

Pensions Audit Sub-Committee Minutes

2pm, Monday 4 December 2024

Present:

John Anzani (Convener), Councillor Phil Doggart and Councillor Neil Ross.

Pension Board Member:

Jim Anderson.

Other Attendees:

Susan Handyside (Assistant Company Secretary, Lothian Pension Fund)

Andrew Henderson (Clerk, City of Edinburgh Council)

Andy Marchant (Non Executive Director, LPFI board)

Colin McCurley (Principal Audit Manager, City of Edinburgh Council)

Anne Mitchell, (Head of IT, Lothian Pension Fund)

Alison Murray (Independent Professional Observer)

Alan Sievwright (Chief Finance Officer, Lothian Pension Fund)

Karlynn Sokoluk (Chief Operations Officer, Lothian Pension Fund)

Kerry Thirkell (Chief Risk Officer, Lothian Pension Fund)

David Vallery (Chief Executive Officer, Lothian Pension Fund)

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present, and the Convener declared the meeting open.

2. Order of Business

The Clerk confirmed that there was no change to the order of business.

3. Declaration of Interests

John Anzani made a transparency statement that no part of his income was affected by the City of Edinburgh Council being a managing partner of Lothian Pension Fund.

4. Minutes

Decision

To approve the minute of the Pensions Audit Sub-Committee of 26 September 2023 as a correct record.

(reference – minute, Pensions Committee 26 September 2023, submitted.)

5. Agenda Planning and Governance Update

Officers presented the agenda planning document and provided the committee with an overview for the proposed agendas for future meetings of the Pensions Committee and the Pensions Audit Sub Committee in addition to the annual cycle. An update on the Committee's key actions from its meeting in September 2023 was also presented.

In responding to comments regarding item 2 on the action tracker, officers agreed to circulate an explanation of the differential in equities in advance of the next meeting of the Pensions Committee on the 5th of December 2024.

Decision

- 1) To note the agenda planning document and the action tracker (appendix 2);
- 2) To note that the Pension Board Members are invited to comment on agenda items during committee meetings;
- 3) To agree to hold an additional Audit Sub Committee meeting in March 2024 to consider the actuarial calculation and the AVC review paper; and
- 4) To agree that officers circulate an explanation of the differential in equities in advance of the next meeting of Pensions Committee on the 5 of December 2024.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

6. Lothian Pension Fund - Internal Audit Update – November 2023

Details on the progress of Internal Audits Insurance activity on behalf of LPF as over seen by the City of Edinburgh Council's Internal Audit Function across the period from 26 August 2023 to 1 November 2023 were provided. Good progress being highlighted with the delivery of the 2023/24 Internal Audit annual plan with both the people processes audit and senior managers and certification regime audit being closed and two further audits underway.

The report detailing the outcomes of the Senior Managers and Certification audit was presented to committee for review and scrutiny. It was highlighted that as of the 1st of November 2023 LPF had 24 open management actions with 5 actions passed the original implementation date. 6 actions have been closed since August 2023 and 8 new actions have been raised.

Members asked that officers liaise with PWC regarding the relevance of comments made and the principles of what is included in Audits with reference made to recommendation 1.1 b of the Recommendations and Management Action Plan: Senior Managers and Certification Regime governance arrangements of the Findings and Management Action Plan.

Decision

- 1) To note the progress of the 2023/24 Lothian Pension Fund internal plan with two audits now being complete and a further two in process;
- 2) To note progress with Implementation of agreed management actions from previously completed internal audits; and

- 3) To agree that officers to liaise with PWC regarding the relevance of Comments made and the principles of what is included in Audits.

(Reference – report by the Principal Audit Manager, City of Edinburgh Council, submitted)

7. Employer Performance and Data Quality Update

Details of the ongoing work to enhance the quality of the pension administration membership record data were provided. In accordance with the LPF's Pension Administration Strategy, the fund continues its efforts to improve the flow of data from employers through regular reporting and liaison.

It was highlighted that the fund has focused on cleansing member records for the annual benefit statement production, the triennial valuation and data collection and analysis for the McCloud remedy. LPF has also been preparing for the Pensions Dashboards Programme and has continued to review data quality specified by the Pensions Regulator.

Members asked the Chief Executive of LPF to provide further detail on employer performance and failures to meet the service standard for new starts, leavers, retirements and deaths. Members acknowledged that one employer, the City of Edinburgh Council, had recently implemented a new HR system and it was anticipated that this would improve the timeliness and quality of data provided to LPF.

Members asked the Chief Executive of LPF to remind employers who were not meeting service standards that fines will be levied should there be no clear commitment to improve. Members agreed that an update be provided to the March meeting of the Pensions Audit Sub Committee.

In response to members comments, officers agreed to ensure that the operations team are aware of differences in the McCloud Underpin.

Decision

- 1) To note the report;
- 2) To agree that the LPF Chief Executive will discuss the failure to meet standards for new starts, leavers, retirements and deaths with the Executive Director Corporate Services of the City of Edinburgh Council, highlighting that fines will be implemented should no clear commitment to improvement;
- 3) To note that the LPF Chief Executive will follow up the meeting with the Executive Director Corporate Services (CEC) in writing;
- 4) To agree that an update would be provided to the next meeting of the Pensions Audit Sub Committee; and
- 5) To note that officers will ensure that the operations team are aware of differences in the McCloud Underpin.

(References – Report by the Chief Operations Officer, Lothian Pension Fund, submitted)

8. Investment Income Review Cross Border Withholding Tax and EU Tax Recoveries

Details on the EY benchmarking assurance review into the effectiveness of the procedures in place to manage the tax exposure on the investment income of the LPF and the Scottish Homes Pension Fund was provided.

The review highlighted that Northern Trust was generally applying the correct withholding tax rates on investment income and is pursuing reclaimers where possible. A summary of identified opportunities and issues was provided and it was acknowledged that no significant claims had been settled during this period.

An update on the progress on Fokus bank reclaimers was also provided and it was highlighted that during the period covering the EU Tax and Claims and Other Income Tax Recoveries paper no additional claims had been paid.

Members asked officers to confirm if interest would be owed to LPF on tax authority reclaimers with Northern Trust and EY.

Decision

- 1) To note the report;
- 2) To note that whilst the review by EY shows that Northern Trust is generally applying the correct withholding tax rates on investment income, several rates applied were queried as suggested by EY;
- 3) To note progress on French Fokus claims via KPMG and ongoing work on Fokus claims via WTax; and
- 4) To agree that officers ensure that Northern Trust and EY provide full advice on potential interest on owed to LPF regarding tax authority reclaimers.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted.)

9. Risk and Compliance Update

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, was requested to exclude the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1, 3 and 6 of Schedule 7(A) of the Act.

An overview of the monitoring and assurance undertaken by LPF since the last meeting was provided along with a summary of the work to enhance current risk management arrangements.

Decision

Detailed in the confidential schedule, signed by the Convener with reference to this minute.

(Reference – report by the Chief Risk Officer, Lothian Pension Fund, submitted)

10. IT Information Security Update

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1 and 6 of Schedule 7(A) of the Act.

An overview of the actions taken following the LPF's annual penetration test was presented.

Decision

Detailed in the confidential schedule, signed by the Convener with reference to this minute.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)