

Pensions Audit Sub-Committee (“Sub Committee”) Minutes

2pm, Tuesday 24 September 2024

Present:

Councillor Neil Ross (Convener)
Richard Lamont.

Pension Board Member:

Alan Williamson.

Independent Professional Observer:

Alison Murray.

Other Attendees:

Chris Brown (Head of Public Sector Audit, Azets Audit Services)
Laura Calder (Head of Internal Audit, City of Edinburgh Council)
Natalie Carter-Osborne (Committee Officer, City of Edinburgh Council)
Taylor Ward, (Committee Officer, City of Edinburgh Council)
Jason Koumides (Financial Controller, Lothian Pension Fund) (Item 7 only)
Adrian Kolodziej (Senior Manager, Azets Audit Services)
Colin McCurley (Principal Audit Manager, City of Edinburgh Council)
Kimberley Russell (Company Secretary, Lothian Pension Fund)
Alan Sievwright (Chief Finance Officer, Lothian Pension Fund)
Mary Strathearn (Assistant Company Secretary, Lothian Pension Fund)
Kerry Thirkell (Chief Risk Officer, Lothian Pension Fund)
Carole Thomson (Customer Experience Manager, Lothian Pension Fund) (Item [6.4] only)
David Vallery (Chief Executive Officer, Lothian Pension Fund)

Apologies:

Councillor Iain Whyte.

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present. The Convener declared the meeting open and welcomed Richard Lamont as a new member of the Sub-Committee.

2. Order of Business

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

3. Declaration of Interests

There were no declaration of interests.

4. Deputations

There were no deputations.

5. Minutes and Action Tracker

5.1 Decision

To approve the minute of the Sub-Committee of 24 June 2024 as a correct record.

(Reference – minute, Pensions Audit Sub Committee 24 June 2024, submitted.)

5.2 Action Tracker

To note the status of the actions on the Action Tracker and agree to close the three actions as proposed in the Action Tracker.

(Reference – Action Tracker, submitted.)

6. Quarterly Governance Update

An update from officers regarding governance matters and improvements, in addition to the usual agenda planner, was provided.

Following discussion regarding challenges around recruitment for the Pension Board in respect of Member and Employer representatives, officers provided a brief explanation about an upcoming review of Lothian Pension Fund's nominations and recruitment process for Pension Board and non-elected Pensions Committee members which would include a broad consideration of options to attract new candidates, including (for example) the approach to and frequency of communications. In the context of the Scottish sector, it was acknowledged that the pool of candidates was somewhat limited due to eligibility of candidates and representatives would be required to commit appropriate time.

Officers, however, confirmed that vacancies for positions had been promoted widely through a number of channels and efforts would continue to attract candidates.

The Sub-Committee welcomed the governance review methodology and scope, noting that it would be considered at the Pensions Committee on 25 September.

Decision

- 1) To note LPF's Quarterly Governance Update report;
- 2) To note the Future Agenda set out in Appendix 1 of the report;
- 3) To Note the update on members' training hours set out in Appendix 2 of the report;

- 4) To note the proposed Scope and Methodology for the Governance Review set out in Appendix 3 of the report; and
- 5) To note the process framework set out in Appendix 4 of the report for consideration by the Pensions Committee on 25 September.

(Reference – report by the Company Secretary, Lothian Pension Fund, submitted.)

7. Annual Report and Accounts (audited)

The audited Annual Report and Financial Statements for Lothian Pension Fund and Scottish Homes Pension Fund the year ended 31 March 2024 (“Annual Report”) was presented and audit findings for the year. The Financial Controller also led a brief presentation, highlighting key aspects of the Annual Report, which included, for example, that some minor disclosure and presentational adjustments identified during the audit had been reflected in the Annual Report. The Financial Controller highlighted that there had, however, been no material adjustments and the External Auditor’s intent to issue an unqualified opinion.

The External Auditor explained that the audit had completed since their report had been issued to the Sub-Committee. The External Auditor also provided an explanation of the key findings of the audit and commented positively about the responsiveness of, and engagement with, Lothian Pension Fund’s Finance team. The Auditor judgment in terms of financial sustainability had been rated as effective and appropriate (green rated), which had been a positive enhancement to the prior year (amber rated). Vision, Leadership and Governance had been rated as amber, recognising no major weaknesses in arrangements but scope for improvement exists. In this regard, it was highlighted that, for the second year, not all members of the Pension Board and Pensions Committee had completed the minimum number of training hours required by Lothian Pension Fund’s training policy. The recent improved performance of pension administration was noted and applauded, as well as the unqualified opinion.

It was noted that a request to inspect the Annual Report, as well as an objection to the Accounts, had been received under Local Government legislation, which had centred around the Fund’s having not adequately disclosed the awareness of the Pensions Committee and officers to the significant risk that climate change is being significantly underestimated in the financial modelling for the Fund undertaken by its advisors. In this regard, additional narrative had been included in the Annual Report. The grounds of interest, process, and time periods, applicable to an objection under legislation were explained. Limitations of modelling were recognised and having met with the objector the External Auditor had been content that no further material issues had been raised.

The Sub-Committee discussed management expenses in comparative terms to other funds, for example the perceived lower investment management expenses of Fife Pension Fund and, suggested that clarification would be useful. Other matters noted, and discussed by the Sub-Committee, related to retained earnings in respect of LPFI Limited and LPFE Limited, the sub-lease of Lothian Pension Fund’s prior offices at Atria, gilts, as well as variable remuneration with a particular focus on vesting periods and benchmarking. Further consideration was also given to cyber security, disaster recovery and business continuity planning. In conclusion, the Sub-

Committee extended its thanks to all those that had been involved in the preparation and audit of the Annual Report.

Decision

- 1) To note the report by Azets Audit Services 'Lothian Pension Funds 2023/24 Annual Audit Report to Members of the Pensions Committee and the Controller of Audit' (at Appendix 1 of the report);
- 2) To note the Annual Report (at Appendix 2 of the report);
- 3) To note the objection to the accounts and the Fund and Azets response (at Appendix 3 of the report);
- 4) To note that the audited financial statements, for the year ended 31 March 2024 of both the wholly owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in June 2024 (as shown in full at Appendices 4 and 5 of the report);
- 5) To note the further Appendix 6 of the report, 'Letter of Representation (ISA 580), by the Chief Finance Officer, Lothian Pension Fund;
- 6) To highlight any points that the Sub-Committee would like to raise at the Pensions Committee on 25 September 2024; and
- 7) To clarify, and update the Sub-Committee, in due course regarding management expenses in comparative terms to other funds, for example Fife Pension Fund.

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

8. Lothian Pension Fund – Internal Audit Update

An overview of progress on the 2024/25 Internal Audit plan together with an update on the Internal Audit review on the Pensions Committee operational effectiveness and governance was provided. An overall assurance of Reasonable Assurance had been provided to reflect that a number of areas of improvement and associated actions had been identified, particularly in regard to the establishment of effective working relationships. Noting the finding on training, the Sub-Committee commented positively on the quality of the training provided by Lothian Pension Fund, it recognised the output may have been informed by the timing of the survey and recent change in Pensions Committee membership, at that time. The objective to ensure training is sufficiently structured and comprehensive, as well as aligned to a review and analysis of individual member skills, experience and training needs, was recognised, as well as work underway to consider an appropriate approach. The Sub-Committee did note that further training on managing conflicts of interest would be beneficial. The Sub-Committee reflected on the proposed Governance Review and the inter-relationship between the Internal Audit actions and that review, noting particularly that further work on the application of the Standing Orders was required

Separately, the Internal Auditor highlighted an exercise which had been underway to reprocur a co-source partner, in which Lothian Pension Fund's Chief Risk Officer had helpfully participated.

Decision

- 1) To note the progress with the delivery of the approved 2024/25 Lothian Pension Fund Internal Audit Plan.
- 2) To note the outcomes of the recently completed Pensions Committee Governance and Operational Effectiveness review and refer it to the Pensions Committee for approval; and
- 3) To note progress with implementation of agreed management actions from previously completed internal audits.

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

9. Fraud Prevention

An annual update on fraud prevention measures was provided. A new Capita mortality tracing service had been put in place and had, to date, been useful to identify and report deaths of deferred and pensioner members. The team had been assured, during the procurement process, regarding the provider's strengthened processes and improvement plans following a non-LPF related data incident.

After discussion, it was agreed that, going forward, the Sub-Committee would report to the Committee on the broader controls related to fraud prevention (and not only in respect of Pensions Administration). That broader report would be brought back to the Sub-Committee at the next scheduled report, if not sooner. In this regard, while it was noted that a Fraud Policy was in place and publicly available, the Sub-Committee considered it useful to have sight of that Policy alongside the broader report.

Further discussion was held around pensioners living overseas members and survivors' pension in the circumstances of subsequent remarriage or cohabitation.

Lastly, an update was provided regarding the Tell Me Once Notification. Reference was also made to the National Fraud Initiative, where officers highlighted Lothian Pension Fund used the former and had been proactive in its efforts to alert members around pension scams.

Decision

- 1) To note the report and highlight any points to raise at the Pensions Committee.
- 2) To request that a report providing a broader update on fraud prevention controls, as well as the Recovery Policy, be brought to a future Sub-Committee meeting.

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

10. Risk and Compliance 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, 3 and 6 of Schedule 7(A) of the Act.

On overview of the monitoring and assurance undertaken by Lothian Pension Fund since the last Sub-Committee meeting was provided.

Decision

- 1) 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.