
INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2022/23 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

22 June 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2022/23, which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report on the adequacy and effectiveness of the Pension Fund's governance, risk management and internal controls to support the preparation of the Pension Fund's Governance Compliance Statement.
- 1.3 To meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2022/23 includes the required Internal Audit annual opinion, provides details of the Internal Audit activity during the year to support the opinion, and states the conformance of the Council's Internal Audit service with the PSIAS.
- 1.4 The Chief Officer Audit & Risk's opinion is that there are generally sound systems of governance, risk management and internal control operating within the Scottish Borders Council Pension Fund during 2022/23. Some areas for improvement were identified.
- 1.5 The Internal Audit independent assurance opinion has been incorporated in the Pension Fund's Annual Governance Statement within the Annual Report and Accounts for the year to 31 March 2023.

2 RECOMMENDATIONS

- 2.1 I recommend that the Joint Pension Fund Committee and Pension Fund Board acknowledges the independent assurance provided on internal controls and governance arrangements as set out in the Internal Audit Annual Assurance Report 2022/23 for the Scottish Borders Council Pension Fund.**

3 BACKGROUND

- 3.1 The Joint Pension Fund Committee and the Pension Fund Board approved the Internal Audit Annual Plan 2022/23 for the Scottish Borders Council Pension Fund at its meeting on 17 March 2022. The Internal Audit Annual Plan sets out the range and breadth of audit areas and sufficient audit activity to enable the Chief Officer Audit and Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must incorporate:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

4 SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2022/23

- 4.1 The Chief Officer Audit & Risk's opinion is that there are generally sound systems of governance, risk management and internal control operating within the Scottish Borders Council Pension Fund during 2022/23. Some areas for improvement were identified.
- 4.2 During 2022/23 the Internal Audit work included:
- a) An appraisal of the operation of corporate governance and risk management arrangements;
 - b) A review of key controls including pension administration and financial management arrangements in place;
 - c) A review of business plan objectives and outcomes.

Corporate Governance and Risk Management

- 4.3 The Fund has effective governance arrangements in place through the joint meetings of the Pension Fund Committee and the Pension Fund Board that support scrutiny and transparency of decisions made. A Skills and Knowledge self-assessment is carried out annually by Members, a Training Plan is proposed to meet those needs, and Members' participation in training events is monitored and reported to ensure Training policy commitments are met.
- 4.4 The Independent Adviser submitted a report 'Review of Governance of the Scottish Borders Council Pension Fund' with recommendations to the December 2022 meeting of the Pension Fund Committee and the Pension Fund Board. Those recommendations relating to Governance should also be considered and implemented. The Internal Audit review of the Pension Fund's Governance Policy and Compliance Statement identified that minor modifications are required to reflect practices actually in operation.

- 4.5 Identifying and managing risk is a cornerstone of effective management and the Risk Register for the Pension Fund has been developed in line with CIPFA guidance "Managing Risk in the Local Government Pension Scheme". The joint meeting of Pension Fund Committee and Pension Board received risk management updates on a quarterly basis to demonstrate appropriate scrutiny and oversight of risk management, including in June 2022 the outcomes of a full risk review carried out in May 2022 supported by a full version of the risk register.
- 4.6 A clear relationship exists between risk management and the Business Plan, and the Risk Register incorporates Investment and ESG risks in line with the Policy Framework of the Pension Fund. Overall, the Risk Register for the Pension Fund contains too many risks and requires rationalising to ensure focus on the key risks. At its March 2023 joint meeting, the Committee and Board agreed to the proposal to refresh the Pension Fund Risk Register. The Independent Adviser's recommendations relating to Risk should also be considered and implemented as part of the risk refresh process. The latter will be facilitated by the Council's Corporate Risk Officer to ensure resource is in place to support the refresh of the Pension Fund Risk Register.
- 4.7 The Independent Adviser's recommendations relating to Audit have been implemented during the preparation of the Internal Audit Annual Plan 2023/24 for the Pension Fund, which was approved by Joint Committee and Board on 9 March 2023; specifically the increase in the allocation of Internal Audit resources needed to deliver the broader range of risk-based work.
- 4.8 The Internal Audit Annual Assurance Report 2022/23 has been used to inform the Pension Fund's 2022/23 Annual Governance Statement and Governance Compliance Statement. The Internal Audit independent assurance opinion has been incorporated in the Pension Fund's Annual Governance Statement within the Annual Report and Accounts 2022/23.

Financial Governance and Key Controls

- 4.9 There was testing of Pensioner payments within Internal Audit work on Payroll to ensure transactions are valid, complete and accurate, and key controls to prevent fraud and error are operating effectively.
- 4.10 Pensions overpayments totalled 20 cases amounting to £3k. These can mainly be attributed to the timing issue of payments being prepared ahead of the payment date, and notification being received of a death of a pensioner which would impact the payment. There is a successful process for recovery of these overpayments, which is managed sympathetically. There is a direct link with the DWP "Tell us once" initiative, so a person registering a death would not have to advise SBC Pensions too. This ensures that all reported deaths in the UK are matched against the Pensioners data sets to give early notifications.
- 4.11 A new Pensions Overpayment Policy has been approved by the Joint Pension Fund Board/Committee on 13 December 2022. The Pensions Overpayment Policy links to the Financial Regulations to support the sound financial governance arrangements in place.
- 4.12 Pensions data has been submitted as part of the Council's participation in the National Fraud Initiative (NFI) exercise for 2022/2023. Staff resources are in place to investigate any data matches to ascertain whether these are the result of error or fraud. This will be ongoing during 2023/24.

- 4.13 Ongoing enrolments to the pension scheme are undertaken by the Council on a monthly basis as part of the payroll run. Any staff meeting the eligibility criteria are enrolled and the appropriate communication issued at that time. The re-enrolment and re-declaration process occurs every 3 years with the latest being undertaken in September 2022. A total of 48 staff were re-enrolled from a total employed staff of 5,296 at that time. Overall, the Council fully complies with the legislation (the Pensions Act 2008) to ensure that certain staff are automatically enrolled in a workplace pension, therefore mitigating the risk of enforcement action or penalties.

Business Plan Improvements and Developments

- 4.14 The 2022/23 – 2024/25 Business Plan for the Pension Fund was approved by the Committee/Board on 29 June 2022. Included within the plan were key objectives and actions with target dates. Having a Business Plan for the Pension Fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making.
- 4.15 The Action Plan is split into three objectives which support the Strategic Aims of the Fund:
- Set levels of employer contributions and investment returns that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund,
 - Deliver a High Quality Pension Service to Members.
 - Ensure that Scottish Borders Pension Fund is managed effectively, transparently and in compliance with legal requirements.
- 4.16 A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Joint Pension Fund Committee and Pension Fund Board meeting on 13 December 2022. The Business Plan reflects both the Fund’s Statement of Investment Principles (SIP), and the Committee’s Environmental, Social and Governance (ESG) beliefs and its approach on how ESG factors should be integrated in investment decision-making. The implementation of the ESG responsible investment principles is ongoing as some Fund Managers require time to adjust to the Fund’s Policy requirements.
- 4.17 One of the Actions is the promotion of the Member Self Service facility (MSS). This provides direct access for active and deferred scheme members to view personalised pension data on the portal including the Annual Benefit Statement. Work is ongoing to increase uptake. The implementation of the updated version of Self Service on a like for like basis is scheduled in 2023/24, subject to release from the software provider, as are other enhancements being developed.
- 4.18 External access to Business World ERP system for pension members to view payslips and P60s is in place. Work continues to promote this facility.
- 4.19 Follow-up on the above will continue as part of the delivery of the approved Internal Audit Annual Plan 2023/24 for the Pension Fund.

Public Sector Internal Audit Standards and Quality Assurance

- 4.20 The 2022/23 annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) demonstrates sufficient evidence that the Council’s Internal Audit team, which also provides Internal Audit services to the Pension Fund, conforms to the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this assurance report.

5.2 Risk and Mitigations

This report provides assurance, including assurance on arrangements for managing risks in section 4, as part of the governance framework to manage the operation of the Pension Fund, and reflects best practice.

5.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

5.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist.

5.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

5.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Data Protection Impact Statement

There are no personal data implications arising from the content of this report.

5.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the content in this report.

6 CONSULTATION

6.1 The Acting Chief Financial Officer and HR Shared Services Manager of Scottish Borders Council, and Head of Governance at ISIO, have been engaged during consultation on the findings and recommendations at draft report stage, and have agreed these to enable finalisation of the Internal Audit Annual Assurance Report 2022/23 for the Pension Fund.

6.2 In addition, Scottish Borders Council's Interim Chief Officer Corporate Governance (and Monitoring Officer), Director – People Performance and Change, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey
Chief Officer Audit & Risk

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor
Chris Hurt & Katrina Culley	Senior Internal Auditors

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Joint Pension Fund Committee & Board 17 March 2022

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk