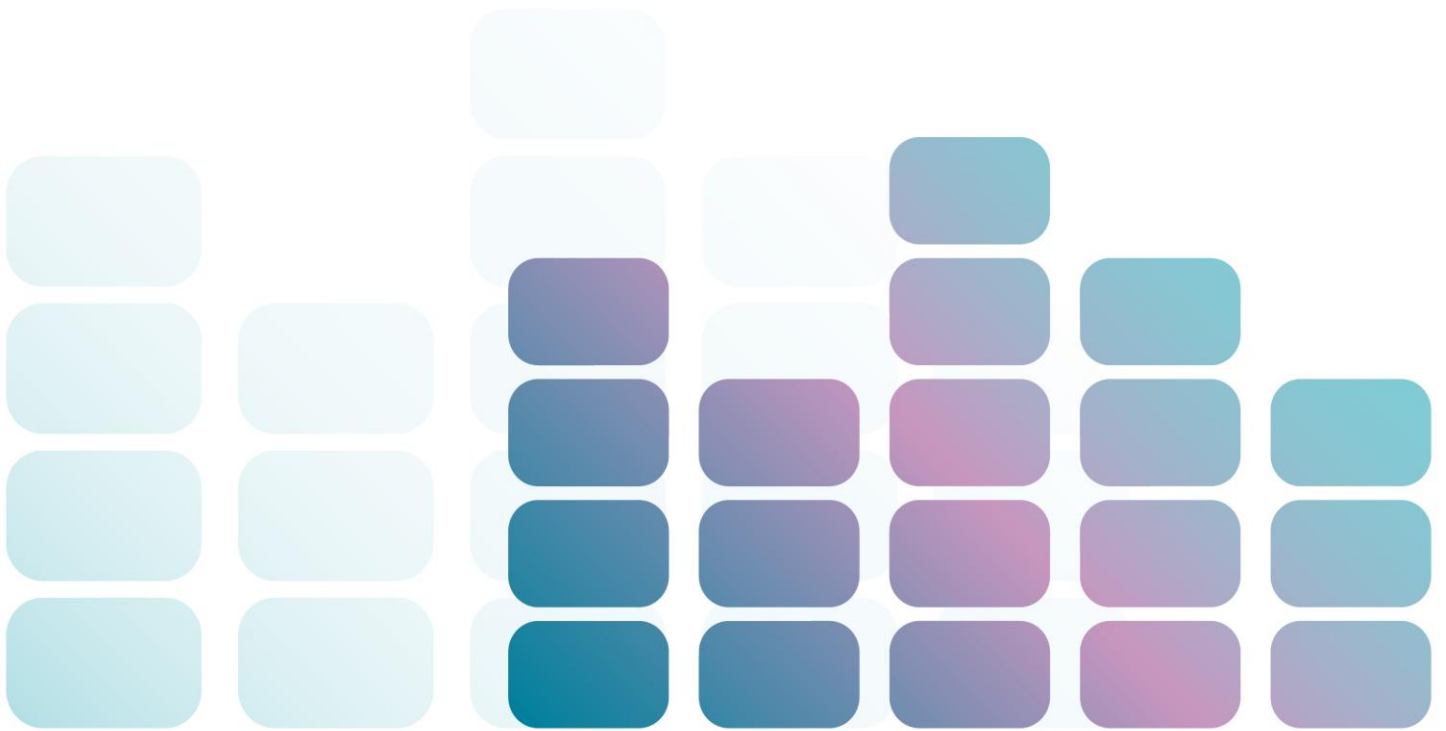


The Highland Council Pension Fund

2024/25 Annual Audit Report – Draft



Prepared for the Highland Council Pensions Committee and the Controller of Audit
December 2025

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Accessibility

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Key messages

Audit of the annual report and accounts

- 1 All audit opinions stated that the annual report and accounts are unqualified and free from material misstatement.
- 2 The annual accounts of the Highland Council Pension Fund give a true and fair view of the financial transactions of the Fund as at 31 March 2025 and have been properly prepared in accordance with the financial reporting framework.

Wider scope and Best Value audit

- 3 The fund has effective and appropriate arrangements in place for Financial Management.
 - 4 The fund remains in a strong position, with the net assets continuing to exceed the present value of the promised retirement benefits during 2024/25. However, it is recognised that the fund is currently paying out more in benefits than it receives in contributions. In response, the fund has taken steps during the year to diversify its portfolio and transition towards a more income-generating investment strategy.
 - 5 Our observation of the Pensions Board and Pensions Committee meetings indicated that low attendance by members may have reduced opportunities for effective scrutiny and challenge.
 - 6 The fund reported a positive investment return in year but did not meet its annual benchmark return overall though it should be noted that the Fund is a long-term investor with a diversified portfolio and market risks and volatility are considered when setting the strategic asset allocation.
 - 7 The administering authority has appropriate arrangements in place for securing Best Value at the fund.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of the Highland Council Pension Fund annual report and accounts and the wider scope areas specified in the [Code of Audit Practice](#).
2. The Annual Audit Report is addressed to the Highland Council Pension Fund, hereafter referred to as 'the fund' and the Controller of Audit, and will be published on [Audit Scotland's website](#) in due course.

Appointed auditor and independence

3. Claire Gardiner, of Audit Scotland, has been appointed as external auditor of the fund for the period from 2024/25 until 2026/27. As reported in the Annual Audit Plan, Claire Gardiner and the audit team are independent of the fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the fund, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the fund and its staff, particularly those involved in the preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Management Commentary, Annual Governance Statement and Governance Compliance Statement.
- Conclusions on the fund's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the conclusions on the administering authority's arrangements related to the Pension Fund for meeting its Best Value duties.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the fund and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on the fund's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the fund from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The fund's responsibilities

10. The fund has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements for the fund that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value (at the administering authority).
- Establishing an internal audit function.

National and performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to the fund and Pensions Committee and Pensions Board. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts are unqualified and free from material misstatement.

The annual accounts of the Highland Council Pension Fund give a true and fair view of the financial transactions of the Fund as at 31 March 2025 and have been properly prepared in accordance with the financial reporting framework.

Audit opinions on the annual report and accounts

12. The fund's annual report and accounts were approved by the Pensions Committee on 5 December 2025 and certified by the appointed auditor on the same date. The Independent Auditor's Report is included in the fund's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

13. The unaudited annual report and accounts and all working papers were received on 25 June 2025 in accordance with the agreed audit timetable. The accounts and working papers presented for audit were of a good standard and officers provided good support to the team during the audit process.

Audit Fee

14. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £38,990. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

15. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

16. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of the fund were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts and are detailed in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for the fund

Materiality	Pension Fund
Materiality – set at 2% of total net investments	£54.0 million
Performance materiality – set at 75% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£40.5 million
Reporting threshold – set at 5% of materiality.	£2.7 million

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the fund is the Pensions Committee and Pensions Board.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.

- Significant events or transactions that occurred during the year.

21. There are no significant findings or key audit matters to report.

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the fund's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by the fund was assessed as part of the audit. These were considered to be appropriate to the circumstances of the fund, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in a number of areas in the fund's financial statements, including the valuation of investment assets and the actuarial present value of promised future benefits. Our audit work assessed the fund's processes for developing these estimates, focusing on the assumptions and data used, as well as the involvement of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed on the accounting estimates involved in the valuation of investment assets that gave rise to the significant risk of material misstatement are outlined in [Exhibit 2](#).

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and valuation of the pension liability.

Audit adjustments

27. No audit adjustments were required to the financial statements.

Significant risks of material misstatement identified in the Annual Audit Plan

28. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 2](#).

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
<p>Fraud caused by management override of controls</p> <p>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>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, and other adjustments. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Substantively test income and expenditure transactions around the year-end to confirm they are accounted 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. <p>Conclusion: no evidence of fraud caused by management override of controls.</p>

Risk of material misstatement	Planned audit response	Outcome of audit work
	for in the correct financial year.	
<p>Estimation applied to level 3 investments</p> <p>The pension fund has a significant portfolio of level 3 investments (£739m as at 31 March 2024) where valuations involve the application of a variety of estimates in determining appropriate valuations.</p> <p>There is a significant degree of subjectivity in the measurement of these investments, and this gives rise to a significant risk of material misstatement in the financial statements.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Critically assess the Pension Fund's arrangements for arriving at the valuation of level 3 investments, including reviewing the use of experts in undertaking the valuation. • Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Review the relevant investment managers' controls reports for qualifications or exceptions that may affect the audit. • Review the arrangements in place at the Pension Fund to assess investment managers' governance arrangements. • Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty. • Conduct analytical procedures on Level 3 investments through using forecasts and market movements to obtain assurance over the reasonableness of valuations as at 31 March 2025. • Assess the competence, capabilities and objectivity of the investment managers. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • No issues were identified in relation to the Fund's arrangements for arriving at the valuation of level 3 investments. • Year-end valuations were confirmed to Custodian reports and third-party Investment Manager reports for all Investments. • All Level 3 Investment Manager controls reports were reviewed. No qualifications or exceptions were highlighted that impacted our conclusions. • No issues were identified in relation to the Fund's assessment of Investment Manager's governance arrangements. • The disclosures in the accounts in relation to investments were adequate and in line with Code requirements. • Valuation methodology inputs and assumptions were verified for a sample of level 3 investments and were judged to be reasonable. • Analytical procedures were carried out for level 3 investments, no issues identified. • No issues were identified in relation to competence, capabilities, and objectivity of the investment managers or the Custodian. <p>Conclusion: We are satisfied that the valuation of investments</p>

Risk of material misstatement	Planned audit response	Outcome of audit work
		is free from material misstatement and adequate arrangements are in place for accounting for investments.

Source: Audit Scotland

Actuarial present value of promised retirement benefits

29. We completed specific work on the actuarial valuation of promised retirement benefits. This involves a complex actuarial estimate. The fund engages an independent actuary to support the estimation. The valuation depends on a number of assumptions about the future, including investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. The subjectivity around these estimates gives rise to a presentational risk of material misstatement.

30. We are satisfied that the actuarial valuation of promised retirement benefits have been appropriately disclosed in the accounts in accordance with IAS 500. We have reviewed the completeness and accuracy of the data provided to the actuary and assessed the reliance of the actuary as a management expert. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

Prior year recommendations

31. The fund has made reasonable progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the fund and are outlined in [Appendix 1](#).

Wider scope and Best Value audit

Conclusion

The fund has effective and appropriate arrangements in place for Financial Management.

The fund remains in a strong position, with the net assets continuing to exceed the present value of the promised retirement benefits during 2024/25. However, it is recognised that the fund is currently paying out more in benefits than it receives in contributions. In response, the fund has taken steps during the year to diversify its portfolio and transition towards a more income-generating investment strategy.

Our observation of the Pensions Board and Pensions Committee meetings indicated that low attendance by members may have reduced opportunities for effective scrutiny and challenge.

The fund reported a positive investment return in year but did not meet its annual benchmark return overall though it should be noted that the Fund is a long-term investor with a diversified portfolio and market risks and volatility are considered when setting the strategic asset allocation.

The administering authority has appropriate arrangements in place for securing Best Value at the fund.

Audit approach to wider scope and Best Value

Wider scope

32. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes.

33. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the fund has in place for each of these is reported in this chapter.

Best Value

34. The fund is administered by The Highland Council. As pension funds are not local authorities or separate bodies that fall within section 106 of the Local Government (Scotland) Act 1973, the statutory responsibility for securing Best Value for pension funds lies with the administering local authority, The Highland Council.

35. Therefore, consideration of the arrangements the fund has put in place to secure Best Value has been carried out as part of The Highland Council audit, and a conclusion on the arrangements and any matters relating to the fund are reported in this chapter.

Conclusions on wider scope audit

Financial Management

Net assets increased to £2.71 billion during 2024/25, but the overall annual fund investments return was 2.23% below the benchmark

36. The fund's performance in 2024/25 is summarised in [Exhibit 3](#). This shows that the net assets of the fund increased from £2.66 billion at 31 March 2024 to £2.71 billion at 31 March 2025. This £0.06 billion (2.1 per cent) increase in net assets was mainly attributable to the increase in investment values. In particular, the final quarter of 2024/25 saw significant increases in the energy, financial and industrial sectors.

37. Market value changes contributed to an annual fund investment return of 3.71 per cent, which was below the benchmark return set for the year of 5.94 per cent. While equity market values had a positive year, there was ongoing volatility in the markets.

38. When considering the overall investment performance of the fund during 2024/25, it is important to recognise the impact of world events on financial markets and investments. There continues to be a challenging global backdrop, with world events having an impact on financial markets and investments. Trade policy tensions and geopolitical tensions in the second half of the year has tempered growth and is likely to continue to impact financial markets during 2025/26.

39. [Exhibit 3](#) also shows that the overall funding level of the fund is 139 per cent at 31 March 2025 using assumptions consistent with those adopted for the 2023 triennial valuation.

Exhibit 3**Assets, funding level and investment performance**

Net assets	Funding Level	Investment Performance
£2.72 billion	139%	8.16%
Net assets as at 31 March 2025	Net assets of the scheme vs promised retirement benefits as at 31 March 2025	Average annual return on investments over 5 years (Benchmark: 9.45%)
£2.66 billion	136%	3.71%
Net assets as at 31 March 2024	As at last formal funding valuation (31 March 2023)	1 year return on investments for 2024/25 (Benchmark: 5.94%)

Source: 2024/25 The Highland Council Pension Fund Annual Report and Accounts

40. The promised retirement benefits at 31 March 2025 have been estimated by the fund's actuary at £1.95 billion (31 March 2024: £2.20 billion), showing a 11.45% 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 measured on a funding basis.

We are satisfied that officers have established effective financial management arrangements. However, we have concerns regarding the sufficiency of member scrutiny

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

42. Effective financial management encompasses investment performance as well as the day-to-day administration of the fund.

43. 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.

44. Monitoring of investment performance reports is undertaken by the Investment Sub-Committee which meets quarterly. The committee scrutinises fund performance trends, investment manager performance against benchmarks and movements in asset allocations.

45. While we are satisfied that financial reporting and monitoring reports prepared by management are appropriate, we have raised

recommendations to strengthen governance arrangements at paragraph 66 which will help improve the effectiveness of the overall financial management arrangements.

The fund has a system of internal control in place that is operating effectively and has no significant weaknesses or deficiencies

46. We carried out a review of the design and implementation of systems of internal control relevant to our audit approach. 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.

47. Clear and up-to-date policies and procedures, for example, financial regulations and scheme of delegation, are in place that support effective financial management.

The fund has adequate arrangements in place to prevent and detect fraud, error and irregularities, bribery, and corruption

48. In the public sector there are specific fraud risks, including those relating to pension claimants 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.

49. The fund follows the policies and procedures of the administering authority and has adequate arrangements in place to prevent and detect fraud or other irregularities.

Financial Sustainability

The fund has made significant progress towards diversifying the portfolio in 2024/25

50. The most recent triennial funding valuation took place across Local Government Pension Scheme funds in 2023/24 based on data as at 31 March 2023. The main purpose of the valuation is to review the financial position of each fund and to set appropriate contribution rates for each employer for the upcoming three-year period as part of the fund's overall funding strategy.

51. In February 2024 the fund approved the updated Funding Strategy Statement, this is a regulatory requirement that summaries the fund's approach to funding liabilities. The Funding Strategy Statement focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This links to the Statement of Investment Principles and was updated alongside the Actuarial Valuation's as at 31 March 2023.

52. In June 2024 the fund approved the revised Statement of Investment Principles. Equity risk and inflation risk were identified as the most

significant risks to the Fund's funding position. To address these, the Fund's Investment Advisor recommended changes to the asset allocation strategy. In line with this advice, the Fund is actively diversifying away from equities and increasing exposure to gilts and bonds. Progress against the revised targets is summarised in [Exhibit 4](#).

53. The investment return continues to be positive, but the performance of financial markets is not as strong as the previous financial year. It should be noted that the Fund is a long-term investor with a diversified portfolio and market risks and volatility are considered when setting the strategic asset allocation.

Exhibit 4

Asset distribution of the fund's investment portfolio over time

Asset class	Asset allocation					Variance from target at 31 March 2025 (%)
	Target set June 2024 (%)	31 March 2022 (%)	31 March 2023 (%)	31 March 2024 (%)	31 March 2025 (%)	
Equities	42.0	57.1	53.1	55.6	42.2	+0.2
Bonds, Gilts	33.9	14.7	10.8	10.0	26.7	-7.2
Property	6.0	11.5	10.6	9.2	9.0	+3.0
Alternatives	18.1	16.7	25.5	25.2	22.1	+4.0

Source: 2022/23 to 2024/25 The Highland Council Pension Fund Annual Report and Accounts

Cash flows in relation to members continue to be negative with more paid in benefits than received in contributions.

54. Cash flows from dealings with members were negative in 2024/25, with 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.

55. In two of the last three years the fund experienced a negative cash flow from dealings with members, after taking into account the transfer of Scottish Fire and Rescue Service (SFRS). This trend reflects the fund's increasing maturity, with a growing proportion of deferred and pensioner members compared to active members. The triennial valuation also influenced contributions, with the primary rate decreasing from 21.2% in 2020 to 17.8% as at 31 March 2023. This reduction is attributable to improved past funding and higher assumed future investment returns.

56. It is expected this negative cash flow in relation to members will continue going forward. Over the longer term, the cash flow position will impact on the investment strategy as income from investments rather than contributions will be needed to pay pensions as detailed in [Exhibit 5](#). The strategic asset allocation identifies the need for generating income for cash flows whilst maintaining longer term capital growth.

57. The Statement of Investment Principles, approved in June 2024, reflects the shift towards a greater emphasis on income generating assets to help manage negative cash flows. Nevertheless, the fund's primary objective remains focused on achieving capital growth to meet future liabilities.

Exhibit 5

Cash flows from 2022/23 to 2024/25

	2022/23 £m	2023/24 £m	2024/25 £m
Contributions	69.873	75.011	72.998
Transfers in	11.931	2.935	2.950
Benefits paid	(71.429)	(79.440)	(87.592)
Transfers out/leavers	(4.650)	(2.577)	(28.154)*
Total	5.725	(4.071)	(39.798)

* Includes Scottish Fire and Rescue Service cash transfer out of £25.3 million.

Source: 2023/24 to 2024/25 The Highland Council Pension Fund Annual Report and Accounts

58. The investment income generated by the fund has ensured, as in previous years, that there are sufficient cash flows to manage required payments. The current strategic investment allocation is appropriate for delivering the required investment income, but this should be subject to close monitoring. This will ensure that the fund does not need to sell assets when it is financially disadvantageous nor miss out on investment opportunities.

59. In its Annual Report and Accounts, the fund confirmed that despite the negative cash flow of £39.8 million (£25.3m from cash transfer out for SFRS), there had been no requirement to disinvest any assets as cash required had been readily available from investment managers.

60. We are satisfied the fund has effective and appropriate arrangements to ensure the ongoing financial sustainability of the fund.

Vision, Leadership and Governance

61. The fund's overall governance arrangements are set out in the Annual Governance Statement and Governance Compliance Statement included in the annual report and accounts. We have reviewed these statements, and we are satisfied they accurately reflect arrangements in place at the fund.

Improvements to the governance arrangements are recommended to support good scrutiny and challenge

62. The Highland Council as administering authority of the fund, has delegated all pension scheme matters to the Pensions Committee, supported by the Pension Board. 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.

63. 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.

64. There is also the Pensions Board, which meets before the Pensions Committee to review and scrutinise reports. Pension Board members then attend the Pensions Committee meeting. The 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.

65. The Pensions Committee and Investments Sub-Committee have a key role in ensuring sound governance arrangements are in place at the fund and for monitoring fund performance. We are aware that the Pensions Committee's terms of reference set out that there should be a minimum of 2 meetings per year and this is out of line with the requirements of the LGPS (Scotland) Governance Compliance Guidance which requires quarterly meetings. It should be noted that the Highland Council Standing Orders allow special meetings of the Pensions Committee to be called. In financial year 2024/25 two additional Pensions Committee were held (June 2024 to approve the Statement of Investment Principles and December 2024 to approve the accounts) being a total of four Pensions Committee meetings held in financial year 2024/25. However, we are aware the Investment Sub-Committee supports the Pensions Committee and is scheduled to meet quarterly.

66. In the last 18 months, two Pensions Board meetings were not quorate, and an Investment Sub-Committee meeting was cancelled as it would not have been quorate (June 2025). Our review of attendance indicates that on occasion meetings suffer from low attendance. However, we note that where required, special Pensions Committee meetings held to discuss

urgent business are quorate (e.g. approval of Pension Fund accounts (December 2024), approval of Statement of Investment Principles (June 2024)). From our observation of the Pensions Board and Pensions Committee meetings, we considered that scrutiny and challenge by members could be improved.

67. Poor attendance at committees increases the risk that governance and performance issues go undetected and unresolved, ultimately jeopardising the Fund's ability to achieve its strategic objectives. Steps should be taken to review attendance patterns and strengthen member engagement to ensure the effective functioning of future meetings.

68. In our 2023/24 Annual Audit Report, we highlighted the risk that members of the Pensions Committees were not effective in discharging their responsibilities for scrutiny of the fund, due to low attendance. We encourage members to take action to address the audit actions in this area.

Arrangements to ensure compliance with The Pensions Regulator's General Code of Practice are progressing and are expected to become fully effective

69. The Pensions Regulator (TPR) issued a new General Code of Practice in March 2024 which sets out the expectations of conduct and practice that funds should meet to comply with their duties in pensions legislation. However, as resources have been primarily allocated to the implementation of the Altair Pensioner Payroll and Engage and the resolution of historic cases during 2024/25, full compliance has not yet been achieved.

70. The conflict of interest policy specifically gives advice to Pensions Committee and Pensions Board members on areas where there is potential conflict including personal financial interests, relationships with providers (e.g. investment managers, actuary) and gifts and hospitality. The requirement to maintain a register of interest and a system for declaration of conflicts of interest has only been partially met by the HCPF. The fund intends to develop a conflict of interests' policy by March 2026.

71. There was one reportable breach of TPR public service code regulations during 2024/25. This was due to the McCloud remedy underpin (pension protection) information not being included in the Annual Benefit Statements issued to fund members. The McCloud transfer guidance was received in December 2024. Due to the Altair Pensions Administration software system not fully incorporating the McCloud remedy in all of its system calculations this deadline was not met. Other LGPS funds are in a similar position to some extent and will be submitting reports to TPR.

72. We note that there is an action plan in place to address the areas of non-compliance by March 2026, and we will monitor and report on progress of these actions as part of our 2025/26 audit.

Governance and training requirements

73. Members of the Pensions Committee and Pensions Board are required to be familiar with the rules governing the pension scheme, as well as any relevant policies related to its administration. In addition, members must possess an appropriate level of knowledge and understanding of pension legislation. A key component of this requirement is the completion of a training needs assessment for all board members.

74. During the 2024/25 period, Internal Audit concluded that no progress had been made in finalising the training needs assessment for committee members and as such completion of training could not be verified.

Recommendation 1

To ensure compliance with governance requirements and to support the effective oversight of the pension scheme, the training needs assessment process should be followed up and completed, to inform learning and development plans for members.

Use of Resources to Improve Outcomes

Investment performance continues to under-perform against short and medium- term benchmarks

75. As reported in the annual report and accounts the fund has performed below its one, three and five-year benchmarks. The fund reported an overall investment return of 3.71 per cent for 2024/25, underperforming the benchmark of 5.94 per cent. In terms of longer-term performance, the fund returned 7.96 per cent compared to the benchmark of 7.93 per cent since inception.

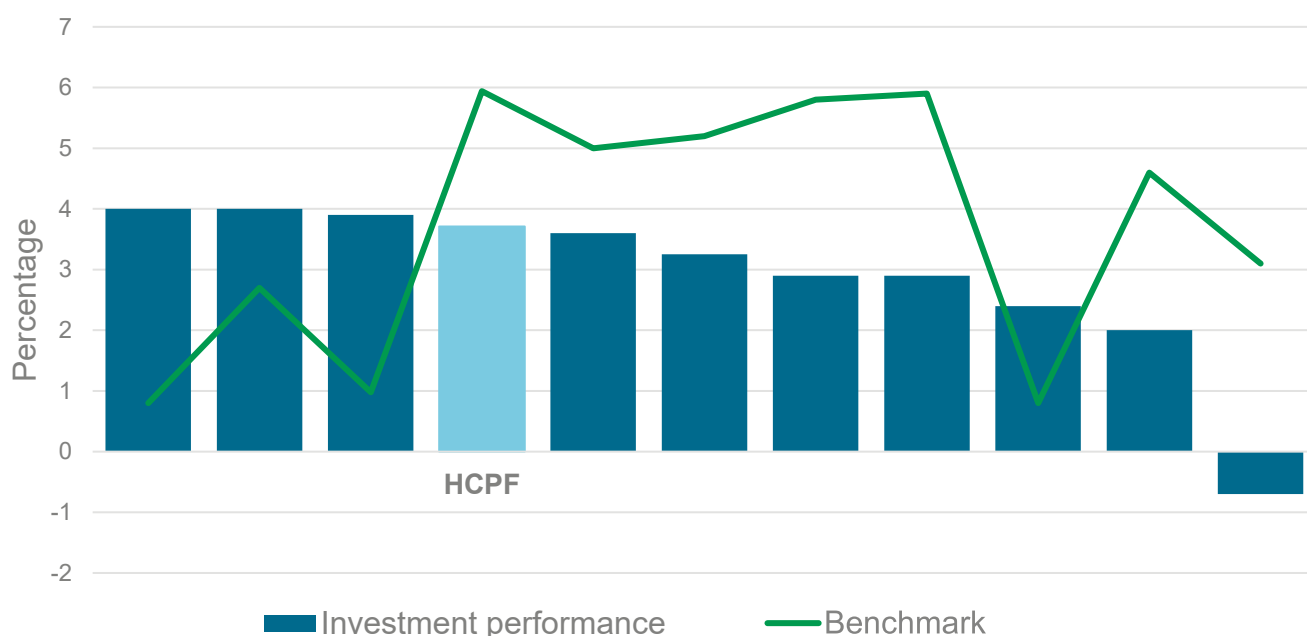
76. 2024/25 was a relatively positive year for returns on investment assets across Scottish Local Government Pension Schemes. As shown in [Exhibit 6](#), only four of the eleven funds reported a return higher than the benchmark and all but one reported positive returns for the year. Investment performance ranges from -0.7 per cent to 4 per cent (compared to returns ranging from 5.5 per cent to 15 per cent in 2023/24). The average return for 2024/25 was around 2.9 per cent. The fund delivered a return above this average, reflecting relatively stable performance within the sector.

77. The fund's investment return for 2024/25 was above the national average but remained below its benchmark, which is broadly consistent with sector trends. The fund understands the reasons for the benchmark variance and continues to focus on its long-term objectives. Investment outcomes are assessed over the medium and long term, given the range of factors influencing returns, including risk appetite, asset allocation, and market performance. Short-term results are important, but they are not the

sole consideration when assessing performance, as the investment strategy is designed to deliver stability and sustainable growth over time.

Exhibit 6

Scottish Local Government Pension Schemes performance against benchmark



Source: 2024/25 Scottish LGPS pension funds unaudited annual accounts

Fund administration performance against key targets has declined compared to the previous year

78. The Pension's Committee received regular reports on fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

79. Performance against pension administration targets has been reported in the fund's Administration Strategy and Performance section of the 2024/25 Annual Report and Accounts. The team has had to prioritise workloads which means overall performance has remained the same or reduced.

80. A key focus for 24/25 was the implementation of the Altair Pensions Payroll system, which meant resource was assigned to the project. Alongside this, there were vacancies in the team which impacted overall KPI performance. The Altair Pensions Payroll system was successfully implemented in February 2025, with the project being delivered within budget (implementation costs of £207k compared to budget of £210k). The benefits of using the fully integrated Altair Engage and pensioner payroll

modules are enhanced efficiency, improved security and cost reduction. The benefits of all these actions should be realised in financial year 2025/26.

81. Resources have also been focussed on ensuring the fund met the October 2025 deadlines for testing and implementing the Pension Dashboard initiative, which will ensure individuals can access their pension information online. These mandatory deadlines were set by the UK Government and failure to comply could lead to TPR action.

82. Case volumes processed by the team remained broadly consistent with previous years, with improvements in completion rates for certain areas (e.g., divorce and refunds). However, overall performance declined, primarily due to a high number of outstanding cases at the start of the year, implementing the McCloud remedy and historic staff vacancies.

83. Looking ahead to 2025/26 the fund has successfully implemented the Altair Payroll system and introduced several process improvements to enhance efficiency. Staff continue to identify opportunities for ongoing improvement, and with additional resources being recruited, the benefits of these actions are expected to be realised in the financial year 2025/26.

Conclusions on duty of Best Value

84. As noted at paragraph 35, statutory responsibility for arrangements for securing Best Value lies with The Highland Council as the administering authority. The external auditors of The Highland Council consider that overall, the council has effective and appropriate arrangements in place for securing Best Value and has a well-established governance framework.

85. Recommendations were made in The Highland Council Best Value Thematic Report 2024/25 in relation to maintaining momentum and continuing to identify opportunities for transformation, better alignment of workforce plans and strategies, community engagement and financial challenges.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>1. Training needs assessment</p> <p>The training needs self-assessment for Pensions Committee and Pension Board members has not been completed and therefore completion of the training could not be verified.</p> <p>It was noted at the September 2025 Pensions Committee and Pensions Board meeting that responses had been low to the CIPFA Code and Framework: Training Needs assessment questionnaire and there was need for improvement in replies from Members.</p> <p>Risk: Members do not have the appropriate skills and knowledge to undertake their role.</p>	<p>To ensure compliance with governance requirements and to support the effective oversight of the pension scheme, the training needs assessment process should be followed up and completed, to inform learning and development plans for members.</p>	<p>Accepted</p> <p>In order to demonstrate members skills and knowledge it will be communicated to Members that the Pension Regulator training modules are mandatory and when completed, members should forward evidence to officers. In recognition of different learning styles, officers will also provide a series of group sessions to complete these modules.</p> <p>Responsible officer: Pension Fund Manager</p> <p>Date: 30 June 2026</p>

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>1. Staffing Capacity (re-raised for 2023/24)</p> <p>During the course of our audit, pension administration and accounting staff were under significant pressure due to capacity issues, and responses to requests for audit evidence were delayed by due to competing priorities.</p> <p>There is a risk that key financial and administrative functions are not being carried out timely.</p>	<p>Recommendation</p> <p>Management should ensure the fund has sufficient staffing capacity to support external audit requests.</p>	<p>Complete</p> <p>The Pension Manager and Principal Accountant are now in post.</p> <p>Several pensions administration staff started their roles in June/July 2025. The Principal Accountant is handing over VAT responsibilities to recently recruited Compliance Accountant and recently recruited Principal Accounting Technician will take on Pension Fund responsibilities when their post is backfilled.</p> <p>In the Pensions Administration team is estimated that it will take approximately 6-12 months for staff to be fully trained and achieve full competency and for backlogs to reduce. Following two successful recruitment exercises in 2024 and 2025, thirteen staff were successfully recruited to the Pensions Administration team.</p>
<p>2. Year end reconciliations</p> <p>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.</p>	<p>Recommendation</p> <p>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 Agreed Action.</p> <p>As part of the year end processes, the year-end reconciliation between the general ledger and the Altair</p>	<p>Complete</p> <p>At the 2024/25 year end, a full reconciliation was performed of the financial ledgers against the two payroll systems in place in the year. This reconciliation is now being completed on a quarterly basis.</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>There is a risk that errors in the financial ledger are not quickly identified and rectified.</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>Recommendation</p> <p>We encourage Highland Council, as the administering authority, to encourage members to attend meetings and training events.</p> <p>Agreed Action</p> <p>The Valuation training held on 24 January 2024, was well attended with 13 Pensions Committee and Pensions Board members attending. Recordings of training events are circulated to members so those unable to attend live can benefit from the training. 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>	<p>Complete</p> <p>The importance of training is highlighted to members when the Training policy and plan is presented to Pensions Committee. Two training events were held in person on 19 August 2025 (General Pension Fund induction) and on 23 September 2025 (Investment Training) which were well attended by new members. Officers continue to circulate details of training opportunities to Pension Committee and Board members and identify training needs and arrange training as required. In 2026 there will be a particular focus on training members on the triennial actuarial valuation process.</p>

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

The Highland Council Pension Fund

2024/25 Annual Audit Report – Draft



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