



Chief Officer Audit & Risk (Chief Audit Executive for the SBC Pension Fund)
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**Internal Audit Annual Assurance Report 2024/25 for the
Scottish Borders Council Pension Fund**

to

**SBC Director of Finance, Pension Accounting & Investment Manager,
Director of People Performance & Change, and HR Shared Services Manager**



04 June 2025

1 Introduction

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.”

2 Audit Opinion on the Governance, Risk Management and Internal Control

The Chief Officer Audit & Risk’s (Chief Audit Executive for the SBC Pension Fund) independent and objective opinion is that the systems of governance, risk management and internal control operating within the Scottish Borders Council Pension Fund during 2024/25 are appropriate and effective.

The SBC Pension Fund generally operates under good public sector practice governance arrangements under the SBC Scheme of Administration, the SBC Pension Fund Governance Policy and Compliance Statement as well as through the joint meetings of the Committee and Board that support scrutiny and transparency of decisions made. The SBC Pension Fund demonstrates a high degree of compliance with the new General Code and action is being taken to ensure full compliance.

Robust risk management arrangements are in place. The Pension Fund Risk Register provides clear focus on the most significant risks. The Risk Management Policy and Strategy for the SBC Pension Fund will ensure there is a relevant risk management framework in place aligned to the SBC Pension Fund’s objectives, governance and administration.

Comprehensive business planning arrangements are in place to demonstrate clarity of required developments and improvements. Processes have been modified to accommodate the introduction of the Pensions Regulator’s General Code of Practice.

Effective Administration practices are in place to providing a high-quality pension service to both members and employers and particularly to ensuring members receive their correct pension benefit entitlement.

3 Scope of the Internal Audit Annual Plan 2024/25

The Internal Audit work that has been performed during the year is in accordance with that set out in the approved Internal Audit Annual Plan 2024/25 for the SBC Pension Fund. The level of Actual Audit Days 28 was slightly more than the revised Plan Days 25 for the SBC Pension Fund. The range and breadth of Internal Audit work, which is listed below, is sufficient to inform the Internal Audit overall assurance opinion and conclusions on the adequacy of the SBC Pension Fund's overall control environment. There has been no impairment to the independence or objectivity of the Internal Audit function during the year.

Internal Control, Governance and Risk Management

- Assess the Pension Fund's corporate governance arrangements in place to deliver its objectives set out in its Business Plan. Use the Governance Policy and Compliance Statement as an integrated toolkit to test key elements to determine whether these are operating as described-
- Specific review of the Pension Fund's risk management arrangements, taking account of the refresh of the risk register and new risk management framework

Business plan improvements and developments

- Specific review of progress with the key tasks and actions within the Business Plan that are due to be completed during 2024/25 in alignment with Pension Fund's primary aim and underpinning objectives.
- Carry out independent validation of the actions undertaken each quarter to implement the agreed improvements within the Governance Review and Stewardship Code Action Plan

Administration Practices

- Review progress on implementation of further planned risk mitigation actions with reference to the Management assessment of effectiveness of existing controls associated with pension fund administration practices, including resources, segregation of duties, processes, data and information management, and assess compliance with the Pension Fund's Administration Strategy

Recommendations Follow Up Review

- Follow-up progress by Management with implementation of Audit Actions and areas of improvement by the agreed date recommended in 2023/24 audit assurance work and check on the adequacy of new internal controls

Advice and Consultancy

- As a 'critical friend' to Management, provide advice and internal challenge on projects involving major change and systems implementation

Attendance at Boards / Committees

- Prepare for and attend joint Committee / Board meetings and other relevant forums to observe planning, approval, monitoring and review activity of business and performance

Audit Planning for 2025/26

- Review strategic risks and audit universe, develop and consult on proposed coverage within the Internal Audit Annual Plan 2025/26 for the SBC Pension Fund.

Internal Control and Governance

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making.

The Pension Fund Committee is the main decision-making body, i.e. Scheme Manager, of the Fund and is comprised of seven Elected Members of Scottish Borders Council.

The Pension Board assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The Pension Board consists of four employer representatives and four employee Union representatives. The Scottish Borders Council employer representative on the Board is an Elected Member who is not a member of the Pension Fund Committee.

The Investment & Performance Sub-Committee develops investment strategy and monitors investment performance and consists of the Pension Fund Committee Members, and one employer and one employee representative from the Pension Board.

Joint meetings of the Pension Fund Committee and Pension Board were held in June, September, and December 2024, and March 2025. Internal Audit's observation of the joint meetings and review of the Minutes of meetings continues to indicate that strong leadership is in place, members are working together in a constructive way, and the Minutes support the scrutiny being undertaken and transparency of the decisions made. The Investment & Performance Sub-Committee meetings were held in September and October 2024, and February 2025. Meetings are dovetailed to ensure that relevant information is reported on a timely basis to the Pension Fund Committee.

Significant Member training has taken place during the year 2024/25, based upon identified needs.

During the year SBC's Pension Accounting & Investment Team and Pensions Administration Team continued to provide sound and resilient services to the Pension Fund, supporting the business of the Pension Fund Committee and Pension Board, including their learning and development.

In March 2024 the Pensions Regulator's General Code of Practice came into force and this has required changes, some of which are still to be put in place. Overall, based upon the action plans reviewed, Internal Audit considers that the SBC Pension Fund demonstrates a high degree of compliance with the General Code and is satisfied that action will be taken to ensure full compliance as soon as possible.

During the year the Pension Fund's application to renew the Financial Conduct Authority Stewardship Code approval was successfully achieved. The process is particularly arduous and to be successful at the first attempt is a significant accomplishment.

Internal Audit have made no recommendations in respect of Internal Control and Governance arrangements in this report.

Conclusion

The SBC Pension Fund generally operates under good public sector practice governance arrangements under the SBC Scheme of Administration, the SBC Pension Fund Governance Policy and Compliance Statement as well as through the joint meetings of the Committee and Board that support scrutiny and transparency of decisions made. SBC Pension Fund demonstrates a high degree of compliance with the new General Code and action is being taken to ensure full compliance.

Risk Management

Risk management is a process of identifying potential risks to the achievement of objectives in advance, analysing them and taking precautionary steps to mitigate those risks, thus managing the effect of uncertainty on objectives. Compliance with the principles of good governance requires the Joint Pension Fund Committee and Pension Board to adopt a coherent approach to the management of risks that it faces in the achievement of its strategic objectives.

A new standalone Risk Management Policy and Risk Management Strategy for the SBC Pension Fund were approved by the Pension Fund Committee in March 2024 which are led by SBC's Chief Officer Audit & Risk and facilitated in practice by SBC's Corporate Risk Officer.

The Risk Management Policy Statement defines risk and risk management, outlines the vision, and states the roles and responsibilities in managing the risks of the SBC Pension Fund. The Senior Officers (SBC) supporting the Pension Fund have the primary responsibility to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund. The Committee and Board, while the statutory roles and functions are separate, need to be assured that risks to the achievement the SBC Pension Fund's primary aim and underpinning objectives are being adequately managed, and be content that risk-based information is sufficient to support sound decision-making.

The 3-year Risk Management Strategy 2024-2026 outlines the approach that will be adopted to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund, in support of the Risk Management Policy Statement. It will enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process. The Risk Management Strategy is based upon the professional standards in the Management of Risk (MoR) Guide and CIPFA guidance "Managing Risk in the Local Government Pension Scheme". The strategy is underpinned by:

- A clear and widely understood structure to secure implementation
- A commitment to achievement
- Appropriate training arrangements
- Regular monitoring and reporting arrangements

The Risk Management Policy and Strategy will ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration.

The Pension Fund Risk Register clearly focuses on the most significant risks with updates provided to the Pension Fund Committee and Pension Board on a quarterly basis by SBC's Chief Officer Audit & Risk and Corporate Risk Officer, based on the risk review activity by SBC Officers as risk owners.

Internal Audit have made no recommendations in respect of risk management arrangements in this report.

Conclusion

Robust risk management arrangements are in place. The Pension Fund Risk Register provides clear focus on the most significant risks. The Risk Management Policy and Strategy for the SBC Pension Fund will ensure there is a relevant risk management framework in place aligned to the SBC Pension Fund's objectives, governance and administration.

Business plan improvements and developments

Business Planning is about the alignment to Pension Fund priorities and objectives, and ensuring that key tasks and actions identified within the plan are undertaken.

Having a Business Plan for the Pension Fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making.

Until September 2024 the Pension Fund had a Business Plan and Governance Plan/update tracker in place. A combined Business & Governance Plan was approved at a Special joint meeting of the Pension Fund Committee and Pension Board held in September 2024, and implemented for 2024/25 to provide updates on progress made on the Governance Action Plan and Business Action Plan.

It has been difficult for Internal Audit to fully assess the extent to which actions in the plan have been delivered as Business Plan performance references have been updated to reflect those of the Governance Action Plan. It is however clear that significant progress has been made.

It is expected that fully completed actions in 2024/25 will be presented to the Pension Fund Committee and Pension Board in June 2025 for performance and improvement monitoring purposes.

For 2025/26 there will be changes to the above approach. Following the introduction of the General Code and the General Code Compliance tracker it will be more effective to return to a separate Business Plan and the new General Code Compliance tracker. The Business Plan has been reformatted, and action references aligned with those defined by the Governance Plan.

The Pension Fund Business Plan 2025/26-2027/28 has an updated format and has been developed by SBC officers in Human Resources and Finance Service and structured to meet the specific needs of the Pension Fund.

Internal Audit have made no recommendations in respect of business planning arrangements in this report.

Conclusion

Comprehensive business planning arrangements are in place to demonstrate clarity of required developments and improvements. Processes have been modified to accommodate the introduction of the Pensions Regulator’s General Code of Practice.

Administration practices

Effective Administration practices are about providing a high-quality pension service to both members and employers and particularly to ensuring members receive their correct pension benefit entitlement.

SBC operates a fully hosted pensions administration system. The original contract was agreed in 2019 and in September 2024 a five-year extension to the contract was approved. The system is considered by officers involved with administration to be an essential administrative tool to support the provision of a high-quality administrative service for the Pension Fund, allowing the Fund to continue to address the complexity of legislative changes that had been added in recent years. The licence fee payable for the extension was competitive when compared with alternative systems.

Pension Fund administration operates under the auspices of the Pension Administration Strategy which was updated and approved in March 2024 to ensure it reflects the relevant practices to comply with regulatory requirements and good practice.

Annually in June, a performance report on pensions administration is presented to the joint meeting of the Pension Fund Committee and Pension Board. Within the Pension Fund annual report and accounts each year a section is devoted to administration matters including a statement of performance. The last published relating to 2023/24 demonstrated excellent outcomes when compared against expectations set out in Strategy. It is expected that the report on Pensions Administration Performance 2024/25 will be presented to the joint meeting of the Pension Fund Committee and Pension Board in June 2025 for performance monitoring purposes, and included in the Pension Fund Annual Report and Accounts 2024/25 (unaudited) which is expected to be presented at the same meeting. This ensures openness and transparency.

Annually a report is provided to Pensions Regulator on data quality and no issues have been identified. All HRSS staff including those in the Pensions Administration Team are fully trained in mandatory Information Management (Data Protection, GDPR) and fully compliant with an annual refresh required.

SBC's Corporate Risk Team, which provides risk management services to the Pension Fund, have not identified concerns about segregation of duties between establishing entitlement and putting that entitlement into payment.

Internal Audit have made no recommendations in respect of administration practices in this report.

Conclusion

Effective Administration practices are in place to providing a high-quality pension service to both members and employers and particularly to ensuring members receive their correct pension benefit entitlement.

5 *Follow up of Internal Audit Recommendations*

There were no formal recommendations made in the Internal Audit Annual Assurance Report 2023/24 for the SBC Pension Fund.

6 **Public Sector Internal Audit Standards (PSIAS)**

The External Quality Assessment 2020/21 and Annual Self-Assessment of practices against the professional standards PSIAS (2017) have indicated that the SBC Internal Audit function conforms with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, the Attribute Standards, and the Performance Standards. A readiness check for the new Global Internal Audit Standards in the UK Public Sector, to guide the professional practice of internal auditing, was initiated in advance of their effective date of 1 April 2025. To meet the new requirements, significant changes have been made to the format and content of the Internal Audit Charter and the Internal Audit Strategy 2025/26 which are applicable to the SBC Pension Fund for the provision of Internal Audit assurance services. Some further innovations relating to operational tools used by the SBC Internal Audit function to perform the audit engagements from 1 April 2025 will be implemented. The next EQA (due every 5 years) is likely to be deferred until 2026/27.