

The Highland Council

Agenda Item	7b
Report No	PC/10/25

Committee: Pensions Committee

Date: 4 September 2025

Report Title: Internal Audit Report – Pension Fund Governance Arrangements

Report By: Strategic Lead (Corporate Audit)

1. Purpose/Executive Summary

- 1.1 An audit of Pension Fund's Governance Arrangements was undertaken and a copy of this report is attached.

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, 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. Internal Annual Report

- 5.1 The Internal Audit report has the opinion of Substantial Assurance and concluded that a well-established governance framework is in place. However, not all of the Pensions Regulator's General Code of Practice were fully complied with. As a result, two audit recommendations were made comprising of one medium and one low priority grades. These are due to be completed by 30/06/25 and 30/09/25 respectively.

Designation: Strategic Lead (Corporate Audit & Performance)

Date: 13 June 2025

Author: Donna Sutherland

Background Papers:

Appendices: Appendix 1 – IA Report – Pension Fund Governance Arrangements

Internal Audit Final Report

Corporate

Pension Fund Governance Arrangements

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	1

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Distribution:

Assistant Chief Executive – Corporate
Chief Officer, Corporate Finance
Pension Fund Manager

Report Ref: PEN 24/25 01
Draft Date: 17/04/25
Final Date: 13/05/25

1. Introduction

- 1.1 The audit reviewed the governance framework in place to support effective management of the Highland Council Pension Fund (the Fund). The following 3 key areas were examined:
- Roles and responsibilities of the Pension Board, Pensions Committee and Investment Sub Committee
 - Skills, knowledge and experience
 - Risk management.
- 1.2 The Pensions Regulator's (TPR) new General Code of Practice (GCoP) became effective from March 2024 and the audit assessed the Fund's compliance in the 3 key areas mentioned above.

2. Main Findings

- 2.1 *The roles and responsibilities of the Pension Board, Pensions Committee and Investment Sub Committee are clearly stated and are in line with delegated functions and relevant regulations.*

This objective was fully achieved. The roles and responsibilities of the Pensions Committee and Investment Sub Committee were clearly stated in the Highland Council Scheme of Delegation, and these were in line with their delegated responsibility for scrutiny and decision making. The roles and responsibilities of the Pension Board were clearly stated in the Fund's Governance Policy Statement and Pension Board Constitution, and these were in line with the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 and their delegated responsibility for compliance. There was a process in place for the appointment and removal of Pension Board members, but it was not accurately reflected in the Pension Board Constitution (see action plan L1).

A Governance Compliance Statement had been prepared and published as part of the Annual Report and Annual Accounts 2023/24. This was in line with the requirements set out in the Local Government Pension Scheme (Scotland) Regulations 2018 and guidance issued by the Scottish Public Pensions Authority (SPPA).

There were 10 requirements within the 'Board Structure and Activities' section of the GCoP, 8 were fully complied with and 2 were partially complied with (1 was classified as a regulatory requirement and 1 as a TPR expectation). Both areas of partial compliance related to conflicts of interest, where although this was covered in the Code of Conduct for Councillors and the Pension Board Constitution, the requirement was to have a formal conflicts of interest policy in place.

- 2.2 *Processes are in place to evidence that Officers responsible for supporting the Pension Fund and members of the Pension Board, Pensions Committee and Investment Sub-Committee possess the necessary skills, knowledge and experience to meet Local Government Pension Scheme (LGPS) legislation and regulations, CIPFA guidance and TPR requirements.*

This objective had been partially achieved. A Training Policy and Plan 2024/25 (TPP), for both officers responsible for supporting the Fund and members of the Pension Board, Pensions Committee and Investment Sub Committee, was agreed at the Pensions Committee on 09/10/24. Application of all the elements within the TPP would ensure that all regulatory requirements around skills, knowledge and experience could be met.

Pensions Committee and Board members were asked to complete a self-assessment of their skills and knowledge against the CIPFA Knowledge and Skills Framework as part of the TPP and to contact the Pension Fund Manager if training requirements were identified. However, they were not asked to submit the self-assessment or confirm that it had been done (see action plan M1). For officers, this process was incorporated into the annual Employee Review and Development framework and training needs identified as appropriate to their specific role.

There were appropriate mechanisms in place to monitor delivery of the annual TPP, apart from completion of the TPR on-line training modules (Public Service Toolkit). The SPPA recommended that all Pension Board members should be required to undertake these, and this requirement had been included in the

TPP for both Pensions Committee and Board members. Members were asked to notify the Pension Fund Manager when this training had been completed but no timescale was specified. This had not been done and therefore completion of the training could not be verified (see action plan M1).

CIPFA guidance, "Preparing the annual report guidance for Local Government Pension Scheme Funds" recommended that the annual report should include details of training received by members of each committee (Pensions Committee and Board) and this was included in the Annual Report and Annual Accounts 2023/24.

There were 11 requirements within the 'Governing Body: Knowledge & Understanding' section of the GCoP, 8 were fully complied with and 3 were partially complied with (1 was classified as a regulatory requirement and 2 were TPR expectations). All related to evidencing the skills and knowledge of Pensions Committee and Board members.

2.3 *Risks relating to the Pension Fund are identified, recorded, regularly reviewed and evaluated and appropriate mitigating action taken where necessary.*

This objective was fully achieved. There was a Risk Management Policy in place which had been updated in January 2025 and approved at a meeting of the Pensions Committee on 12/02/25. There was a Fund Risk Register which identified 14 risks which had been scored as red, amber or green depending on the impact and likelihood of the risk (gross risk rating). The gross risk rating for 13 risks was amber and the systems failure/IT risks/data breach risk was red due to the impact this would have. However, there were mitigating controls in place for all risks and, when these were considered, the residual risk status for all risks was lowered to green. The risk register was most recently reviewed on 28/01/25 in the old format, moving forwards risk register updates will be provided in line with the improved risk management policy (allowing for consideration of risk appetite) to each meeting of the Pensions Committee.

There were 20 requirements within the 'Risk Management' section of the GCoP, 13 were fully complied with and 7 were partially complied with (2 were classified as regulatory requirements, 4

were TPR expectations and 1 was best practice). All related to conflicts of interest and the requirement to have a formal policy in place.

3. Conclusion

3.1 There was a well-established governance framework in place which should ensure that the Fund is managed effectively and in accordance with LGPS legislation and regulations and TPR requirements.

There were a number of requirements within the TPR GCoP which were partially complied with, but actions had been identified which, when completed, would bring the requirement up to full compliance. An Action Plan was presented to Pensions Committee on 12/02/25, and actions are due to be completed by 31/03/26. One of the actions identified was that a formal assessment of Pension Board and Pensions Committee skills and experience would be completed in order to identify gaps and imbalances. This type of exercise is necessary to provide transparency and assurance that those charged with overseeing the Fund possess the necessary skills, knowledge and experience.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	<p>Pensions Committee and Board members were asked to complete a self-assessment of their skills and knowledge against the CIPFA Framework and to contact the Pension Fund Manager if training requirements were identified. However, they were not asked to submit the self-assessment or confirm that it had been done.</p> <p>Members of the Pensions Committee and Board were asked to notify the Pension Fund Manager when they had completed the TPR on-line modules, but no timescale was given. This had not been done and therefore completion of the training could not be verified.</p>	<p>As part of the agreed GCoP Action Plan, a formal assessment of Pensions Committee and Board skills and experience was due to be completed by 31/03/25 (now extended to 31/05/25).</p> <p>Thereafter, Pensions Committee and Board members should be asked to submit the following annually:</p> <ul style="list-style-type: none"> – a self-assessment of their skills and knowledge – details of all relevant training completed throughout the preceding year. <p>This should then be used by the Pension Fund Manager to inform the annual training plan for the Pensions Committee and Board.</p>	<p>A knowledge and skills assessment form was issued by Officers to Pensions Board and Committee members on 01/05/2025 with the request that this is completed by 23/05/25.</p> <p>In this assessment, Members are asked to confirm whether or not they have completed the TPR on-line training modules.</p> <p>After 23/05/25, the self-assessment data submissions will be analysed and used to inform future training plans for the Pensions Committee and Board.</p> <p>The process of confirming training completed during the year will be completed as part of year end processes.</p>	Pension Fund Manager	30/06/25
L1	Low	There was a process in place for the appointment and removal of Pension Board members, but it was not accurately reflected in the Pension Board Constitution.	The Pension Board Constitution should be updated to accurately reflect the process for the appointment and removal of Pension Board members.	The Pension Board Constitution will be updated to include the process for the appointment and removal of Pension Board members. The updated Constitution will be taken to the next meeting of the Pension Board (04/09/25) for approval.	Pension Fund Manager	30/09/25