

The Highland Council

Agenda Item	7a
Report No	PC/9/25

Committee: Pensions Committee

Date: 4 September 2025

Report Title: Pension Fund Internal Audit Annual Report 2024/25

Report By: Strategic Lead (Corporate Audit)

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).

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 2024/25

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

“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)

Date: 12 June 2025

Author: Donna Sutherland

Background Papers:

Appendices: Appendix 1 – Pension Fund Internal Audit Annual Report 2024/25

APPENDIX 1

Highland Council Pension Fund Internal Audit Annual Report 2024/25

1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2024 to 31st March 2025, 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 PSIAS) which came into effect from 1st April 2013 and apply to all internal audit service providers. These were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). The Standards were reviewed and updated periodically with the most recent update issued in 2017.
- 1.3 Section 2450 of the PSIAS 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.

The information in respect of the last point was provided as part of the Highland Council's Internal Audit Annual Report 2024/25 which was considered by the Audit Committee on 28/05/25.

- 1.4 The PSIAS have now been replaced by the new Global Internal Audit Standards (GIAS) which came into effect in January 2025. CIPFA subsequently issued "The Application Note: Global Internal Audit Standards in the UK Public Sector" which changed this date to 01/04/25. In accordance with the application note, this is the final annual report under the PSIAS.

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 PSIAS 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 2024/25 Internal Audit plan was agreed by the Pensions Committee on 22/02/24. This 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. This was completed and considered by the Committee on 09/10/24.
- Review of Pension Fund payments.

A revised audit plan was subsequently agreed by the Committee on 08/12/24 when it was agreed to substitute the pension payments audit with a review of the Fund’s governance arrangements. The reason for this change was the planned implementation of a new pensions software system which would change the way in which the pensions payments are processed. This will now be reviewed in 2025/26.

The audit of the Fund’s governance arrangements was completed and the final report issued on 13/05/25. This will be presented to the next Pension Board/ Committee meeting on 04/09/25.

This report had the opinion of “Substantial Assurance” and concluded that there was a well-established governance framework in place. There were 2 audit recommendations comprising of 1 medium and 1 low grade. The first recommendation relates to the need to ensure that the Pension Committee and Pension Board members each provide an annual self-assessment of their skills and knowledge and details of the training completed in the year. This information should then be used by the Pension Fund Manager to inform the training plan for the Committee and Board. The agreed management action is

due to be completed by 30/06/25. The low-grade recommendation was in respect of the need to document the existing process for the appointment and removal of Pension Board members within the Pension Board Constitution. This action is due to be completed by 30/09/25.

2.4 Action Tracking

As part of the audit process, all audit recommendations are action tracked to ensure that the associated management actions were implemented as agreed. Monthly tracking is undertaken whereby individual actions are then tracked once their due date has passed. The action tracking process also allows for revision of the agreed action target dates. Again, these are tracked once the revised target date has passed. There are presently two audits where there have been a number of revisions to the target dates and these still remain outstanding as detailed below.

(1) Pension Fund Investments

This audit report was issued on 08/09/21 and contained 1 low grade recommendation in respect of the need to tender for the Investment Advisor and Custodian services. This was agreed and had a target date of 31/12/22.

However, this target date has not been met and instead has been revised four times. The current position is that the Investment Advisor is currently out to tender with a planned contract award date of 01/08/25. Tendering for the Custodian has still to be undertaken and so a revised target date of 31/03/26 has been agreed.

(2) Pension Fund Contributions

This audit report was issued on 06/02/23 and included 3 audit recommendations comprising of 2 medium and 1 low grade priorities. The low priority recommendation has been completed. However, there remains 2 medium priority recommendations that have not yet been implemented as set out in the commentary below.

The first recommendation was for NHS Highland and UHI to implement i-Connect to submit monthly pensions contributions data thereby negating the need for annual returns. This had the original target date of 31/12/23 which was subsequently revised to 31/03/25 and then 31/06/25. This has been partially completed, with the action in respect of NHS Highland still outstanding. Council officers are continuing to liaise with them to facilitate implementation.

The second recommendation has 2 outstanding actions:

- (i) The need to address the backlog of leavers/ retirements/ deaths and re-employment/ aggregation cases. The backlog was linked to increased statutory requirements and additional work as a result. To address this issue, a new staffing structure had been agreed with additional staff being recruited, as well as implementation of new ICT systems such as the Pensioners payroll system and “My Pension” a self-service online portal for access to pensions information. These improvements have enabled time to be allocated to reducing the backlog, and it has been

confirmed that leavers are up to date. However, there are plans in place to recruit an additional six members of staff to assist with clearing the backlogs. This action had the original target date of 30/06/23 and has been revised four times with the current date of 31/03/26.

- (ii) The agreed action was to change the way in which post IDs were managed to reduce the number of records requiring action before being uploaded to Altair, the pensions payroll system, going forward. This work has been ongoing, and number of changes have been made as a result of the new pensions payroll system. This action had the original target date of 31/10/24 and was revised to 30/06/25.

2.5 Assurances from Fund Managers and Global Custodian

The Fund Managers and the Global Custodian normally each provide an annual assurance report (AAF 01/20/ 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. Where the report did not cover the full financial year, a bridging letter was required. Reports and bridging letters for 11 of the 13 Fund Managers, and the Global Custodian were provided. Review of these showed that:

- 10 reports provided an unqualified opinion of reasonable assurance.
- 2 reports contained qualifications, but these were not significant matters, and the necessary assurances have been obtained.

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 10 of the Fund Managers and the Global Custodian.

For the remaining 2 Fund Managers:

- 1 did not provide a report that covers the financial year 2024/25.
- 1 was a US company and is subject to different legislative reporting requirements which they must adhere to. Reports were provided by the Fund Manager to provide assurance on their system of internal controls consistent with their reporting requirements. The reports provided assurance on internal control over financial reporting and was the same position as reported last year.

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 Governance Policy Statement 2024/25 was approved by the Pensions Committee on 09/10/24.

The Pension Regulator introduced a new General Code of Practice (GCoP) which came into effect in March 2024. The GCoP includes a number of different chapters and assessment of compliance against these was undertaken by the Pension Fund Manager. The outcome of this assessment and the associated action plan was reported to the Pensions Committee on 12/02/25.

2.7 Risk Management

CIPFA guidance on *“Managing risk in the Local Government Pension Scheme”* was 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 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 meetings of 09/10/24 and 12/02/25 which recorded 14 risks as being actively managed and all had the residual risk categorised as Green. The latter update report also included the revised Risk Management Policy, which had been updated to reflect the GCoP requirements and the Council’s revised Corporate Risk Management Policy, for approval by the Committee.

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 2025.