



Pensions Committee

2.00pm, Wednesday, 26 June 2024

Lothian Pension Fund - Internal Audit Annual Report and Opinion for the Year Ended 31 March 2024

Item number 6.5

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note the Internal Audit Annual Report and Opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2024.

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Lothian Pension Fund - Internal Audit Annual Report and Opinion for the Year Ended 31 March 2024

2. Executive Summary

- 2.1 This report outlines the work completed by the City of Edinburgh Council's Internal Audit (IA) function for the Lothian Pension Fund (LPF) for the year 1 April 2023 to 31 March 2024.
- 2.2 The report also details Internal Audit's annual opinion on the adequacy and effectiveness of LPF's governance, risk and control frameworks for the year ended 31 March 2024, which should be used to inform the Annual Governance Statement.
- 2.3 The annual opinion is based on the outcomes of the three audits completed during 2023/24, follow-up action for previously completed audits, and an overall understanding of issues impacting LPF.
- 2.4 IA's annual opinion for 2023/24 is '**Reasonable Assurance**' (amber), reflecting that assurance activity has assessed LPF as having a generally sound system of governance, risk management and control in place. IA work completed during the year has identified some issues, areas of non-compliance and scope for improvement which may put at risk the achievement of objectives if not addressed, however management have agreed appropriate corrective actions.

3. Background

- 3.1 Internal Audit operates in accordance with the [Public Sector Internal Audit Standards](#) (PSIAS) which requires the Chief Audit Executive to provide an annual opinion on the adequacy and effectiveness of LPF's governance, risk and internal control environment. This is achieved through completion of a risk-based plan audit plan, the results of which should provide an appropriate level of assurance.
- 3.2 Internal control can be defined as the whole system of checks and controls, financial or otherwise, established by management to provide assurance regarding the achievement of an organisation's objectives.
- 3.3 No system of internal control can provide absolute assurance that control weaknesses or irregularities do not exist, or that there is no risk of material errors, losses, fraud or breaches of laws and regulations. Accordingly, the Committee should seek continual improvement in the effectiveness of LPF's systems of internal control.
- 3.4 In [March 2023](#), the Committee approved adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) standard definitions for audit opinions to

support consistency across public body organisations. Details of the standard definitions are provided at Appendix 1 of the Internal Audit Annual Report.

- 3.5 As agreed by Committee in [March 2023](#), the audit universe was expanded from 2023/24 onwards to enable IA to provide assurance across the LPF Group, with inclusion of both LPFI and LPFE.
- 3.6 The annual opinion does not imply that Internal Audit has reviewed all risks relating to LPF. It is the responsibility of senior management to establish an appropriate and sound system of governance, risk, and internal control, and to monitor the continuing effectiveness of that system.

4. Main Report

2023/24 Internal Audit annual activity

- 4.1 The LPF audit plan approved in March 2023 included input of circa 105 days across the following five audits:
- Senior Managers and Certification Regime (SM&CR)
 - People Processes
 - Information Security
 - Business Continuity and Incident Response
 - Project Forth
- 4.2 Due to project cessation, the Project Forth audit was approved for removal from the 2023/24 IA plan by the Pensions Audit Sub-Committee in March 2024.
- 4.3 An annual validation review was also completed during 2023/24 to validate whether a sample of LPF management actions closed between 1 January 2022 and 31 December 2022 continue to be effectively sustained.
- 4.4 The plan also included follow-up of outstanding management actions for previously completed audits, subsequently completion of the four audits, the validation review and follow-up resulted in circa 90 days in total being delivered during 2023/24.
- 4.5 Internal Audit work was performed by the Council's co-source internal audit provider, PwC. All work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards, with oversight from the Council's Head of Internal Audit, who performs the role of Chief Audit Executive for LPF.

Audit outcomes

- 4.6 The LPF Internal Audit Annual Report and opinion (Appendix 1) sets out the outcomes for the internal audits completed during 2023/24. A total of four audits were complete with two assessed as providing substantial assurance, one reasonable

assurance and one providing limited assurance. Further detail is provided at Section 5 of the Internal Audit Annual Report.

Alignment to risk management

- 4.7 LPF undertook a comprehensive review of its Risk Management Framework during 2023 which resulted in a simplified methodology and revised risk registers.
- 4.8 Alignment of Internal Audit findings to LPF risks is set out at Section 6 of the Internal Audit Annual Report. Audit work completed during 2023/24 highlighted potential issues for the following 6 LPF risks, with further detail provided at section 6:
- Business interruption
 - Regulatory breach
 - Cyber security
 - Data Management
 - Recruitment and Retention
 - IT systems
- 4.9 No indicators of fraud were highlighted during internal audit work and our assessment of fraud risk is low.
- 4.10 It should be noted that the opinion does not imply that Internal Audit has reviewed all risks and assurances relating to LPF.

Follow-up of previously raised Internal Audit actions

- 4.11 Section 7 of the Internal Audit Annual Report sets out progress in addressing actions raised on previous audits. As at 31 March 2024, there were a total of 26 outstanding management actions arising from internal audit reviews.
- 4.12 A total of 20 audit actions (5 high, 13 medium and 2 low rated) raised across 6 previous LPF audits were closed during 2023/24 and 33 new actions were raised following completion of audits.
- 4.13 As at 31 March 2024, there were 11 actions are passed their original implementation date, however revised dates aligned to ongoing management activities have been agreed.
- 4.14 The closure of 20 actions during the year demonstrates management's commitment addressing audit actions and strengthening the overall governance, risk and control environment.

2023/24 Internal Audit annual opinion

- 4.15 The Internal Audit annual opinion for 2023/24 is '**Reasonable Assurance**' (amber), reflecting that assurance activity has assessed LPF as having a generally sound system of governance, risk management and control in place. IA work completed during the year identified a number of issues, areas of non-compliance and scope for improvement which may put at risk the achievement of objectives if not addressed, however management have agreed appropriate corrective actions.

Comparison to prior year (2022/23)

- 4.16 The opinion of Reasonable Assurance remains aligned to 2022/23 annual opinion.
- 4.17 A direct comparison between Internal Audit annual 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.
- 4.18 The increased number of findings raised in 2023/24 (from 19 to 33) is mainly attributable to the nature of the areas reviewed and the ongoing commitment from officers to review current policies and procedures to strengthen control frameworks. For example, development of the policy management framework, draft business continuity plans and business impact analysis.
- 4.19 It is not unexpected to see a higher level of improvement actions as processes are embedded, the number of issues should reduce as the design and operating effectiveness of controls matures.
- 4.20 The proportion of open IA findings at 31 March 2024 remains broadly aligned to 2022/23. Management have committed to completing actions associated with the majority of findings by 30 June 2025.

Internal Audit Independence and Conformance with Public Sector Internal Audit Standards

- 4.21 In line with PSIAS, IA must be independent, and all 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 individual independence is consistently maintained and that any potential conflicts of interest are effectively managed.
- 4.22 We do not consider that we have faced any significant threats to our independence during 2023/24, nor do we consider that we have faced any inappropriate scope or resource limitations when completing our work.
- 4.23 Detailed Internal Audit work was performed by the Council's co-source internal audit provider, PwC during 2023/24. All work was performed in accordance with PwC's Internal Audit methodology and quality standards which is in conformance with the PSIAS, with oversight from the Council's Head of Internal Audit.

5. Financial impact

- 5.1 There are no direct financial impacts arising from this report, although failure to close management actions 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 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

- 7.1 [Public Sector Internal Audit Standards](#)
- 7.2 [2023/24 approved Internal Audit Plan – Item 6.3 March 2023](#)

8. Appendices

Appendix 1 Lothian Pension Fund 2023/24 Internal Audit Annual Report and Opinion