanded across the LPF group in 2023/24 with the inclusion of the operation of the Fund's two wholly owned subsidiary companies LPFE and LPFI Ltd that are responsible for providing employee resources to administer the pension funds, and provision of Financial Conduct Authority regulated services to both LPF and other Local Government Pension Scheme Funds.

### **Preparation and content of the proposed plan**

- 4.3 The areas proposed for inclusion in the plan were identified by considering the key risks included in the LPF risk register as at January 2024, and discussions with the LPF management team, Pensions Audit Sub Committee members and External Audit.

- 4.4 The LPF risk register as at January 2024 included a total of 26 risks, of which there were nil very high, 3 high, 15 moderate, 7 low and one insignificant rated risk.
- 4.5 The 3 high and 15 moderate risks were considered together with the outcome of previously completed audits, other assurance sources and key regulatory requirements.

#### **Proposed 2024/25 Internal Audit Plan**

- 4.6 The proposed IA plan for 2024/25 includes the following five audits:
- Pensions Committee Governance & Operational Effectiveness: Governance - discharge of responsibilities and accountabilities and best practice governance are high and moderate rated increasing LPF risks. This audit will be completed in Quarter 1 and will consider governance and operational effectiveness in line with the delegated functions set out in the Pensions Committee Terms of Reference and relevant regulations as well as consideration of fiduciary duties. It will also consider member skills, knowledge, and training.
  - Member Payments: Process and Execution – operation errors is a moderate rated risk. This audit will be completed in Quarter 2 and will review key controls for ensuring member payments are accurate and on time, including payment administration of regular payments, pro-rata payments, one-off lump sum payments, change of bank details, and management of under/overpayments.
  - Infrastructure Asset Selection, Management & Oversight: Investment Management – investment performance; investment services delivery and investment strategy are moderate rated risks. This audit will be completed in Quarter 3 and will consider how infrastructure assets are selected and managed including the investment strategy, costs, investment risk management, investment performance and consideration of climate change.
  - Investment Governance Improvement Plan (IGIP) Implementation: This audit will be completed in Quarter 4 and will provide assurance on a range of moderate rated risks aligned to implementation of the improvement actions set out in the IGIP, developed to address the gaps and weaknesses identified in the themed review of Investment Services.
  - Annual Validation Review: This review will be completed in Quarter 4 and will include a review of a sample of previously implemented and closed audit actions to confirm that they have been effectively sustained.
- 4.7 Reports detailing outcomes of each review will be presented to the Pensions Sub Committee. All reviews completed for LPFI/LPFE will also be presented to the relevant Board.
- 4.8 The proposed Internal audit reviews planned for the year 1 April 2024 to 31 March 2025 should provide assurance on 1 high and 9 moderate rated risks included in the

LPF risk register. Extending this to include follow-up of work performed in 2023/24 provides assurance for a total of 16 of the 18 high and moderate risks.

- 4.9 As part of preparation of the 2024/25 IA plan, a forward-looking assurance approach which provides indicative audit coverage across the LPF group risks on a three-year basis was considered through discussion with IA and LPF colleagues. Proposed indicative audit titles for 25/26 and 26/27 are included at Appendix 2. These areas will be reviewed as part of annual planning processes to ensure they remain appropriately aligned to LPF's top scoring risks.
- 4.10 It is important that the Committee confirms that appropriate assurance coverage will be provided across LPFs remaining population of moderate risks and (in particular) the risks associated with 'business as usual' operational activities by the additional assurance providers engaged by the Fund.
- 4.11 Table 2 of the 2024/25 IA plan provides an initial assurance mapping across the high and moderate LPF risks. It is proposed this will be developed further during 2024/25 with LPF colleagues to provide members details of where sources of assurance across the risks is provided. It is envisaged that the updated assurance map will be presented to the September 2024 meeting.

#### **Delivery of the 2024/25 IA plan**

- 4.12 The co-source provider contract is now due for re-tender, and an exercise to select a co-source provider for 2024 to 2026 (with an option to extend) will commence in March 2024. LPF colleagues have been invited to participate in the selection process.
- 4.13 During 2024/25 some audits may be conducted by the Council's in-house IA team, as agreed with LPF management.

#### **Risk Management**

- 4.14 PSIAS requires that an appropriate depth of testing is performed to provide sufficient assurance on the control environment, governance, and risk management frameworks to support provision of the annual IA opinion.
- 4.15 Whilst sufficient information is generally collated across multiple audits to provide an understanding of the effectiveness of risk management processes to support the annual opinion, IA typically also performs targeted risk management audits to assess and provide assurance on the adequacy and effectiveness of the risk management framework across the entire organisation. The most recent audit of risk management was completed in August 2022.
- 4.16 LPF undertook a comprehensive review of its Risk Management Framework during 2023 which resulted in a simplified methodology and a revised risk register. During 2024/25, where appropriate, IA will consider how well the new framework is being embedded and LPF's risk culture as a core element of the audits completed.

**Follow-up activity**

- 4.17 Follow-up work will also be performed in line with a risk-based approach to confirm whether agreed management actions implemented to support closure of findings raised in previous LPF audits have been effectively implemented.

**New Global IA Standards**

- 4.18 During 2025, IA will prepare for the introduction of the new Global IA standards including update of key documents, audit team training and colleague/committee member training and awareness.

**5. Financial impact**

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- 5.1 The estimated costs associated with delivery of the LPF 2024/25 IA plan are estimated to be circa £86,000 which reflects:
- current direct recharging of costs based on agreed rates as specified in the Council's IA co-source contract
  - direct recharging of costs for audits completed by the Council's IA team which will be charged on an actual costs' basis through completion of IA timesheets
  - costs associated with plan delivery and administration including preparation of the annual plan, annual opinion, review and oversight of all IA reviews, preparation of Committee reports, attendance at Committee meetings, as well as ongoing review and validation of previously raised audit actions. This will be charged on an actual costs' basis through completion of IA timesheets.

**6. Stakeholder/Regulatory Impact**

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- 6.1 The LPF management team, members of the Pensions Audit Sub Committee and External Audit were consulted when developing the 2024/25 IA plan.

**7. Background reading/external references**

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- 7.1 [Public Sector Internal Audit Standards](#)
- 7.2 Internal Audit Charter

**8. Appendices**

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Appendix 1 – Lothian Pension Fund 2024/25 Internal Audit Plan

Appendix 2 – Indicative proposed audit areas for 2025/26 and 2026/27