

The Highland Council Pension Fund

2022/23 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

Prepared for members of Highland Council Pension Fund Committee and the Controller of Audit
February 2024

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Key messages

2022/23 annual report and accounts/financial statements

- 1 Our audit opinions on the annual report are unmodified.
- 2 The annual accounts of Highland Council Pension Fund give a true and fair view of the state of affairs of the fund as at 31 March 2023 and have been properly prepared in accordance with the financial reporting framework.

Financial management

- 3 The fund has appropriate and effective financial management arrangements in place which includes reporting of investment performance.
- 4 For the year to 31 March 2023, the fund returned -2.8% on its investments, underperforming the benchmark of -1.7%, during a challenging year for local government pension schemes.

Financial sustainability

- 5 The fund has appropriate arrangements for financial sustainability.
- 6 The regular triennial pension valuation process will take place in 2023/24, which may impact the funding strategy and pension contribution rates for employers.
- 7 The fund membership and contributions continues to increase.

Governance and resources

- 8 Highland Council has appropriate governance arrangements in place that support scrutiny of decisions over the Pension Fund.
- 9 Attendance at the pension board meetings and at training events for committee and board members should be improved. This will support scrutiny and challenge and inform decision making by committee.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of The Highland Council Pension Fund (the fund). The scope of the audit was set out in an annual audit plan presented to the members of the Pensions Committee and Pension Board on 25 April 2023. This Annual Audit Report comprises:

- significant matters arising from an audit of the Highland Council Pension Fund annual accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [*Code of Audit Practice 2021*](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.
- conclusions on the administering authority's arrangements related to the pension fund for meeting its Best Value duties

2. This report is addressed to the committee of the Highland Council Pension Fund and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. As administering authority for the fund, Highland Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts for the pension fund that are in accordance with proper accounting practices. The administering authority is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

4. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [*Code of Audit Practice 2021*](#), and supplementary guidance and International Standards on Auditing in the UK.

5. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of the administering authority from its responsibility to address the issues we raise and to maintain adequate systems of control.

6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £36,100 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Our audit opinions on the annual report are unmodified.

The annual accounts of Highland Council Pension Fund give a true and fair view of the state of affairs of the fund as at 31 March 2023 and have been properly prepared in accordance with the financial reporting framework.

Audit opinions on the annual report are unmodified

8. The Pensions Committee approved the annual accounts for Highland Council Pension Fund for the year ended 31 March 2023 on 22 February 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor, the financial statements:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £24 million

9. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

10. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£24.0 million
Performance materiality	£14.4 million
Reporting threshold	£250,000

11. The overall materiality threshold for the audit of the annual accounts of the fund was set with reference to net assets, which we judged as the figure most relevant to the users of the financial statements.

12. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting our assessment of the risk profile of the organisation and that this is year one of our audit appointment.

13. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Materiality was separately assessed for Pension Fund Account

14. We assessed that benefits expenditure and contribution income could reasonably be expected to influence the economic decisions of users of the annual accounts, despite the comparatively small value of these areas in relation to overall materiality. In line with International Standards on Auditing (UK) 320, we therefore set a specific materiality value for these areas based on benefits paid.

Exhibit 2

Specific materiality values for Pension Fund Account transactions

Materiality level	Amount
Specific materiality	£7.60 million
Specific Performance materiality	£4.56 million

Significant findings and key audit matters

15. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the fund's accounting practices.

16. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

17. We have no significant issues to report from the audit.

Staff capacity issues within the pensions administration section present a risk to timely completion of key functions.

18. During the course of our audit, it became evident that the pension administration and accounting staff were under significant pressure due to capacity issues, and responses to requests for audit evidence were delayed by several weeks due to competing priorities. We were unable to obtain all requested items of key audit evidence until a very advanced stage of our audit. A restructure of the pensions administration section was approved in February 2023, including plans to recruit additional staff ([Paragraph 59](#)).

Recommendation 1

Management should ensure the fund has sufficient staffing capacity to undertake all key finance functions. This includes ensuring that staff have adequate support and training to undertake their roles effectively.

Our audit identified improvements to disclosures

19. As part of our work on the financial statements, we verify the year end investment asset values to fund manager and custodian valuation reports. During our audit, management identified several material movements between purchases, sales and changes in market value of the classes of the fund's investments assets. This was a result of a further detailed analysis of realised gains by officers which due to time constraints could not be completed when the draft accounts were prepared. These amendments only affected the note disclosures in the accounts, and there was no effect on the overall year-end market value disclosed in the main financial statements.

20. Our audit work also identified scope for improvement or amendment to several notes to the accounts. This included the notes relating to holdings exceeding 5% of total net assets, and inclusion of a currency risk sensitivity analysis.

Our audit work responded to the risks of material misstatement we identified in the annual accounts

21. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Our detailed testing of journals at the year-end and post-closing entries did not identify any issues or errors. • Our review of accounting estimates did not identify any issues or errors. • No significant transactions outside the course of business were identified. • Detailed testing of income and expenditure, accruals and cut off transactions found no significant issues or errors. <p>Conclusion: We did not identify any instances of management override of controls.</p>

Source: Audit Scotland

22. In addition, we identified "areas of audit focus" in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Valuation of level 3 investments.** Level 3 investments have at least one input that could have a significant effect on the investment's valuation that is not based on observable market data. There is a significant degree of subjectivity in the measurement of these level 3 investments. We assessed the fund's valuation process and how it obtains assurances over investment values. We confirmed the fund's valuations to appropriate supporting documentation, including observable market data and reports

from the fund's investment managers, for significant investments which are subject to a high degree of estimation. No issues or errors were identified as a result of this work.

- **Actuarial valuation of future retirement benefits.** The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. We reviewed the actuarial assumptions adopted, and found that they are appropriate and reasonable. There are no matters which we need to bring to your attention.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

The fund has appropriate and effective financial management arrangements in place which includes reporting of investment performance.

For the year to 31 March 2023, the fund returned -2.8% on its investments, underperforming the benchmark of -1.7%, during a challenging year for local government pension schemes

The value of the fund's investments decreased over the year to £2,389 million amid global uncertainty and rising interest rates

23. For the year to 31 March 2023, the fund returned -2.8% on its investments, underperforming the benchmark of -1.7%. This is mainly due to the impact the global situation (rising interest rates and the expectation that these will increase further) had on equities. The market did rebound in the quarter to 31 March 2023, however, not enough to reverse the impact of the uncertain global situation. Overall, the fund's total investments decreased in value from £2,467 million to £2,389 million at the end of 2022/23.

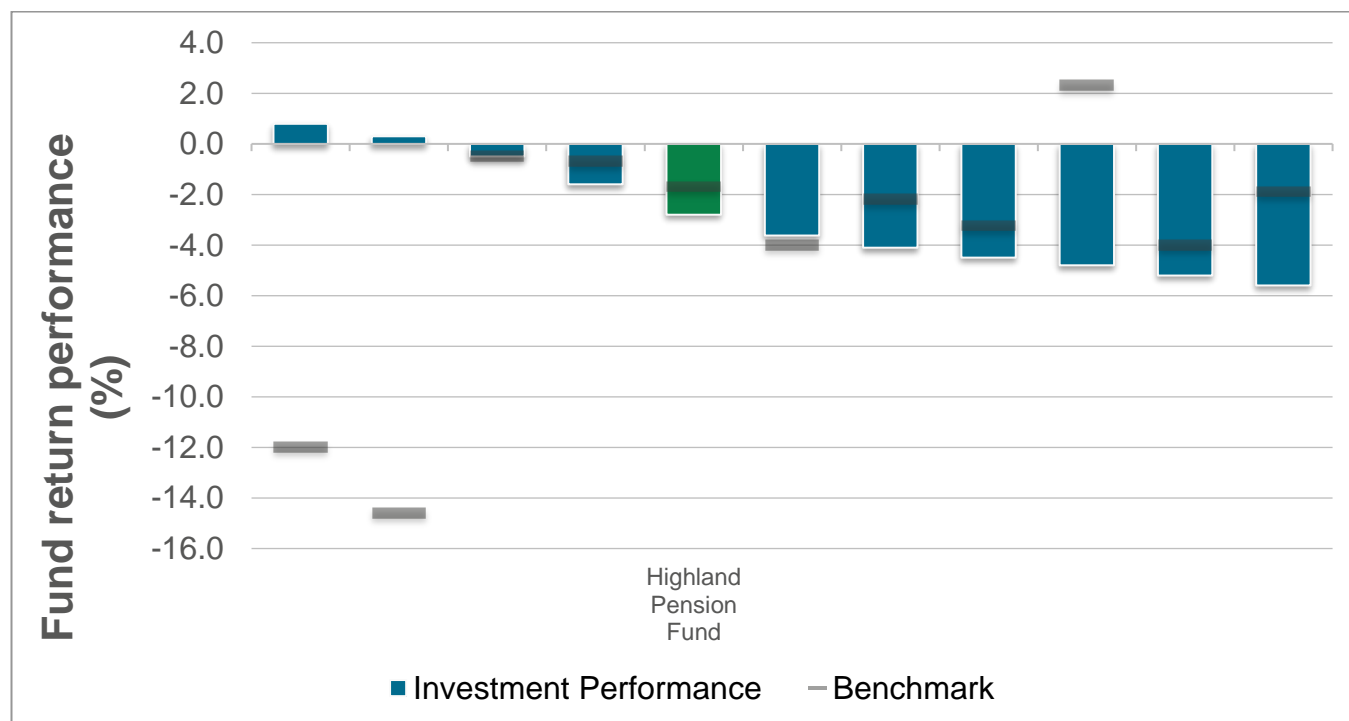
24. Other factors which impacted on the fund's performance during 2022/23 included the fall in UK property capital value and inflation and the resulting actions taken by global central banks to try to manage inflation. The fund's performance in 2022/23 is summarised in [Exhibit 5](#). The fund's net assets decreased from £2,474 million at 31 March 2022 to £2,406 million at 31 March 2023.

25. As shown in [Exhibit 4](#) overleaf, only two of the eleven Scottish LGPF funds reported positive movements in net assets during the year and only three funds reported above benchmark returns, with investment performance ranging from -6 per cent to 1 per cent (compared to returns ranging from -2 per cent to 13 per cent in 2021/22).

Exhibit 4**Assets, funding level and investment performance**

Decrease in net assets	Funding level	Investment performance
£2,406 million Closing net assets as at 31 March 2023 (-2.74%)	100% Net assets vs promised retirement benefits 31 March 2020	5.4% Average annual return on investments over 5 years
£2,474 million Opening net assets at 1 April 2022	86.1% Opening net assets as a proportion of promised retirement benefits	-2.8% Return on investments 2022/23

Source: 2022/23 Highland Council Pension Fund unaudited annual report and accounts

Exhibit 5**Scottish LGPS pension funds 2022/23 – Net return on investment and benchmark return**

Source: 2022/23 Scottish LGPS pension funds unaudited annual accounts

26. The promised retirement benefits at 31 March 2023 have been estimated at £1,971 million (31 March 2022: 2,872 million), showing a 31.4% decrease. This estimate uses assumptions in line with Internal Accounting Standards (IAS) 19

requirements, for the purposes of the fund's financial statements. It is not directly comparable to the liability measures on a funding basis.

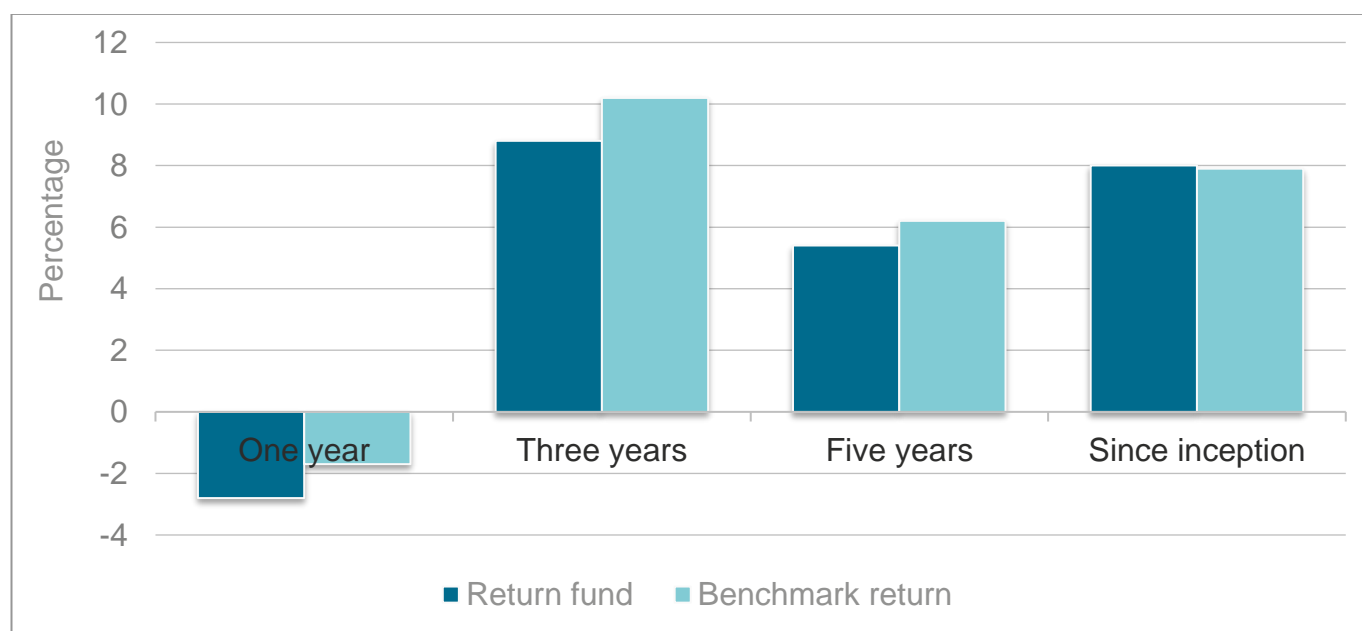
Investment performance shows below benchmark returns for the fund over the past five years

27. The fund has appointed twelve external investment managers. Individual investment manager performance is reviewed regularly by the Investment Sub Committee and the fund's pension's accounting team and the fund's investment adviser (Aon) also carries out annual diligence reviews for each appointed fund manager.

28. Over the longer-term ([Exhibit 6](#)), the fund returns underperform the benchmark across a 5-year period (return is 5.4% compared to the benchmark of 6.2%) but there is positive performance when reviewing the performance since inception (8.0% compared to 7.9%).

Exhibit 6

Fund investment performance over medium and longer-term



Source: Highland Council Pension Fund 2022/23 unaudited financial statements

Investment management expenses decreased as a result of the reduction in the value of investments

29. There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the council and oversight and governance costs.

30. Overall management expenses, which include administrative costs, investment management and oversight and governance costs, decreased from 16.063 million in 2021/22 to 13.88 million in 2022/23. This reduction was in large part due to a reduction of £2.17 million in investment management expenses, from £14.22 million in 2021/22 to £12.05 million in 2022/23. The main reason for this decrease in expenses relates to the decrease in asset value, as fees correlate to market values and fund performance.

The fund has appropriate financial management arrangements in place which includes reporting of investment performance

31. The Head of Corporate Finance for Highland Council is the Proper Officer responsible for Highland Council Pension Fund. The financial regulations of Highland Council, as administering authority, apply to the fund. We consider these to be current, comprehensive and support good financial management.

32. The Pensions Committee receives administration reports at its twice-yearly meetings. These reports contain monitoring of costs and performance against budgets and other matters relevant to the administration of the fund. From our attendance at the Pensions Committee, we observed and concluded that reports presented to members are subject to appropriate review and scrutiny.

33. The Investment Sub Committee receives monitoring of investment performance reports at its quarterly meetings. The committee scrutinises fund performance trends, investment manager performance against benchmarks and movements in asset allocations.

34. Overall, we have concluded that the fund has appropriate and effective financial management arrangements in place, including comprehensive reporting of investment performance.

The fund has appropriate financial systems of internal control however there is scope to strengthen processes at year end

35. We carried out a review of the design and implementation of systems of internal control relevant to our audit approach, and testing the operating effectiveness of specific controls. We did not identify any internal control weaknesses which could affect the fund's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

36. Year-end cumulative reconciliations between financial and data systems provide assurance that the information contained within the financial ledger is complete and accurate. We were unable to obtain a year-end reconciliation for the pensions administration (Altair) and payroll systems which was signed and dated. Through additional audit procedures, we were able to gain sufficient assurance over the figures contained within the financial statements.

Recommendation 2

A year-end reconciliation between the general ledger and the Altair/payroll systems, which is signed and dated, should take place to provide assurance the data in each system is complete and accurate.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

37. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

38. The fund has adequate arrangements in place to prevent and detect fraud or other irregularities.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

Highland Council Pension Fund has appropriate arrangements for financial sustainability.

The regular triennial pension valuation process will take place in 2023/24, which may impact the funding strategy and pension contribution rates for employers.

The fund membership and contributions continues to increase.

There are appropriate arrangements for financial sustainability

39. The results of a triennial valuation are in effect a snapshot of the fund at a point in time. Following each triennial valuation, the fund reviews and revises its Funding Strategy Statement and Statement of Investment Principles. The Funding Strategy Statement sets out a summary of the fund's approach to funding liabilities and the investment strategy outlines the types and split of investment to be held.

40. The next triennial actuarial valuation, as at 31 March 2023, is currently being conducted and is expected to be concluded during 2024. This will provide an updated assessment of the fund's position. The outcome of the triennial valuation will include setting the funding strategy for the following three years, including the contribution rates for member organisations.

41. The results of the 2020 triennial valuation of the Highland Council Pension Fund showed a funding level of 100%, a marginal decline for the 2017 level of 101%. This meant the fund had sufficient assets to meet their respective estimated liabilities. As a result of the 2020 valuation, the primary contribution rate (future service contributions) for the whole fund was set by the actuary at 21.2% of pay for payroll contributions for the period 1 April 2022 to 31 March 2023. Following the triennial valuation in 2020, the actuary agreed employer contribution rates with individual employers for the three-year period from 1 April 2021. This ranged from 17.4% to 40.5%, with the fund's larger employers, including Highland Council and Comhairle Nan Eilean Siar, contributing 19%.

42. Subsequent to the valuation, there were some upwards pressure on the primary contribution rates. This was due to a weaker outlook for future

investments returns and secondary contribution rates have decreased as employer assets have increased since 31 March 2017.

43. Draft initial results from the 2023 valuation, reported to the committee in September 2023, were positive. The actuary reported that the funding position improved from 100% at the time of the last valuation to 135%. It also reported that the likelihood of the fund's investment strategy achieving the required return is 93% (compared to 75% at 2020).

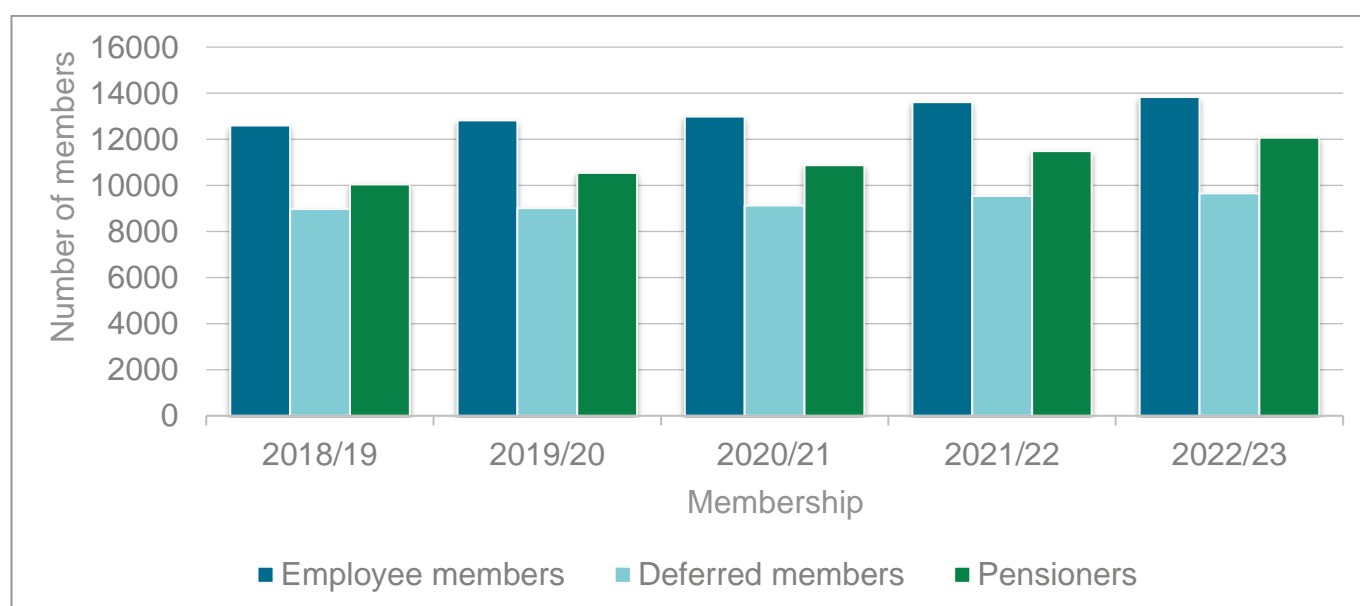
44. There is ongoing volatility and uncertainty in the global economy and investment markets. This could have significant financial implications for the fund and employers. Changes were made to the strategic asset allocation during 2022/23 to manage the risk of potentially lower returns from equity markets globally in the UK. By having a comprehensive Statement of Investment Principles, Funding Strategy Statement and by continually monitoring the fund's performance, the fund is managing risk and planning effectively so that it can continue to deliver services.

Fund membership levels continue to increase, with negative cash flows from member activity for the first time since 2019/20

45. The fund is a multi-employer fund with two local authorities and 25 other employers. The current membership profile is shown at [Exhibit 7](#).

46. Overall membership of the fund increased by 903 to 35,551 members at 31 March 2023, an increase in membership of 2.6%. In 2022/23 the number of pensioners receiving a pension from Highland Council Pension Fund increased by 582 and the number of pensioner members continues to increase steadily each year.

Exhibit 7 Highland Council Pension Fund membership



Source: Highland Council Pension Fund 2022/23 unaudited financial statements

47. The fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each members' life. It is important that the fund maintains the capacity to meet the current and future pension entitlements of its members.

48. Cash flows from dealings with members were negative for the first time since 2019/20, with £5.725 million more paid out in benefits than that received from contributions. Over the long term, the cash flow position will impact on the investment strategy as income from investments rather than contributions will be needed to pay pensions.

Total employers' pension contributions increased in 2022/23

49. Following the triennial valuation in 2020, the actuary agreed employer contribution rates with individual employers to cover the period 1 April 2021 to 31 March 2024. In 2022/23, employers' pension contributions increased by £4.241 million, to £53.442 million. The main reason for this increase was due to the group transfer of Highlands and Islands Enterprise (HIE) staff to the Highland Council Pension Fund from other Local Government Pension Scheme (LGPS) funds.

50. For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates. For a small number of employers, these rates include an element of deficit recovery contributions to support employers financial planning. The split of all contributions received in year is set out at [Exhibit 8](#).

Exhibit 8 Contributions in 2022/23

	Administering authority £000	Other scheduled bodies £000	Admitted bodies £000	Total £000
Employer contributions	30,330	12,590	10,522	53,442
Employee contributions	9,445	3,973	3,013	16,431
Strain Contributions*	97	190	430	717
Deficit Funding*	-	-	479	479

* Strain Contributions and Deficit Funding are included within the employer contribution total

Source: Highland Council Pension Fund 2022/23 unaudited financial statements

4. Governance and resources

Public sector bodies must have a clear strategy and priorities. They need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners.

Conclusions

Highland Council Pension Fund has appropriate governance arrangements in place that support scrutiny of decisions.

Attendance at the pension board meetings and at training events for committee and board members should be improved.

The pension fund has appropriate structures in place to support good governance and scrutiny of decision-making

51. The Highland Council, as administering authority of the fund, has delegated all pension scheme matters to the Pensions Committee. In addition, the Investment Sub Committee is in place to enhance the fund's management and investment of the assets of the fund in accordance with its objectives and strategies.

52. The Pensions Committee's specific functions include setting the fund's objectives and ensuring that appropriate strategies, policies and procedures are put in place to achieve these objectives. The Investment Sub-Committee exercise the delegated powers and duties of the Pensions Committee in relation to the management and investment of the fund's assets.

53. There is also the Pensions Board, which meets with the Pensions Committee at the same time to consider the same agenda. The local Pension Board was established to assist the Scheme Manager (The Highland Council) to comply with the rules relating to scheme governance and administration and complying with the requirements set out by The Pensions Regulator.

Only two pensions board meetings were held during 2022/23, one of which was not quorate

54. Guidance from the Scottish Ministers states that an administering authority's main committee or committees should meet at least quarterly. Highland Pension Fund has chosen to meet twice each year, explaining in its Governance Compliance Statement that the Pensions Committee and Board meet twice a year with the option to hold special meetings as necessary. Officers completed a review of business covered at the Pensions Committee and benchmarked

against the governance structures in place at other funds. Following this review, it was decided that Pensions Committee business could be adequately covered in two meetings a year, particularly as the monitoring of investment performance is completed by the Investment Sub Committee which meets quarterly.

55. Holding two meetings a year heightens the importance of good attendance. During 2022/23 there were two Pensions Committees, both of which were quorate. Alongside these meetings were two Pensions Board meetings. However, the September 2022 Pensions Board meeting was not quorate, having only being attended by two of the nine members. This meant that the meeting was unable to proceed with the agenda and a note was produced and tabled at the February 2023 meeting.

It is important that members attend scheduled training events

56. Guidance from the Scottish Ministers requires each administering authority to consider the adoption of annual training plans for committee members and to maintain a log of all such training, and the fund complies with this. The Pensions Committee approved the fund's training policy on 30 September 2022. However, attendance at the training events provided should be improved upon.

57. Pensions Committee members were invited to attend three training events. Only one of the four members attended all three events, with one member attending none. Pensions Board and Pensions Committee with Pensions Sub Investment Committee members were invited to attend six training events. Only one member attended all six events, with three members attending no events at all.

58. To ensure all members of the Committee and Board members comply with the training policy and plan set out by the fund, we encourage all members to attend as many training events as they can.

Recommendation 3

We encourage Highland Council, as the administering authority, to encourage members to attend meetings and ongoing training to build their knowledge in this complex area, to provide essential skills for effective scrutiny.

The pension administration function has implemented a new service plan and has shown improvement against targets

59. In February 2023, the pensions committee approved a service plan for 2023/24 and a management restructuring, which included a new post of pension fund manager to manage risks associated with personnel changes, and to restructure the team to create efficiencies. The fund's administration has experienced difficulties in filling vacancies, retaining staff and clearing backlogs in certain areas of activity. The plan also agreed to increase the staffing of the pensions administration team by 4.5 FTE. The fund manager post is being advertised and is currently vacant.

60. The Pensions Committee meets on a bi-annual basis and receives administration reports. The Investment Sub Committee should meet quarterly and receive monitoring of investment performance reports.

61. The administering authority has reported performance against targets in the annual accounts. These show improvement overall when compared to 2021/22, even with an increased work volume. Of the seven standards for which the administering authority is responsible, percentages on target increased for five of these, and decreased for two (timing for notifying new entrants and early leavers).

Highland Council has appropriate arrangements in place for securing Best Value at the fund.

62. The administering authority (Highland Council) has responsibility for the ensuring that its business, including that of the fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value, which are subject to audit.

63. The outcome of audit work on the administering authority's Best Value arrangements is reported in the Highland Council annual audit report. Any findings directly applicable to the pension fund are reported here also.

There are effective arrangements for complying with the Pensions Regulator Public Service Code

64. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

65. The fund presents the governance policy and training policy for approval to the Pensions Committee annually. It also provides regular training sessions to all members, including key training resources such as the Pensions Regulator online training. The fund also has a risk register that is updated regularly and reported to the Pensions Committee.

Performance reporting in the management commentary was in line with required regulations

66. The Management Commentary included in the annual report and accounts/financial statements should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

67. Our review of the Management Commentary found that it was compliant with the Code of Practice on Local Authority Accounting in the UK and the requirements set out in the LGPS regulations.

Audit work has addressed the wider scope risks identified in our Annual Audit Plan

68. [Exhibit 9](#) sets out the wider scope risk relating to Vision, Leadership and Governance we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over the risk and the conclusions from the work completed.

Exhibit 9

Risk identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
<p>1. Changes in management and administration staff</p> <p>There have been a number of recent departures of key finance staff at the Pension Fund, including the Head of Corporate Finance, the Payroll and Pensions Manager and the Finance Manager.</p> <p>Risk: There is a risk that the fund will not have sufficient capacity and the necessary experience, knowledge and skills to perform its functions, including preparation of the annual report and accounts.</p>	<p>We will assess the arrangements put in place by the fund to ensure its financial and administrative duties can be carried out effectively.</p>	<p>During the course of our audit, it became evident that the pension administration and accounting staff were under significant pressure due to capacity issues, and responses to requests for audit evidence were delayed by several weeks due to competing priorities (Paragraph 18). A restructure of the pensions administration section was approved in February 2023, and Highland Council is restructuring its pensions section and recruiting additional staff.</p> <p>Conclusion: We recommend management ensures the fund has sufficient staffing capacity to undertake all key finance functions. This includes ensuring that staff new in post have adequate support and training to undertake their roles effectively (Recommendation 1)</p>

Appendix 1: Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Staffing capacity</p> <p>During the course of our audit, it became evident that the pension administration and accounting staff were under significant pressure due to capacity issues, and responses to requests for audit evidence were delayed by several weeks due to competing priorities.</p> <p>There is a risk that key financial and administrative functions are not being carried out timely.</p>	<p>Management should ensure the fund has sufficient staffing capacity to undertake all key finance functions. This includes ensuring that staff new in post have adequate support and training to undertake their roles effectively.</p> <p>Paragraph 18</p>	<p>Due to audit resource constraints the external audit was started in September 2023, when in previous financial years the external audit is routinely completed by the end of September. This contributed to delays in completing the audit.</p> <p>Pension Fund Manager post has been advertised and interviews will be scheduled in the next few months.</p> <p>Staff recruitment for an Accountant is in progress with interviews to be held end of February 2024.</p> <p>Three Senior Pension Officers were recruited in early February and remaining vacancies will be advertised.</p> <p>Once vacancies are filled, there will be a period of training, until the staff structure is fully embedded.</p> <p>Plan is that structure will be implemented by the end of 2024.</p> <p>Head of Corporate Finance December 2024</p>
<p>2. Year-end reconciliations</p> <p>Year-end cumulative reconciliations between</p>	<p>A year-end reconciliation between the general ledger and the Altair/payroll systems, which is signed and</p>	<p>As part of the year end processes, the year end reconciliation between the general ledger and the Altair</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>financial and data systems provide assurance that the information contained within the financial ledger is complete and accurate. We were unable to obtain a year-end reconciliation for the pensions administration (Altair) and payroll systems which was signed and dated.</p> <p>There is a risk that errors in the financial ledger are not quickly identified and rectified.</p>	<p>dated, should take place to provide assurance the data in each system is complete and accurate.</p> <p>Paragraph 56</p>	<p>and payroll system will include all supporting reports and be signed and dated.</p> <p>Head of Corporate Finance June 2024</p>
<p>3. Member attendance at committee and training events</p> <p>Members of the pensions board and committees should ensure meetings are quorate, and attend scheduled training to build their knowledge in this complex area and provide them with essential skills for effective scrutiny.</p> <p>There is a risk that members of the pensions committees are not effective in discharging their responsibilities for scrutiny of the fund.</p>	<p>We encourage Highland Council, as the administering authority, to encourage members to attend meetings and training events.</p> <p>Paragraph 56</p>	<p>The Valuation training held on 24 January 2024, was well attended with 13 Pensions Committee and Pensions Board members attending.</p> <p>Recordings of training events are circulated to members so those unable to attend live can benefit from the training.</p> <p>Highland Council as the administering authority will take the following action:</p> <ul style="list-style-type: none"> • Continue to circulate recordings of training events. • Continue to provide a Training Plan to members on an annual basis. • Identify any Members not attending training and contact them to discuss training requirements. <p>Head of Corporate Finance December 2024</p>

The Highland Council Pension Fund

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