

# Scottish Borders Council Pension Fund

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scottish Borders Council as administering authority for Scottish Borders  
Council Pension Fund and the Controller of Audit

October 2021

---

# Contents

---

Key messages	3
Introduction	5
1. Audit of 2020/21 annual accounts	8
2. Financial management	12
3. Financial sustainability	16
4. Governance and transparency	20
5. Best Value	23
Appendix 1	26
Appendix 2	30
Appendix 3	32
Appendix 4	33

---

# Key messages

---

## 2020/21 annual accounts

- 1 The financial statements of Scottish Borders Council Pension Fund give a true and fair view of the state of affairs of the Fund as at 31 March 2021 and have been properly prepared in accordance with the financial reporting framework.
- 2 The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

## Financial management

- 3 The Fund has had a strong investment performance in 2020/21 and recovered from the significant impact of the pandemic on investment values last year, with investment values increasing by £147.5m. The Fund had a positive performance of 20.1% against the benchmark of 18.3%.
- 4 The Fund has appropriate and effective financial management arrangements.
- 5 Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate.

## Financial sustainability

- 6 The triennial funding valuation as at March 2020 assessed the Fund as fully funded at 110%.
- 7 The Fund has appropriate and effective financial planning arrangements in place.

## Governance and transparency

- 8 The governance arrangements introduced in response to the pandemic are appropriate and operated effectively.
- 9 There is effective scrutiny, challenge, informed decision making and a commitment to openness and transparency.
- 10 The Fund actively considers Environmental, Social and Governance matters as part of its Investment Strategy.

## Best Value

- 11** The pension administration function's performance against targets has been affected by added pressures from the pandemic, but performance in priority areas remained high.
- 12** The Fund has effective arrangements in place for monitoring investment performance and scrutinising investment management expenses.
- 13** Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year.
- 14** Over the medium to longer term, the Fund has outperformed its three-, five - and ten-years benchmarks.

---

# Introduction

---

1. This report is a summary of our findings arising from the 2020/21 audit of Scottish Borders Council Pension Fund (the Fund).
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 meeting of the Audit and Scrutiny Committee and to the September meeting of the Pension Fund Committee and Pension Board. This report comprises:
  - an audit of the Fund's annual accounts
  - consideration of the wider dimensions of financial management, financial sustainability, governance and transparency, and value for money, that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#)
3. The main elements of our audit work in 2020/21 have been:
  - an audit of the Fund's 2020/21 annual accounts including the issue of an independent auditor's report setting out our opinions
  - a review of the Fund's main financial systems
  - consideration of the four audit dimensions of financial management, financial sustainability, governance and transparency and value for money.

## Added Value

4. We add value to the Fund through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

5. Scottish Borders Council (the 'Council') is the administering authority for the Scottish Borders Council Pension Fund. The Council delegates this responsibility to the Pension Fund Committee (the 'Committee'). The Pension

Fund Board (the 'Board') is responsible for establishing arrangements to ensure the proper conduct of the affairs of the Fund in accordance with the law and the requirements of the Pensions Regulator.

**6.** The Committee and Board are responsible for establishing effective governance arrangements and ensuring that financial management is effective. In the case of Scottish Borders Council Pension Fund, the arrangement is for the Council's Audit and Scrutiny Committee to review the effectiveness of internal control arrangements and to recommend the annual report and accounts for approval by the Council

**7.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK.

**8.** As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements
- suitability and effectiveness of corporate governance arrangements and financial position
- arrangements for securing financial sustainability.

**9.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**10.** This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**11.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

## Auditor Independence

**12.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £21,510, as set out in our Annual Audit Plan, remains unchanged.

**14.** This report is addressed to both the members of the Scottish Borders Council as administering authority for the Scottish Borders Council Pension Fund and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**15.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

---

# 1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

---

## Main judgements

The financial statements of Scottish Borders Council Pension Fund give a true and fair view of the state of affairs of the Fund as at 31 March 2021 and have been properly prepared in accordance with the financial reporting framework.

The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

---

## Our audit opinions on the annual accounts are unmodified

**16.** The annual accounts for the year ended 31 March 2021 were approved by the Scottish Borders Council on 28<sup>th</sup> October 2021. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

## The Covid-19 pandemic had no impact on audit evidence

**17.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly. The audit was conducted remotely, in line with Scottish Government public health guidance on social distancing.

## The annual accounts were signed off in line with the timescales permitted to reflect Covid-19

**18.** As a result of the continuing impact of Covid-19 the submission deadlines for Pension Fund audited annual accounts and annual audit reports have been set at 30 November 2021.

**19.** The unaudited annual report and accounts were received in line with our revised audit timetable on 23 August 2021. Scottish Borders Council were able to deliver unaudited financial statements in accordance with the original audit timetable (30 June 2021) included in the Annual Audit Plan. However, due to the scheduling challenges of Audit Scotland, the audit timetable was revised.

**20.** Although later than first planned, the annual accounts were signed off in line with the revised timetable permitted to reflect the impact of Covid-19.

### There were no objections raised to the annual accounts

**21.** The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for Scottish Borders Council Pension Fund was published on the website of the administering authority (Scottish Borders Council) and complies with the regulations. No objections were received to the Scottish Borders Council Pension Fund accounts.

### Overall materiality is £8.6 million

**22.** We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of an identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements, and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

**23.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the financial statements. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

**24.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

---

#### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality (1% of gross assets)	£8.6 million
Performance materiality (60% of materiality)	£5.1 million
Reporting threshold	£250 thousand

Materiality level	Amount
Specific materiality (Benefits Payable)	£2.5 million
Specific performance materiality (Benefits Payable)	£1.5 million

Source: Audit Scotland

## Appendix 2 identifies the main risks of material misstatement and our audit work to address these

25. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

## We have no significant findings to report on the annual accounts

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no issues to report from the audit.

## Identified misstatements of £0.36 million were not adjusted in the accounts. These were less than our performance materiality and we did not need to further revise our audit approach

27. Total misstatements identified were £0.36 million, which if adjusted, would have increased investment asset values by £0.36 million. These consist of late valuations received for Level 3 assets. The valuations for these assets are included in the accounts with a lagged valuation date of 31 December 2020. The valuations were not available when the unaudited accounts were issued. The final valuations were received during our audit. After discussions with management, we concluded that adjustments for these final valuations were not required as the total adjustment required of £0.36 million is below our performance materiality level. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety, and do not indicate any systemic error.

## Other matters arising from the audit of the financial statements

28. **Goodwin tribunal:** the Goodwin tribunal case changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005 and affects the pensions of male spouse survivors whose entitlement

arose on or after this date. Scottish Borders Council Pension Fund has added a contingent liability note to its accounts to disclose this matter. We are content with this disclosure.

**29. Code Requirements:** Changes to the Code of Practice for Local Authority Accounting in the UK for 2020/21 include the requirement to provide an expansion within the investment note, of pooled investments between “equities, bonds, property, hedge funds, diversified growth funds, private equity funds, infrastructure funds and other”. Scottish Borders Council Pension Fund have amended Note 14 to adhere to code requirements. We are content with the amendments.

**30. Pension Recalculation:** We identified an error with the total pension lump sum payment awarded to one member. The options presented to the member were not based on accurate information. Management have agreed to recalculate the member’s options and to re-engage with the member. We found no other instances of incorrect calculations. Additional testing was not required as we could readily conclude that this was an isolated case. This is detailed in [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

---

## Recommendation 1

For unusual or exceptional pension benefits, management should ensure that there are additional quality assurance arrangements in place for the review of calculations.

---

## Progress was made on prior year recommendations

**31.** The Fund has made progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

---

## 2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

---

### Main judgements

The Fund has had a strong investment performance in 2020/21 and recovered from the significant impact of the pandemic on investment values last year, with investment values increasing by £147.5m. The Fund had a positive performance of 20.1% against the benchmark of 18.3%.

The Fund has appropriate and effective financial management arrangements.

Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate.

---

### Financial management arrangements were appropriate and effective

**32.** The Executive Director Finance and Regulatory for Scottish Borders Council is the Proper Officer responsible for Scottish Borders Council Pension Fund. The financial regulations of Scottish Borders Council, as administering authority, apply to the Fund. We consider these to be comprehensive, current, and promote good financial management.

**33.** Investment performance reports are submitted to the Pension Fund Committee on a quarterly basis, with administration performance reports submitted annually. Reports are comprehensive and well presented with enough narrative to describe issues to Councillors and other committee members. Through our attendance at the Pension Fund Committee we have observed adequate level of review and scrutiny by members. The Council has delivered training to members of the committee during the year including training on Financial Markets and Investment Products, Investment Concepts and Terminology, Fund Governance and Stewardship, Pension Administration Issues and Regulatory Environment. It is important that committee members undertake all given training to ensure knowledge and skills are kept current. All members met their training requirements for the period.

**34.** Overall, the Fund has appropriate and effective financial management arrangements in place. This includes comprehensive reporting of investment performance.

## Systems of internal control

**35.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Scottish Borders Council Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. The Pension Fund uses the administering authority's key financial systems, in particular the general ledger, payroll, and accounts payable systems. Whilst we concluded that overall systems of internal control are operating effectively, we noted that some general documentation and administrative control procedures had not been completed, and evidence of checks performed in a timely manner were not available. We understand some control procedures were historically completed in paper format, which have not been updated to reflect the move to home working. This is detailed in [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

---

## Recommendation 2

Management should review administrative procedures and update these to reflect the move to home working. Management should also ensure that officers are familiar with their responsibilities for the completion of supporting paperwork to evidence processes have been completed and reviewed in a timely manner.

---

## The Fund has had a strong investment performance in 2020/21 and recovered from the significant impact of the pandemic on investment values

**36.** When considering the investment performance of the Fund during 2020/21, it is important to recognise the impact of Covid-19 on financial markets and investments. Asset values reduced significantly at the end of 2019/20, decreasing in value over 2019/20 by £19 million, as the global impact of the pandemic significantly increased market volatility. Asset values have recovered during 2020/21 and the Fund's net assets increased from £713 million to £860 million (£147 million increase) as at 31<sup>st</sup> March 2021. The Fund's performance in 2020/21 is summarised in [Exhibit 3](#).

**37.** The Fund's actuary, Hymans Robertson, estimated that pension liabilities had increased by 23% from £887 million to £1,088 million at 31<sup>st</sup> March 2021 (£201 million increase) for the Fund.

**38.** During 2020/21 the £25.2 million benefits payable by the Fund exceeded the £20.7 million contributions received. Pensioner numbers rose by 188, a 4.9% increase. Other factors, in addition to increasing pensioner numbers, affected the rise in benefits payable, including individual members' entitlement. The Fund has reported negative cashflows for several years and this is expected to continue as the scheme matures.

**39.** The Fund operates in a challenging environment and a number of issues may increase pressures on the future funding position, including lack of economic growth and the impact of EU withdrawal. Pension specific issues such as the scheme cost cap mechanism, guaranteed minimum pension (GMP) equalisation and the McCloud ruling on age discrimination are also likely to impact on the funding position in the coming years.

**40.** The Fund actively considers these challenges and continues to monitor risks through the risk register. The funding strategy statement and investment strategy are reviewed and revised following actuarial valuations to ensure that the Fund is well placed to continue to pay its liabilities.

---

### Exhibit 3

#### Assets, funding level and investment performance

Increase in net assets	Funding level	Investment performance
<b>£860 million</b>	<b>110%</b>	<b>10.3%</b>
Closing net assets as at 31 March 2021	2020 Funding Valuation	Average annual return on investments over 5 years
<b>+£147 million (+20.6%)</b>		
<b>£713 million</b>	<b>114%</b>	<b>20.1%</b>
Opening assets at 1 April 2020	2017 Funding Valuation	Return on investments 2020/21

Source: 2020/21 Scottish Borders Council Pension Fund audited annual report and accounts

---

### Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate

**41.** Scottish Borders Council Pension Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**42.** We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the administering body's (Scottish Borders Council) arrangements for the prevention and detection of fraud and corruption. These include Code of Conduct for members and officers, Whistleblowing Policy and the Fraud, Bribery and Corruption Policy.

**43.** The risk profile of public bodies during 2020/21 has been significantly affected by the Covid-19 pandemic, including the move to working from home. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to

operate effectively and respond to issues in a timely manner. We have reviewed the arrangements put in place by Scottish Borders Council Pension Fund to address any heightened risks and concluded that they are appropriate.

**44.** Instances of fraud and corruption can be particularly prevalent in the procurement function. We carried out an assessment of the arrangements to prevent fraud and corruption in the procurement function. We concluded that arrangements for preventing fraud and corruption in the procurement function are appropriate.

---

## 3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

---

---

### Main judgements

The triennial funding valuation as at March 2020 assessed the Fund as fully funded at 110%.

The Fund has appropriate and effective financial planning arrangements in place.

---

### The triennial valuation as at March 2020 assessed the Fund as fully funded

**45.** A full triennial valuation of the Scottish Borders Council Pension Fund was carried out at 31 March 2020 and reported to the Pension Fund Committee in March 2021. One of the main purposes of the triennial valuation is to inform the setting of pension contribution rates for the forthcoming 3 years and to inform a review of funding and investment strategies to ensure the continued payment of members' pension benefits as they fall due.

**46.** The March 2020 triennial funding valuation reported that the Fund assets were sufficient to meet 110% of its liabilities. This is a slight drop from 114% in the 2017 valuation, but it still means that, overall, the investment assets were higher than the projected liabilities. This enables the fund to utilise the surplus by maintaining the employer's contribution for the Scottish Borders Council Pool at 18% for the first 2 years, and then increasing the rate by 0.5% in year 3, to mitigate for future uncertainties. The rates for other bodies ranged from 20.3% - 22%.

### Financial planning arrangements are appropriate and effective

**47.** The results of the triennial valuation are in effect a snapshot of the Fund at 31 March 2020. Following each triennial valuation, the Fund reviews and revises its funding strategy. The funding strategy is a summary of the Fund's approach to funding liabilities. The investment strategy outlines the types of investment to be held and the balances between the different types of investment

**48.** The Strategic Investment Review was reported to the Pension Fund Committee on 10 June 2021. The review of the current strategy in place was reviewed by the Fund's investment advisers, Isio, in consultation with the Fund's officers. The Fund is 110% fully funded. The primary aim of the Fund is "To provide for members' pension and lump sum benefits on their retirement or for

their dependants' benefits on death before or after retirement, on a defined benefits basis". To meet this aim the Fund must ensure it sets levels of contributions that will build up assets sufficient to meet all future benefit payments. The employer contribution rates agreed as part of the 2020 valuation process require the Fund's investments to deliver a return of at least 3.8% per annum to support the funding position. The Fund has performed well and has over the last 10 years consistently produced a positive return above benchmark over a 3-year rolling period. The recent strong performance has largely been achieved from equity investments. The allocation to equities has been reduced in the last 5 years complimenting a well-diversified portfolio of investments. These previously sat at 40% of asset allocation, and are recommended to maintain at 40%, with a movement of 10% into an Environmental, Social and Governance focussed fund. The Fund has over the last two years, as part of its Responsible Investment Policy, moved all its equity investments with Morgan Stanley into the Global Sustain fund which excludes tobacco, alcohol, and stocks in carbon polluting businesses. Allocations to diversified credit remain consistent at 10% with a reduction of 3.5% in diversified alternatives, 5% reductions in property, an increase of 2% in property long lease and 2.5% increase in property residential.

**49.** We have concluded that the Fund has an appropriate framework in place through which it demonstrates effective financial planning.

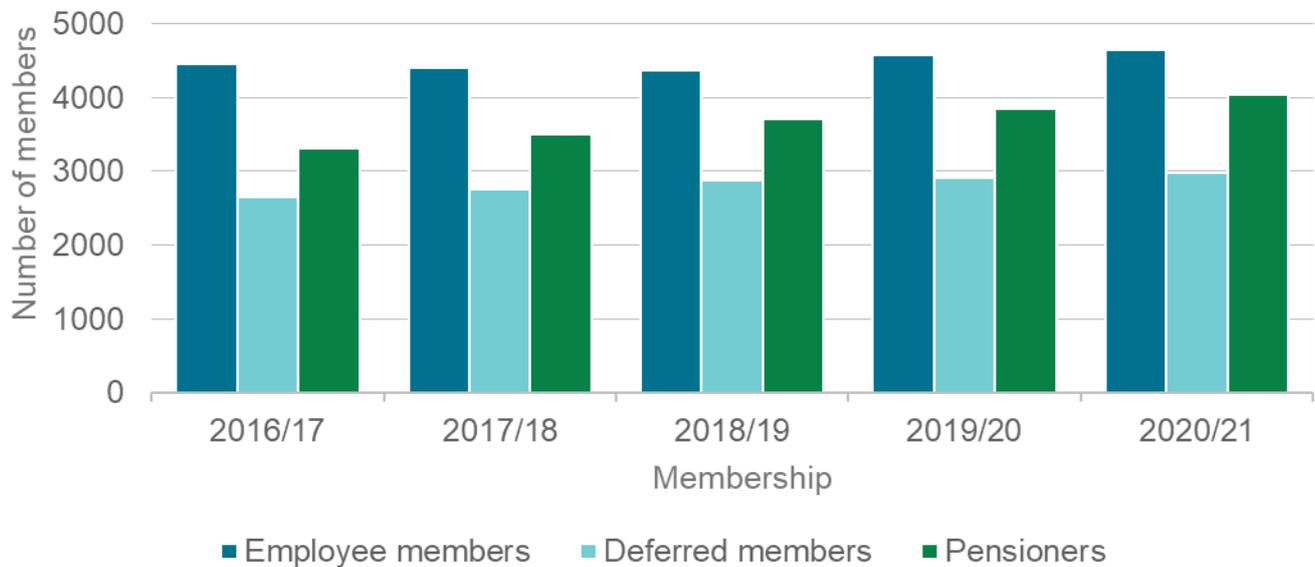
### **Fund membership levels continue to increase but the ratio of active members to pensioners is reducing**

**50.** The Fund is a multi-employer fund with one Local Authority, and around 16 other employers. The current membership profile is shown at [Exhibit 4](#).

**51.** The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each members' life. It is important that the Fund maintains the capacity to meet the current and future pension entitlements of its members.

## Exhibit 4

### Scottish Borders Council Pension Fund membership



Source: Scottish Borders Council Pension Fund 2020/21 audited financial statements

**52.** Membership of the Fund increased by 326 to 11,664 at 31 March 2021: an increase of 2.8%. The impact of auto-enrolment continues to contribute to the increase in employee members.

**53.** In 2020/21 the number of pensioners receiving a pension from Scottish Borders Council Pension Fund increased by 184 and the number of pensioner members continues to increase steadily each year. The number of active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced over the past five years.

**54.** Cash flows from dealings with members continue to be negative, 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. The fund has been maturing since 2013/14. The Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets. This has been a proactive response from the Fund to move to more income bearing assets to pay annual pensions as the fund matures.

**55.** With most employers still open to new membership and with continuing support from auto enrolment, the recent trend of growth in membership seems likely to continue for the foreseeable future.

**56.** There was one bulk transfer out of the Fund in 2020/21, as Visit Scotland received Ministerial approval to consolidate all its LGPS memberships into one LGPS fund, Lothian Pension Fund. Sixteen members were transferred from Scottish Borders Council Pension Fund to Lothian Pension Fund.

## Future rates of employer contributions

**57.** As stated in paragraph 48, following the triennial valuation in 2020, the actuary agreed employer contribution rates with individual employers from 1 April 2021. For the Scottish Borders Council Pool, the employer rate has remained consistent at 18% for the next 2 years, with a slight increase of 0.5% in year 3, to mitigate for future uncertainties. The rates for other bodies range from 20.3% - 22.0% and are based on individual employer circumstances. Two bodies are closed funds with new employees unable to join. Based on the increased risks for these bodies, individual rates have been recommended by the actuary. Another body which joined the Fund is not included within the pool; therefore initial rates have been recommended for this body. For one body, these rates include an element of deficit recovery contributions to support employers financial planning. The approximate split of all contributions received in year is set out at [Exhibit 5](#).

---

### Exhibit 5 Contributions in 2020/21

	Administering authority	Other scheduled bodies	Admitted bodies	Total
	£m	£m	£m	£m
Employer contributions	13.3	0.7	1.5	15.5
Employee contributions	4.4	0.2	0.5	5.1
<b>Total</b>	<b>17.7</b>	<b>0.9</b>	<b>2.0</b>	<b>20.6</b>

Source: Scottish Borders Council Pension Fund 2020/21 audited financial statements and supporting working papers

---

**58.** As mentioned in paragraph 54, the continued growth in pensioner numbers makes funding pension payments increasingly challenging. The Fund is further diversifying its investment structure to increase investment in income generating assets.

---

# 4. Governance and transparency

The effectiveness of scrutiny and oversight and the transparent reporting of information

---

## Main Judgements

The governance arrangements introduced in response to the pandemic are appropriate and operated effectively.

There is effective scrutiny, challenge, informed decision making and a commitment to openness and transparency.

The Fund actively considers Environmental, Social and Governance matters as part of its Investment Strategy.

---

## Governance arrangements operating throughout the pandemic have been appropriate and operated effectively

**59.** Scottish Borders Council is the administering body for Scottish Borders Council Pension Fund. The Council has delegated responsibility for governance to the Pension Fund Committee. This committee, supported by the Board (made up of four scheme employer representatives and four trade union representatives), is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

**60.** Scottish Borders Council Pension Fund amended its governance arrangements in response to the pandemic. The impact of Covid-19 from March 2020 has been set out in the Annual Governance Statement in the Fund's annual report and accounts.

**61.** We have concluded that overall, Scottish Borders Council Pension Fund has appropriate governance arrangements in place which support effective scrutiny, challenge and decision-making.

## There are effective arrangements for complying with the Pensions Regulator Public Service Code

**62.** The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on

the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

**63.** There were no breaches of the Code that required to be reported to the Pensions Regulator in 2020/21.

**64.** The Pensions Regulator places a legal requirement on Pension Board members to maintain an appropriate level of knowledge and understanding of scheme rules, policies and pensions law. Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. As mentioned in paragraph 33, all Pension Board members and Pensions Committee members met the training requirement for 2020/21. Training sessions were offered online during 2020/21 to enable access to training while working remotely.

### **Performance reporting was of a good standard**

**65.** Management Commentaries included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

**66.** The Fund's 2020/21 management commentary has improved in quality from the prior year and is written with the stakeholder in mind. It details complex areas in an understandable style, with linkages to further information included within different sections of the report. This helps increase transparency in reporting the financial performance and financial position of the Fund.

### **Openness and transparency**

**67.** Openness and transparency relate to how a body operates and makes decisions and is key to supporting understanding and scrutiny. Transparency means that the public has access to understandable, relevant and timely information about how the body is taking decisions and using resources.

**68.** The Pension Fund Committee and Board meetings are available for the public to view. Under the current circumstances, these are being transmitted live over Microsoft Teams. Commercially sensitive information is dealt with in private sessions. Minutes of the public meetings are available on the Scottish Borders Council website.

**69.** Overall, we conclude the Fund conducts its business in an open and transparent manner.

## **The Fund actively considers Environmental, Social and Governance matters as part of its Investment Strategy.**

**70.** The Fund believes that a positive approach to Environmental, Social and Governance (ESG) issues can have a positive impact on the financial performance of investments.

**71.** The Fund approved a Statement of Responsible Investment Policy on 30 November 2018 which details the Fund's approach to responsible investment and arrangements to monitor manager performance against the principles in this policy. The overwhelming majority of fund managers engaged with Scottish Borders Council Pension Fund (99.5%) are signatories to the United Nations Principles for Responsible Investment. The Fund became a signatory to Climate Action 100+ in March 2020. As a signatory the Fund supports Climate Action 100+ in its engagement with the boards and senior management of companies around the world to implement a strong governance framework, take actions to reduce greenhouse gas emissions and provide enhanced corporate disclosures. The Fund actively engages with fund managers to ensure they are incorporating ESG opportunities to increase investment in sustainable funds. This has been demonstrated with their £100m move within Morgan Stanley from their Global Brand Fund to their Global Sustain Fund, which excludes investments in tobacco, alcohol and fossil fuels as well as being carbon light.

---

# 5. Best Value

Using resources effectively and continually improving services

---

---

## Main judgements

The pension administration function's performance against targets has been affected by added pressures from the pandemic, but performance in priority areas remained high.

The Fund has effective arrangements in place for monitoring investment performance and scrutinising investment management expenses.

Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year.

Over the medium to longer term, the Fund has outperformed its three-, five - and ten-years benchmarks.

---

## **The pension administration function's performance against targets has been affected by added pressures from the pandemic, but performance in priority areas remained high**

**72.** The Pension Fund Committee meets on a quarterly basis and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

**73.** The Fund's business plan sets out a range of service standards against which administration performance is monitored. The administration function's performance against its targets for Service Standards have been affected by the pressures of the pandemic, alongside an increasing workload. Most staff are working from home which makes many processes slower. However, performance in several priority areas has remained high, including issuing 100% of annual benefit statements on time. During 2021/22, the Fund has recently implemented Members Self Service which will help reduce the number of routine enquiries from scheme members where they will be able to obtain information directly via the self-service functionality. Key administration tasks reported for 2020/21 included 1,155 pension estimates, with the implementation of Members Self Service. This should help improve performance going forward.

## Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year

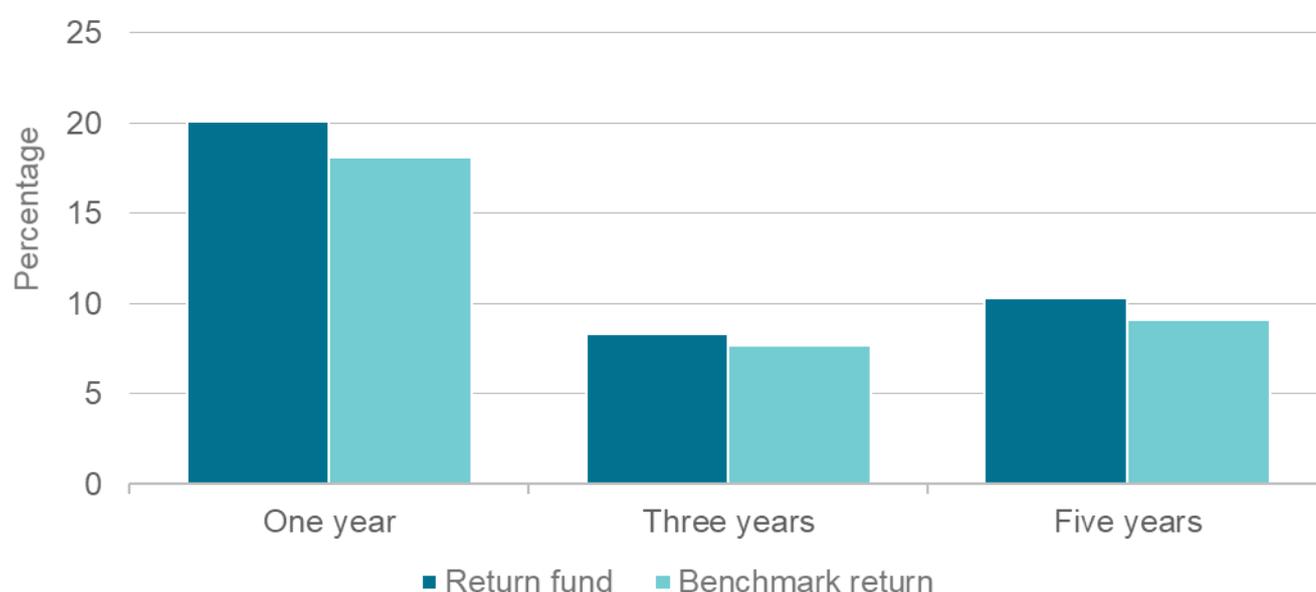
**74.** The Fund appoints several external investment managers. Individual investment manager performance is reviewed regularly by The Pension Fund Investment and Performance Sub-Committee Committee and the Fund's investments team also carries out annual diligence reviews for each appointed fund manager.

**75.** Financial markets have largely recovered from last year's exceptional volatility, when returns against most asset classes, especially equities, reduced significantly due to the impact of the pandemic. 2020/21 investment performance has exceeded the agreed benchmarks.

**76.** [Exhibit 6](#) shows that over the year, the Fund generated a return of 20.1% against a benchmark of 18.3%. Equity portfolios were the most significant contributor to this increase. Over the medium to longer term, the Fund has outperformed its three-, five- and ten-years benchmarks.

---

### Exhibit 6 Fund investment performance



Source: Scottish Borders Council Pension Fund 2020/21 audited financial statements

---

**77.** Investment return and risk are inextricably linked, and it is not possible for us to give an opinion on the relative performance of the Fund's investments given the risk exposure of the asset allocation and investments made.

## The Fund adequately scrutinises investment management expenses

**78.** There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the Scottish Borders Council and oversight and governance costs.

**79.** External investment manager fees are agreed in the respective mandates governing their appointments. The fees are relative to the risk and complexity involved in managing a particular asset and strategy.

**80.** The Fund has encouraged all its investment managers to use the collection templates per the Cost Transparency Initiative, to submit their investment expenses information, which allows consistency of reporting of investment management expenses.

**81.** The investment management costs are consistent with the prior year rounded at £5.3m for both 2019/20 and 2020/21. Contributing factors for this include the movement of funds to other funds with lower fees and the movement of funds into pooled funds, resulting in lower fund of fund costs.

**82.** The Fund has satisfactory arrangements in place for monitoring investment performance and scrutinising investment management expenses.

## National performance audit reports

**83.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, we published reports which may be of interest to the Fund. These are outlined in [Appendix 4](#) accompanying this report.

# Appendix 1

## Action plan 2020/21

### 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Pension Recalculation</b></p> <p>Audit testing identified one error included within a member's lump sum pension calculation. The options presented to the member were not based on accurate information. This is considered to be an isolated error. Management relied on a model used by other LGPS Funds to calculate the pension due; this model had not however been updated to reflect the specific circumstances of the member. This error was also missed on independent review of the pension calculation.</p> <p><b>Risk</b></p> <p>There is a risk that calculations are not accurate, and members are not presented with the correct pension options.</p>	<p>For unusual or exceptional pension benefits, management should ensure that there are additional quality assurance arrangements in place for the review of calculations.</p> <p><a href="#">Paragraph 30</a></p>	<p>Agree to review the model used in the calculation of such payments, ensuring this is compliant with legislation. A senior member of the team will carry out an additional review of all such calculations in future.</p> <p><b>Responsible officer</b></p> <p>HR Shared Services Manager</p> <p><b>Agreed date</b></p> <p>01/10/2021</p>
<p><b>2. Administrative Procedures</b></p> <p>Audit testing identified administrative procedures in paper format have not been updated nor completed with the move to home working. This includes the completion of checklists for specific tasks such as procedures following</p>	<p>Management should review administrative procedures in place and update these to reflect the move to home working. Management should also ensure that officers are familiar with their responsibilities for the completion of supporting paperwork to evidence processes have been</p>	<p>A review of procedures will be undertaken along with a reminder issued to all members of the Pensions Administration Team of the requirement to provide evidence of completion/checking of completed work. With continued home working software has now been</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>retiral of an employee and leavers checklists. We also identified there is no documented checks on pension calculation figures.</p> <p><b>Risk</b></p> <p>There is a risk all required tasks are not completed and errors not identified in a timely manner.</p>	<p>completed and reviewed in a timely manner.</p> <p><a href="#">Paragraph 35</a></p>	<p>deployed to all team members to allow them to add Names and Date Stamp.</p> <p><b>Responsible officer</b></p> <p>HR Shared Services Manager</p> <p><b>Agreed date</b></p> <p>01/10/2021</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Pensioner validation using ATMOS reports</b></p> <p>As part of our review of pension payment controls, we requested a sample of ATMOS match reports for testing. These reports are used by management to identify deceased pensioners so that pension payments are stopped in a timely manner, minimising overpayments.</p> <p>The ATMOS match reports we received for testing were five months old. Therefore, there is no evidence that the matches have been investigated by management in a timely manner.</p> <p><b>Risk</b></p> <p>There is a risk that, without prompt investigation by management, pensions are being overpaid.</p>	<p>ATMOS reports should be reviewed, and any matches investigated in a timely manner to prevent any overpayments to deceased pensioners.</p> <p><b>Update for 2020/21</b></p> <p><i>This was not actioned for the financial year 2020/21.</i></p>	<p>Agreed. Additional members of the Pensions Administration Team to be trained on the use and operation of ATMOS reporting, which removes a potential single point of failure. The Pensions Admin Team is now implementing "Tell Us Once" software provided by the DWP to remove the need for ATMOS reporting in future.</p> <p><b>Responsible officer</b></p> <p>HR Shared Services Manager</p> <p><b>Agreed date</b></p> <p>30/11/2021</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>4. Validation of overseas pensioners</b></p> <p>Validation of pensioners is considered a key control that should be in place to ensure that pensioners in receipt of pensions are still eligible to receive payment.</p> <p>We identified that, whilst letters and statements are issued to overseas pensioners, the process to ensure their existence, has not been carried out during 2019/20.</p> <p><b>Risk</b></p> <p>There is a risk that without adequate controls being in place to validate the existence of pensioners, pensions are paid to deceased pensioners</p>	<p>The existing process in place should be reviewed to ensure it is still appropriate. The process should be actioned on a frequent basis to ensure existence of overseas pensioners.</p> <p><b>Update for 2020/21</b></p> <p><i>This was last completed by Scottish Borders Council Pension Fund in September 2020. This process should be completed annually.</i></p>	<p>Now agreed standard practice. Carry out the annual review for 2021, this was completed in 2020. There has been a slight delay in getting these issued this year.</p> <p><b>Responsible officer</b></p> <p>HR Shared Service Manager</p> <p><b>Agreed date</b></p> <p>31/12/2021</p>
<p><b>5. Reconciliation of pensions paid figure</b></p> <p>There is no monetary reconciliation performed to show the total pensions paid figure agrees with the ledger. Therefore, the total pensions paid figure cannot be tied back to the ledger.</p> <p>The HRSS manager advised that there has never been a reconciliation performed between pensions paid figure and the financial ledger.</p> <p>A monthly report run for differences in payments from one month to the next is available but unfortunately due to work pressures and staff shortages this has not been completed for this</p>	<p>The pensions paid figure should be reconciled month on month and variances to the ledger investigated. Management should perform monthly reconciliations between the pensions paid figure and the ledger.</p> <p><b>Update 2019/20</b></p> <p>Whilst there is an automated nature to the transfer of the figures between the payroll system and ledger data, there is a residual risk that manual intervention to the financial ledger codes may impact ledger data. The inclusion of this control will strengthen the control environment.</p> <p><b>Update for 2020/21</b></p>	<p>Implemented. This is now being completed on a monthly basis and has been conducted since the recommendation was made as part of the 2020 audit. A full year of evidenced data will be available for testing as part of the 2021/22 audit.</p> <p><b>Responsible officer</b></p> <p>HR Shared Services Manager</p> <p><b>Agreed date</b></p> <p>30/04/2021</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>financial year. This would be an effective control over the pensions paid figure on a month-by-month basis.</p> <p><b>Risk</b></p> <p>The figures in the financial ledger could be under or overstated.</p>	<p>Reconciliations were provided for periods 6-12 for the 2020/21 period. As this had not been actioned for the full period, a complete reconciliation was not available for audit purposes.</p>	
<p><b>6. Key reconciliations are not being performed</b></p> <p>On selecting a sample of debtors and creditors for further testing, we found that several balance sheet codes (e.g. pension suspense accounts) are not being reviewed or reconciled.</p> <p><b>Risk</b></p> <p>There is a risk of uncorrected errors not being identified on a timely basis.</p>	<p>Management should perform monthly reconciliations across payroll to ensure all balances are investigated and adjusted when necessary.</p>	<p><b>Complete</b></p> <p>We were provided with reconciliations for numerous balance sheet codes to substantiate the figures included within debtors and creditors.</p>
<p><b>7. Financial &amp; HR Capacity</b></p> <p>We found that staff capacity is still showing signs of pressure. There is dependency on key staff in Finance and in Human Resources Shared Services (HRSS).</p> <p>Strain on staff resources in HRSS has meant key reconciliations and working papers were not available or prepared to a level suitable for audit from HRSS.</p>	<p>Resource requirement of the Pension Fund should be assessed within both departments and addressed to ensure administration of the Fund is efficient and effective.</p>	<p><b>Complete</b></p> <p>Management continues to review the resource requirement within both departments. Working papers provided for audit were of a good standard from both departments. Although we consider this issue closed, continued monitoring of resources is required to address the continually shifting environment.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement caused by management override of controls</b></p> <p>Although we have not identified any specific risks of management override of controls relating to the Fund, Auditing Standards require that audits are planned to consider the risk of material misstatement due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p><b>Results:</b> We undertook detailed testing of journal entries, accruals, and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p><b>Conclusion:</b> We did not identify any incidents of management override of controls.</p>
<p><b>2. Estimations, Judgements and Classifications</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation. Investments include level 3 investments such as unquoted equities, where valuations involve the application of considerable</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500, for the actuary.</p> <p>Review of investment manager valuation reports.</p> <p>Review of user entity controls in relation to the use of service organisations.</p>	<p><b>Results:</b> From our 'review of the work of an expert', our review of investment manager valuation reports and our review of the user entity controls in relation to the use of a service organisation, we did not identify any significant issues in relation to this risk.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</p> <p>This subjectivity gives rise to a risk of misstatement in the financial statements.</p>		<p><b>Conclusion:</b> We did not identify any issues in relation to this risk.</p>

---

# Appendix 3

## Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250k and request they be corrected.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1. Change in Market Value		(326)		
2. Investment Assets			326	
<b>Net impact</b>		(326)	326	

---

# Appendix 4

## Summary of national performance reports 2020/21

---

### April

[Affordable housing](#)

### June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

### July

[The National Fraud Initiative in Scotland 2018/19](#)

### January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

### February

[NHS in Scotland 2020](#)

### March

[Improving outcomes for young people through school education](#)

# Scottish Borders Council Pension Fund

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)