

The Highland Council

Agenda Item	7
Report No	PC/05/26

Committee: Pensions Committee

Date: 16 March 2026

Report Title: Internal Audit Report – Pension Fund Payments

Report By: Strategic Lead (Audit & Risk)

1. Purpose/Executive Summary

1.1 An audit of Pension Fund's Payments 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 (Audit & Risk).

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 the Pensions Team had a good set of controls in place to ensure that pensioner payees were set up, paid, amended and cancelled correctly. Review of processes established and sample testing of transactions evidenced this. There were documented procedures in place to guide practice, these could be enhanced in some areas to better share knowledge to reduce reliance on individual officers. There were controls in place to mitigate the risk of fraud with some areas identified to enhance these further.

Designation: Strategic Lead (Audit & Risk)

Date: 03 March 2026

Author: Jason Thurlbeck (Corporate Audit Manager)

Background Papers:

Appendices: Appendix 1 – IA Report – Pension Fund Payments

Internal Audit Final Report

Corporate

Pension Fund payroll payments

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	2

Distribution:

Assistant Chief Executive, Corporate
Chief Officer, Corporate Finance
Pensions Manager

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.

Draft Date: 20/02/26

Final Date: 27/02/26

1. Introduction

- 1.1 The Highland Council is the administering authority for the Highland Pension Fund under the Local Government Pension Scheme (LGPS) Regulations. The Pension Service administers the Fund for the Highland Council and 22 other employers. This audit focused on the processes for pension payments via the monthly pensions payroll process. Payments were calculated using the specialist pensions system and paid via the BACs system, using an interface facilitated by the ICT team.
- 1.2 The Altair pensions system had been in use for a number of years, with pension payments made through ResourceLink, the Council's payroll system. This process was streamlined in February 2025 with the Altair pensions system itself being used by officers to automatically calculate pensioner entitlements and complete the monthly payroll process.
- 1.3 A sample of transactions from 2025/26 were examined to verify that processes were working correctly and that there was an effective control environment in place for paying pensioners.
- The audit also considered how the Pension Fund identified fraud risks and what controls it had in place to address these risks in relation to its payroll. This was included due to increased responsibilities organisations have to guard against fraud by ensuring that appropriate fraud prevention procedures are in place to mitigate risk.
- The Pension Fund plans to extend the use of the Altair system to include processing one-off immediate payments (refunds and retirement grants) in 2027. The payment processes for these were not examined in this audit.
- 1.4 As of January 2026 the total number of pensioners receiving pension payments was 11,214 and a total net amount of £52,130,966 payroll payments were processed from April 2025 to January 2026.

2. Main Findings

- 2.1 *The monthly pension payroll operation is undertaken completely and accurately so that correct payments are made on time to eligible members of the pension scheme.*

This objective was substantially achieved. There was good evidence that the monthly payroll operation was carried out in full, on time and in accordance with written procedures. There was segregation of duties at critical stages and evidence of checking for errors and oversights by different officers at select stages of the process.

The payroll bank statement was being reconciled to the ledger regularly and timeously. There was evidence of unreconciled items being investigated and these formed comparatively few of the total number and monetary value of transactions going through the account and ledger. Unreconciled transactions on the bank and ledger dated back to 2024 or 2025 (with 1 minor exception from a previous year). The Pensions Team planned to have all the previous years' transactions reconciled by year end (March 2026). In future years the reconciliation process would seek to ensure that all transactions were reconciled within the year they appear on the bank statement or ledger (See Recommendation L1).

There was scope to provide more detail in written procedures specifically to detail what a secondary check or authorisation involved, what errors may occur and how they should be investigated and resolved, and detail the process for reconciling the bank statement to the ledger (which was being undertaken on complex detailed spreadsheets). Detailed procedures are important to guide practice and assist in sharing of knowledge as the Pensions Team relied on a limited number of people to complete certain tasks (See recommendations L1 and L2).

2.2 *Set ups, adjustments and cancellations are processed correctly and efficiently.*

This objective was fully achieved. There was a robust process for setting up pensioners (including dependants e.g. widows/children of deceased Pension Fund members) with segregation of duties and written procedures. A sample of set ups showed the process had been followed; there was evidence of calculations for quotation and final amount to pay with evidence these were being checked by 2 officers (apart from designated experienced officers who were not required to have their work checked). There was a detailed audit file for each set up payee and evidence they were set up in a reasonable timeframe (although this depended on the individual payees and employers returning forms).

There was evidence of a robust process for checking for pensioners who had died and for ceasing their payments. There was evidence that on being notified of a death the Pensions Team ceased payments and set up widow/dependant pensions accordingly. There was also a process to verify that dependants were still eligible for pensions and evidence that payments were promptly ceased for those no longer eligible. A sample of recent notifications verified these processes were working effectively.

There was a process for making statutory annual increments and evidence that showed a technical understanding of the rules, processes for spot checks on system outputs and audit files of comparison between the administrative and payroll parts of the pension system. A sample of individual pensioner increments demonstrated increments were being processed as required. This was the first time (April 2025) that increments had been processed via the pensions system (in the past all had been done manually) and this was carried out with assistance from the pensions system provider. Some spot check details of different types of increments processed had been kept only in informal notes but there were plans this year (February-April 2026) to record these formally. This is important to guide practice and share knowledge so that the process does not have to rely on any 1 individual officer (see Recommendation L2).

2.3 *Fraud and system security and continuity risks are identified, assessed and mitigated.*

This objective was substantially achieved. There was a risk register detailing fraud risks which was in accordance with the risk management policy although there was scope to detail mitigations further and assign specific risk owners.

There were good controls in place to prevent fraud specifically around making bank detail changes. A sample of recent changes showed adequate checks had been undertaken before pensions officers made the change. There was an opportunity to further strengthen these controls by using a system generated report to verify that all changes had been authorised by 2 members of staff. The most secure way to make bank detail changes was via the My Pension self-service portal, but uptake of this could be improved. Although the number of changes was relatively small, we found that 1 in 6 changes reviewed were not made through the self-service portal (instead a written bank mandate was returned and the Pensions Team had to create a task on the system to trigger the bank detail changes being made). Procedures could be improved to define the self-service portal as the preferred and recommended route for changes to be made.

The Pension Fund's website provided information to Pension Fund members about avoiding "scams" but this mainly related to unregulated investment offers. There was 1 recent communication with members about not giving out personal details if someone called at their address. On an annual basis, all pensioners are reminded to check that their personal details are up to date in the pensioners' newsletter.

User access roles for the pension system required review as several users had wide ranging access. (See Recommendation M1 for all points raised in 2.3).

The Pension Fund had received external assurance on back up and cyber security matters for the pensions system which had not shown any major areas of concern. This was the first year these reports had been received therefore year on year comparison of identified issues could not be undertaken.

3. Conclusion

- 3.1 The Pensions Team had a good set of controls in place to ensure that pensioner payees were set up, paid, amended and cancelled correctly. Review of processes established and sample testing of transactions evidenced this. There were documented procedures in place to guide practice, these could be enhanced in some areas to better share knowledge to reduce reliance on individual officers. There were controls in place to mitigate the risk of fraud with some areas identified to enhance these further.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	<p>Whilst there were controls in place to mitigate against fraud these could be further strengthened:</p> <p>In the risk register there was scope to detail mitigations further and assign specific risk owners.</p>	<p>The risk register should detail all mitigations against fraud, assign risk owners.</p> <p>A report should be produced and reviewed ahead of the payroll being run to double check that all manually changed bank details were subject to secondary check and authorisation.</p> <p>The bank detail change procedure should be amended to make it clear that the written mandate option is by exception only and the blank copy of the mandate should be removed from the Pension Fund's website.</p> <p>The Pension Fund's website should include more advice on how to guard against impersonation fraud.</p>	<p>The risk register will be updated to include this data and allocate risks to individual officers.</p> <p>An audit report will be generated and reviewed to check that bank detail changes are checked and approved by an independent member of staff to evidence segregation of duties.</p> <p>Procedure notes will be updated to reflect this. The Pension Team will encourage use of My Pensions where possible but there will be a proportion of pensions who do not use My Pensions. Pensions will always need to have another method of accepting changes. We are reviewing processes and will consider removing the form from the Fund's website.</p> <p>On an annual basis, all pensioners are reminded to check that their personal details are up to date in the pensioners' newsletter.</p>	Pensions Manager	30/06/26
		<p>There was an opportunity to further strengthen bank detail change controls by using a system generated report to verify that all changes had been authorised by 2 members of staff.</p>			Pensions Manager	30/04/26
		<p>The most secure way to make bank detail changes was via the My Pension self-service portal. Uptake of this could be improved. The changes reviewed showed that 1 in 6 of the requested bank detail changes had been made by the Pensions team on receiving a written mandate which is at greater risk of fraud.</p>			Pensions Manager	30/06/26
		<p>The website could include more advice on how to guard against impersonation fraud.</p>			Pensions Manager	30/06/26

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		User access roles for the pension system required review as several users had wide ranging access.	Pension system user access roles should be regularly reviewed to ensure access is commensurate with officer duties.	<p>A more effective method of communication than the website would be publishing messages on payslips Pensions can publish a message on the April 2026 payslip warning about keeping personal data secure and impersonation risks.</p> <p>There will be quarterly review of user access roles to check these are limited appropriately according to roles and responsibilities.</p>	Pensions Manager	30/06/26
L1	Low	The bank to ledger reconciliation contained several unreconciled transactions from years prior to 25/26 and there was scope to further document the procedure as the reconciliation was being undertaken on a complex spreadsheet.	There should be a detailed procedure for reconciling the bank to ledger including explanations of all sections of the spreadsheet. The procedure should ensure that by year end all transactions have been reconciled or a decision made to write off and journal appropriately.	<p>Procedure note will be included in the spreadsheet use to complete the bank to ledger reconciliation.</p> <p>The note will document that by year end decision will be taken on write offs for current financial year where appropriate.</p>	Principal Accountant	30/04/26
L2	Low	<p>There was scope to provide more detail in written procedures specifically to detail what a secondary check or authorisation involved and what expected errors may occur and how they should be investigated and resolved.</p> <p>For annual increments some spot check details had been kept only in informal notes.</p>	<p>Procedures covering the payroll operation and bank reconciliation should be reviewed to ensure there is sufficient detail for other members of the Pensions Team to undertake the work effectively timeously and efficiently.</p> <p>It would be beneficial to have some worked real examples of annual increment calculations on</p>	<p>Procedure notes will be updated to incorporate</p> <ul style="list-style-type: none"> • Examples of common errors and worked real examples that occur when running payroll and how to resolve these. • Detailed timetable with key deadlines which will be signed off when tasks are completed and reviewed by senior officers. 	Pensions Manager	30/06/26

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
			file to ensure the Pensions Team is not reliant on any single officer and better enable sharing of knowledge.			