

The Highland Council

Agenda Item	8a
Report No	PC/14/24

Committee: Pensions Committee

Date: 9 October 2024

Report Title: Pension Fund Internal Audit Annual Report 2023/24

Report By: Strategic Lead (Corporate Audit & Performance)

1. Purpose/Executive Summary

1.1 The attached report includes an assessment of the Pension Fund's framework of governance, risk management and control, and the associated opinion which provides information for the Fund's Annual Governance Statement.

2. Recommendations

2.1 The Committee is asked to note the content of the report, the audit opinion provided and to raise any relevant points with the Strategic Lead (Corporate Audit & Performance).

3. Implications

3.1 There are no Resource, Legal, Community (Equality, Poverty, Rural and Island), Climate Change / Carbon Clever, Risk, Health and Safety (risks arising from changes to plant, equipment, process, or people, or Gaelic implications).

4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is an update report and therefore an impact assessment is not required.

5. Annual Report 2023/24

- 5.1 The Public Sector Internal Audit Standards requires that the Chief Audit Executive (Strategic Lead (Corporate Audit & Performance)):

“Delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

These requirements have been met by the report provided at **Appendix 1** with section 2 of the report used to inform the Fund’s Annual Governance Statement.

Designation: Strategic Lead (Corporate Audit & Performance)

Date: 9 September 2024

Author: Donna Sutherland

Background Papers:

Appendices: Appendix 1 – Pension Fund Internal Audit Annual Report 2023/24

APPENDIX

Highland Council Pension Fund
Internal Audit Annual Report 2023/24

1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2023 to 31st March 2024, and a report that can be used by the Pension Fund to inform its Annual Governance Statement (see section 2).
- 1.2 This report has been produced in accordance with the requirements of the Public Sector Internal Audit Standards (the Standards) which came into effect from 1st April 2013 and apply to all internal audit service providers. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). The Standards have been reviewed and updated periodically with the most recent update issued in 2017.
- 1.3 Section 2450 of the Standards states that:
- The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
 - The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
 - The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
- 1.4 These Standards will be replaced by the new Global Internal Audit Standards which were issued in January 2024. All organisations are expected to fully comply with the Global Standards by January 2025. Therefore, the format of the 2024/25 annual report will be amended to adhere with the requirements of the new Global Standards.

2. ANNUAL GOVERNANCE STATEMENT

2.1 Internal Control

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance"* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only provide reasonable, and not 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 Board should seek continual improvement in the effectiveness of its systems of internal control.

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the continuing effectiveness of that system.

2.2 Internal Audit

The Standards define internal auditing as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*.

The work undertaken by Internal Audit is documented in an audit report and issued to management. Any areas of concern together with the management agreed actions and target dates for implementation are summarised in an Action Plan within the report. It is the responsibility of management to ensure that implementation of these actions takes place as agreed. The Internal Audit Section will undertake periodic follow-up reviews to ensure that the management agreed actions have been satisfactorily implemented and the results of this will be reported to the Pensions Committee.

The Internal Audit Section operates in accordance with the Standards and as required, a risk based tactical audit plan is produced each year and submitted for approval to the Pensions Committee.

2.3 Internal Audit work

The 2023/24 Internal Audit plan comprised of the following:

- Review of the systems of internal control to inform the Fund's Annual Governance Statement and the Internal Audit Annual Report 2023/24.
- Review of Pension Fund Investments. This report had the opinion of "Full Assurance", and it was concluded that the key controls for the Council's Pension Fund investments were operating effectively and ensure that investments comply with relevant legislation and guidance. The report noted an earlier finding that the contract for the Investment Advisor expired on 31/03/19 and the Custodian has not been tendered for in recent years. This was identified as a finding in the previous audit in 2021/22, and a low priority recommendation made that these services should be reviewed and tendered in line with Contract Standing Orders and Procurement Regulations. The agreed target date for completion was 31/12/22 but due to a reduction in staffing resources, other work matters having to be prioritised, and the requirement to retain the services of the Investment Advisor until completion of the triennial valuation and subsequent investment strategy review, it had not been completed. Revised target dates of 31/10/23 and 31/03/24 were agreed as part of the action tracking process and a further extension to 31/05/25 had been requested and agreed. No additional recommendations were made.

2.4 Action Tracking

As part of the audit process, all audit recommendations are action tracked to ensure that the agreed actions were implemented as agreed. This has been undertaken and there are four outstanding agreed management actions (three medium priority and one low). The Low priority action on Pension Fund Investments (September 2021) is referenced above. The following three medium priority actions relate to the audit review of Pension Fund Contributions (February 2023).

- NHS Highland and UHI to implement i-Connect to submit monthly pensions contributions data which would negate the need for annual returns. Management confirmed that priority was given to ensuring completion of the annual return as of May 2024 with an annual return template issued again. A meeting will be held after this to gain commitment and offer support to assist implementation. (Target date 31/12/23, Revised action date 31/03/25).
- The backlog of leavers/ retirements/ deaths and re-employment/ aggregation cases should be addressed, and a full year-end reconciliation carried out as soon as possible. Management confirmed that:
 - A process has been introduced to post and reconcile information for leavers on a monthly basis using the costing report (completed 31/03/23).
 - My Pension (online self-service portal for generating benefit estimates) is currently being rolled out and the integrated Pensioners Payroll system is to be implemented in November 2024. A number of changes (staffing

and systems) are being progressed as part of a framework to improve efficiencies, develop specialised knowledge within the team with the aim of reducing processing times and addressing backlogs. Processes are in place to manage workflows and monitor backlogs on an ongoing basis. (Target date 30/06/23, Revised action date 31/03/25).

- Implement urgently the changes being made to the way in which post IDs are managed to reduce the number of records requiring action before being uploaded to Altair going forward. The Pensions Administration team are working closely with the project team responsible for the implementation of the new financial & HR/Payroll system to ensure compatibility and that efficiencies are gained through new functionality. The plan is that new developments in i-Connect are used to improve the contribution receipting and reconciliation process. (Target date 31/10/24).

2.5 Assurances from Fund Managers and Global Custodian

The Fund Managers and the Global Custodian normally each provide an annual assurance report (AAF 01/06/ ISAE 3402) which sets out the control procedures in place during the year, and includes an assessment, by an independent accountant, of the effectiveness of the systems of internal controls in operation throughout the period examined. Twelve of these reports were obtained and reviewed, and Internal Audit confirmed that the appropriate assurances were provided by the independent accountants for eleven of the Fund Managers in place at the time of the audit, and the Global Custodian. In considering these assurances it was noted that all Fund Managers and the Global Custodian have outsourced some of their services/ systems to third parties (sub-service organisations). The normal approach is for the accountants to use the "carve out" method by excluding the sub-service's control procedures from the scope of their work. This was the case for ten of the Fund Managers and the Global Custodian.

No assurance report was provided by one of the Fund Managers and this point has been notified to management.

2.6 Governance arrangements

The Highland Council, as administering authority of the Pension Fund, has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/ SOLACE Guidance Note for Scottish Authorities – Delivering Good Governance in Local Government (2016).

The authority's financial and management arrangements also conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The Pension Fund has a separate Governance Policy Statement which is one of a number of key documents it must hold and is reviewed annually. The updated Statement for 2023/24 was approved by the Pensions Committee on 21/09/23.

2.7 Risk Management

CIPFA guidance on "*Managing risk in the Local Government Pension Scheme*" was originally issued in November 2012 and later updated in December 2018. This sets out the role of the Pensions Committee as follows:

- Determining the risk policy and reconciling this with the wider organisational risk policy;
- Setting the risk management strategy in line with the risk policy;
- Overseeing the risk management process including development of a risk register and ongoing, regular monitoring of the risks identified.

Within the Governance Policy Statement reference is made to the Fund's Risk Management arrangements whereby identified risks and their countermeasures are contained within the Funding Strategy Statement (FSS). These documents should

be reviewed and updated on a regular basis. The latest FSS was approved by the Pensions Committee on 22/02/24. The Fund's risk management policy and strategy was last updated and approved by the Committee on 09/08/18.

The Pension Fund has its own risk register, and the format is based upon the CIPFA guidance which is recognised as best practice. This includes identifying the:

- key objectives of the Fund;
- risks that could prevent these being achieved;
- controls in place to mitigate these risks.

The gross risk and residual risk (remainder after the mitigating controls) are ranked as Red/ Amber/ Green. Red and Amber gross risks are recorded on the risk register together with any mitigating controls/ actions to address these.

Risk management updates were provided to the Pensions Committee/ Board meetings of 21/09/23 and 22/02/24 which showed that the identified risks were being actively managed with the residual risk categorised as Green. There was one exception where the residual risk was rated as Amber. This risk related to the available staff resources due to increasing demands and complexity surrounding pensions which created additional pressures on the Pensions Administration team as well as the retirement and departure of several officers. In order to address this risk, a new staffing structure was agreed by the Committee on 16/02/23. An update on progress with implementing this structure was reported on 22/02/24 as part of the Service Plan 2024/25 report.

2.8 Audit Opinion

On the basis of the work undertaken during the year, it was considered that the key systems operate in a sound manner and that there had been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Pension Fund's framework of governance, risk management and control for the year to 31st March 2024.