

# The Highland Council Pension Fund

2023/24 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

Prepared for the members of the Highland Council Pension Fund Committee and the  
Controller of Audit

December 2024

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# Key messages

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## 2023/24 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are unmodified.
- 2 The annual report and accounts of the Highland Council Pension Fund give a true and fair view of the state of affairs of the fund as at 31 March 2024 and have been properly prepared in accordance with the financial reporting framework.
- 3 Staff capacity issues within the pensions administration team present a risk to the timely completion of key functions.

## Financial management

- 4 The value of the fund's investments increased in value to £2,650 million, an increase of £260 million from 2022/23.
- 5 The fund has appropriate and effective financial management arrangements in place which includes reporting of investment performance.
- 6 The fund has appropriate financial control arrangements in place.

## Financial sustainability

- 7 The regular triennial pension valuation process took place in 2023/24, which estimated the fund has a 136% funding level.
- 8 Medium term financial planning arrangements are appropriate and effective.
- 9 Despite fund membership levels continuing to increase, cash flow from member activity was negative in 2023/24 due to the increasing number of pensioners as a proportion of the membership.

## Governance and resources

- 10 The fund has appropriate arrangements in place to support good governance and scrutiny of decision-making.
- 11 The performance of the administering authority has declined in 2023/24.
- 12 Investment performance continues to underperform against benchmarks.
- 13 Highland Council has appropriate arrangements in place for securing Best Value at the fund

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# Introduction

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**1.** This report summarises the findings from the 2023/24 annual audit of the Highland Council Pension Fund (the fund). The scope of the audit was set out in an Annual Audit Plan issued to the fund in June 2024. This Annual Audit Report comprises:

- significant matters arising from an audit of the Highland Council Pension Fund annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes
- conclusions on the administering authority's arrangements related to the pension fund for meeting its Best Value duties.

**2.** This report is addressed to the committee of the Highland 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.

## Responsibilities and reporting

**3.** As administering authority of the fund, Highland Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts for the pension fund that are in accordance with proper accounting practices. The Highland Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

**4.** The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

**5.** 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 of the administering authority from its responsibility to address the issues raised and to maintain adequate systems of control.

6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## **Auditor Independence**

7. 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. We experienced significant delays to receiving audit evidence which resulted in the redeployment of our staff and a delayed audit timetable. As a result, we have increased our audit fee by £5,260. Our final audit fee is £43,520. We are not aware of any relationships that could compromise our objectivity and independence.

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# 1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

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## Main judgements

Our audit opinions on the annual report and accounts are unmodified.

The annual report and accounts of the Highland Council Pension Fund give a true and fair view of the state of affairs of the fund as at 31 March 2024 and have been properly prepared in accordance with the financial reporting framework.

Staff capacity issues within the pensions administration team present a risk to timely completion of key functions.

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## Audit opinions on the annual report and accounts are unmodified

**8.** The Pensions Committee approved the annual report and accounts for the fund for the year ended 31 March 2024 on 6 December 2024.

**9.** As reported in the independent auditor's report, in our opinion:

- 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 consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Overall materiality was assessed as £53 million

**10.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

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

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## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£53 million
Performance materiality	£34.45 million
Reporting threshold	£2.65 million

**12.** The overall materiality threshold for the audit of the annual report and accounts of the fund was set with reference to net assets, which was judged as the figure most relevant to the users of the financial statements.

**13.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65% of overall materiality, reflecting our risk profile of the fund and that it is year two of our audit appointment.

**14.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

## Materiality was separately assessed for the Pension Fund Account

**15.** We assessed that benefits expenditure and contribution income could reasonably be expected to influence the economic decisions of users of the annual report and accounts, despite the comparatively small value of these areas in relation to overall materiality. In line with International Standards on Auditing (ISA) (UK) 320, we therefore set a specific materiality value for these areas based on benefits paid.

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## Exhibit 2

### Specific materiality values for Pension Fund Account transactions

Materiality level	Amount
Specific materiality	£7.7 million

Materiality level	Amount
Specific Performance materiality	£5.005 million

## Significant findings and key audit matters

**16.** Under ISA (UK) 260, we communicate significant findings from the audit to the administering authority, including our view about the qualitative aspects of the fund's accounting practices.

**17.** The Code of Audit Practice also requires us to highlight key audit matters within the annual audit report which are defined in ISA (UK) 701 as those matters judged to be of most significance. We have no significant findings issues to report from the audit of the financial statements, other than our experience of delays to receipt of information which we note in paragraph 18.

### Staff capacity issues within the pensions administration section present a risk to timely completion of key functions.

**18.** The draft accounts were provided by the 30 June in line with statutory requirements. We experienced a delay to the completion of our audit due to late receipt of documentation. Since the beginning of our appointment, we have noted to members that the pension administration and accounting staff were under significant pressure due to capacity issues, and responses to requests for audit evidence were delayed by several weeks due to competing priorities. A restructure of the pensions administration section was approved in February 2023, including plans to recruit additional staff. At the time of the audit, the Pension Fund Manager had been in post since May 2024 and further staff recruitment was underway to increase capacity in the Pensions Administration team. We continue to recommend that management ensures there is sufficient capacity in the pensions administration to support timely responses to audit requests.

### Our audit work responded to the risk of material misstatement we identified in the annual report and accounts

**19.** We have obtained audit assurances over the identified significant risk of material misstatement in the annual report and accounts. [Exhibit 4](#) sets out the significant risk of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over this risk and the conclusions from the work completed.

## Exhibit 4

### Significant risk of material misstatement in the annual accounts



Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Our detailed testing of journals at the year-end and post-closing entries did not identify any issues or errors.</li> <li>• Our review of accounting estimates did not identify any issues or errors.</li> <li>• No significant transactions outside the course of business were identified.</li> <li>• Detailed testing of income and expenditure, accruals and cut off transactions found no significant issues or errors.</li> </ul> <p><b>Conclusion:</b> We did not identify any instances of management override of controls.</p>

**20.** In addition, we identified “areas of audit focus” in our 2023/24 Annual Audit Plan, where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Valuation of level 2 and level 3 investments:** There is a significant degree of subjectivity in the measurement of these investments. We assessed the fund's valuation process and how it obtains assurances over investment values. We confirmed the fund's valuations to appropriate supporting documentation, including observable market data and reports from the fund's investment managers, for significant investments which are subject to a high degree of estimation. No issues or errors were identified as a result of this work.
- **Actuarial valuation of future retirement benefits:** 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. We reviewed the actuarial assumptions adopted and found that they are appropriate and reasonable. There are no matters which we need to bring to your attention.

## **Reasonable progress was made on prior year recommendations**

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

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## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

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### Conclusions

The value of the fund's investments increased in value to £2,650 million, an increase of £260 million from 2022/23.

The fund has appropriate and effective financial management arrangements in place which includes reporting of investment performance.

The fund has appropriate financial control arrangements in place.

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### The value of the fund's investments increased in value to £2,650 million, an increase of £260 million from 2022/23

**22.** For the year to 31 March 2024, the fund returned 10.93% (2022/23: -2.8%) on its investments, underperforming the combined fund benchmark of 13.59% (2022/23: -1.7%). The fund reported that the increase in return from 2022/23 was largely due to the improved performance of the investment markets. In particular, the significant increases seen in the values of the equity market in the last quarter of 2023/24. Overall, the fund's total investments increased in value from £2,390 million to £2,650 million at the end of 2023/24.

**23.** Other factors which impacted on the fund's performance during 2023/24 included a below benchmark performance of private equity. The fund report this as being the main detractor from relative performance versus the aggregate benchmark over the period.

**24.** The fund's performance in 2023/24 is summarised in [Exhibit 6](#). The fund's net assets increased from £2,406 million at 31 March 2023 to £2,659 million at 31 March 2024. When considering the investment performance of the fund during 2023/24, it is important to recognise the impact of world events on financial markets and investments.

## Exhibit 6 Assets, funding level and investment performance

Net assets	Funding level	Investment performance
<b>£2,659 million</b>	<b>136%</b>	<b>6.3%</b>
Closing net assets as at 31 March 2024 (+10.53%)	As at 31 March 2024 (based on results of 2023 triennial valuation)	Average annual return on investments over 5 years
<b>£2,406 million</b>	<b>121%</b>	<b>10.9%</b>
Opening net assets at 1 April 2023	Net assets vs promised retirement benefits at 31 March 2024	Return on investments 2023/24

Source: 2023/24 Highland Council Pension Fund annual report and accounts

**25.** The promised retirement benefits at 31 March 2024 have been estimated by the fund's actuary at £2,201 million (31 March 2023: £1,971 million), showing a 11.67% increase. This estimate uses assumptions in line with Internal Accounting Standards (IAS) 19 requirements for the purposes of the fund's financial statements. It is not directly comparable to the liability measured on a funding basis.

### The costs per member of the fund increased in 2023/24

**26.** The total cost per member increased from £396.40 in 2022/23 to £427.34 in 2023/24. The fund reports that this is mainly due to an increase in management fees. Management fees for 2023/24 were £13.202 million, an increase of £2.363 million. Management fees correlate to the market value of the funds. As global equities performance increased during the year, the management fee increased accordingly.

**27.** The administration cost per member also increased from £36.05 in 2022/23 to £42.76 in 2023/24. This increase was due to investment in new technology to improve customer service and streamline processes.

### The fund has appropriate and effective financial management arrangements in place which includes reporting of investment performance

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

**29.** The Pensions Committee receives administration reports at its twice-yearly meetings. These reports contain monitoring of costs and performance against budgets and other matters relevant to the administration of the fund. From our

attendance at the Pensions Committee, we observed and concluded that reports presented to members are subject to appropriate review and scrutiny.

**30.** The Investment Sub-Committee receives monitoring of investment performance reports at its quarterly meetings. The committee scrutinises fund performance trends, investment manager performance against benchmarks and movements in asset allocations.

**31.** Overall, we have concluded that the fund has appropriate and effective financial management arrangements in place, including comprehensive reporting of investment performance.

### **The fund has appropriate financial control arrangements in place**

**32.** We carried out a review of the design and implementation of systems of internal control relevant to our audit approach, and testing the operating effectiveness of specific controls. We did not identify any internal control weaknesses which could affect the fund's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

**33.** In 2022/23, we recommended that the fund undertake year-end reconciliations between the general ledger and the Altair/payroll systems. These have been implemented by the fund and are content that the control environment is sufficient to detect and prevent material misstatements.

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

**34.** In the public sector there are specific fraud risks, including those relating to pension claimants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption.

**35.** The fund has adequate arrangements in place to prevent and detect fraud or other irregularities.

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# 3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

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## Conclusions

The regular triennial pension valuation process took place in 2023/24, which estimated the fund has a 136% funding level.

Medium term financial planning arrangements are appropriate and effective.

Despite fund membership levels continuing to increase, cash flow from member activity was negative in 2023/24 due to the increasing number of pensioners as a proportion of the membership

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## The regular triennial pension valuation process took place in 2023/24, which estimated the fund has a 136% funding level

**36.** There is a statutory requirement for local government pension funds to undertake a full actuarial valuation of assets and liabilities every three years. This is referred to as a triennial valuation.

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

**38.** The results of the 2023 full triennial valuation of the fund showed a funding level of 136%, an improvement from the 2020 level of 100%. The fund reported that the improved position is due to better-than-expected investment returns and higher assumed future investment returns. Both have more than offset the increase in short to medium-term inflation expectations.

## Medium-term financial planning arrangements are appropriate and effective

**39.** There is ongoing volatility and uncertainty in the global economy and investment markets. This could have significant financial implications for the fund and employers.

**40.** As a result of the 2023 Actuarial Valuation, changes were made to the fund's strategic asset allocation, as set out in the fund's Statement of Investment Principles. These changes included investing surplus assets of 25% of the fund into index linked gilts, global corporate bonds and asset backed securities. The purpose of the changes is to secure the fund's surplus (£633 million) from the 2023 Actuarial Valuation and manage equity and inflation risks.

**41.** The fund's actuary reports that the likelihood of the fund's investment strategy achieving the required return is 93% (compared to 75% at 2020).

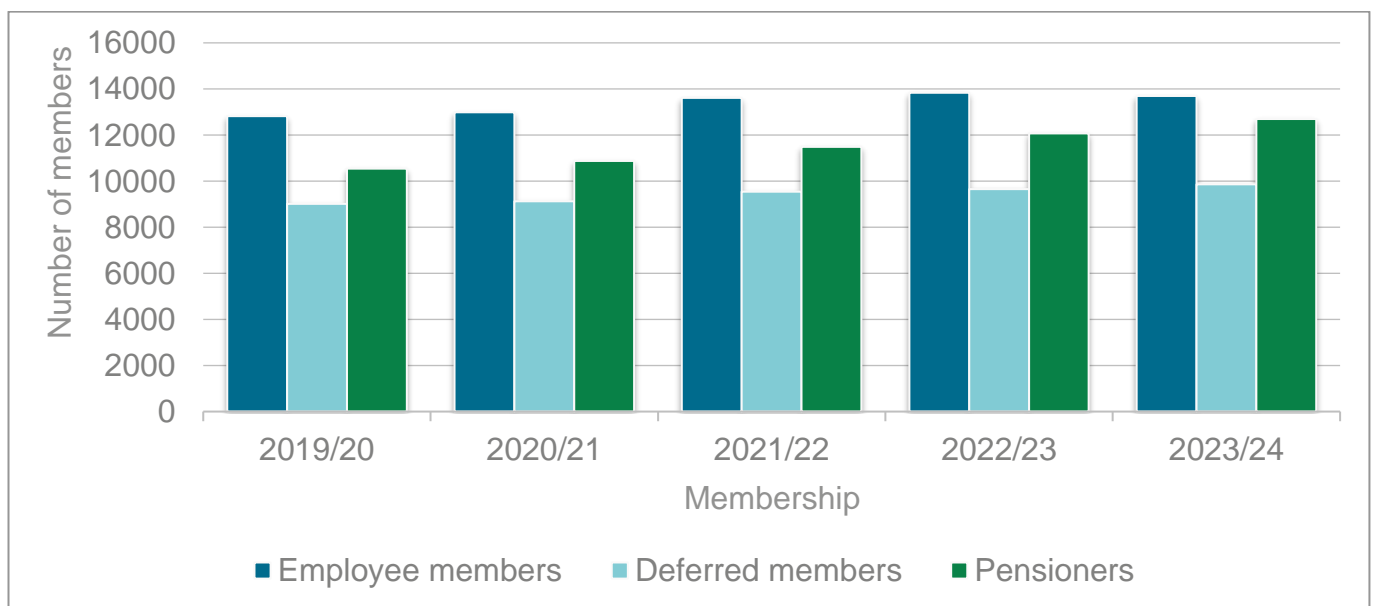
**42.** By having a comprehensive Statement of Investment Principles, Funding Strategy Statement and by continually monitoring the fund's performance, the fund is managing risk and planning effectively so that it can continue to deliver services.

### Despite fund membership levels continuing to increase, cash flow from member activity was negative in 2023/24

**43.** The fund is a multi-employer fund with two local authorities and 23 other employers. The current membership profile is shown at [Exhibit 8](#).

**44.** 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 8 Highland Council Pension Fund membership



Source: Highland Council Pension Fund 2023/24 audited financial statements

**45.** Overall membership of the fund increased by 692 to 36,243 members at 31 March 2024, an increase in membership of 1.9%. In 2023/24, the number of pensioners receiving a pension from Highland Council Pension Fund increased by 625 and the number of pensioner members continues to increase steadily each year.

**46.** Cash flows from dealings with members were negative in 2023/24, 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.

**47.** Since 2017/18, for four of the seven years the fund experienced a negative cash flow from dealings with members. The fund reports that this reflects the increasing maturity of the fund with increased numbers of deferred and pensioner members compared to active members.

**48.** In its Annual Report and Accounts, the fund confirmed that despite the negative cash flow of £4.071 million, there had been no requirement to disinvest any assets as cash required had been readily available from fund managers.

### Total employer's pension contributions increased in 2023/24

**49.** Following the triennial valuation in 2023, the actuary agreed employer contribution rates with individual employers from 1 April 2024. The employer primary contribution rate will reduce from 21.2% at the 2020 valuation to 17.8% at the 2023 valuation.

**50.** For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates. For a small number of employers, these rates include an element of deficit recovery contributions to support employers financial planning.

**51.** In 2023/24, the employer's pension contributions were £57,675 million, an increase of £4.233 million from 2022/23. The split of all contributions received in year is set out at [Exhibit 9](#).

## Exhibit 9

### Contributions in 2023/24

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Total £m
<b>Employer contributions</b>	32.577	13.758	9.987	56.322
<b>Employee contributions</b>	10.084	4.354	3.118	17.556
<b>Strain Contributions</b>	0.017	0.070	0.568	0.655



<b>Deficit Recovery Contributions</b>	0	0	0.478	0.478
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Source: Highland Council Pension Fund 2023/24 audited financial statements

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# 4. Governance and resources

Public sector bodies must have a clear strategy and priorities. They need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners.

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## Conclusions

The fund has appropriate arrangements in place to support good governance and scrutiny of decision-making.

The performance of the administering authority has declined in 2023/24.

Investment performance continues to underperform against benchmarks.

Highland Council has appropriate arrangements in place for securing Best Value at the fund

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## The fund has appropriate arrangements in place to support good governance and scrutiny of decision-making

**52.** The Highland Council, as administering authority of the fund, has delegated all pension scheme matters to the Pensions Committee. In addition, the Investment Sub-Committee is in place to enhance the fund's management and investment of the assets of the fund in accordance with its objectives and strategies.

**53.** The Pensions Committee's specific functions include setting the fund's objectives and ensuring that appropriate strategies, policies and procedures are put in place to achieve these objectives. The Investment Sub-Committee exercise the delegated powers and duties of the Pensions Committee in relation to the management and investment of the fund's assets.

**54.** There is also the Pensions Board, which meets with the Pensions Committee at the same time to consider the same agenda. The local Pension Board was established to assist the Scheme Manager (The Highland Council) to comply with the rules relating to scheme governance and administration and complying with the requirements set out by The Pensions Regulator.

**55.** The fund's governance arrangements have been set out in the Annual Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

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

**56.** 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.

**57.** The fund presents the governance policy and training policy for approval to the Pensions Committee annually. It also provides regular training sessions to all members, including key training resources such as the Pensions Regulator online training. The fund also has a risk register that is updated regularly and reported to the Pensions Committee.

## Performance reporting was in line with required regulations

**58.** The Management Commentary included in the annual report and 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.

**59.** Our review of the Management Commentary found that it was compliant with the Code of Practice on Local Authority Accounting in the UK and the requirements set out in the Local Government Pension Scheme regulations.

## The performance of the administering authority has declined in 2023/24

**60.** The administering authority has seven standards that they report their performance against. When compared to 2022/23, the 2023/24 performance decreased across each of the seven standards. This performance is in the context of increasing volumes of cases to process and other factors outlined below.

**61.** Five of the seven standards' performance were below 30%. Whilst the volume of cases has increased for three of the standards, four have seen decreased volumes. For example, the 'estimate of benefits' standard to issue within 10 days of request performance dropped by 16 percentage points from 2022/23. This is against an increase of 181 cases, a 13% increase (2022/23: 1,385 cases, 2023/24: 1,566 cases).

**62.** However, the standard to issue a statutory notice to new entrants within 14 days of receipt of a new start notice saw a decrease in cases and a decrease in performance. The number of cases decreased by 811 (25%) from 3,233 in 2022/23 to 2,422 in 2023/24. The percentage of cases that met this standard dropped from 29% to 12%. This indicator is dependent on receiving timely information from employers on new starts.

**63.** Management has reported that under-performance against the standards is caused by a number of factors which have impacted on staffing capacity, including:

- McCloud regulations were introduced in October 2023 which increased the complexity of calculating member benefits and other processes and time taken to complete tasks.
- Transfers of pension rights out with Fund – regulations require members to obtain advice before transferring out to other arrangements, which often contributes to delays.
- The volume of retirements and deaths increased in 2023/24 by 7% and 33% respectively (390 deaths in 23/24 compared to 292 in 22/23).

**64.** We are aware that progress has been made toward implementing the restructure of the pensions administration team that was approved in February 2023. Our prior year recommendation remains outstanding, and it is important that all steps are taken to improve staffing capacity. At the time of the audit, the implementation of the staff restructure was ongoing with the Pension Fund Manager in post since May 2024 and further staff recruitment planned to increase capacity in the Pensions Administration team. For more information on our original recommendation, please see Appendix 1, [prior year recommendation 1](#).

## **Investment performance continues to underperform against benchmarks**

**65.** Investment Management of the fund's assets is undertaken by external fund managers and overseen by the Pensions Accounting team with the support of the fund's Investment Adviser.

**66.** The fund appoints 12 external fund managers. Individual fund manager performance is reviewed regularly by the Investment Sub Committee and the Pensions Accounting team also carries out annual diligence reviews for each appointed fund manager.

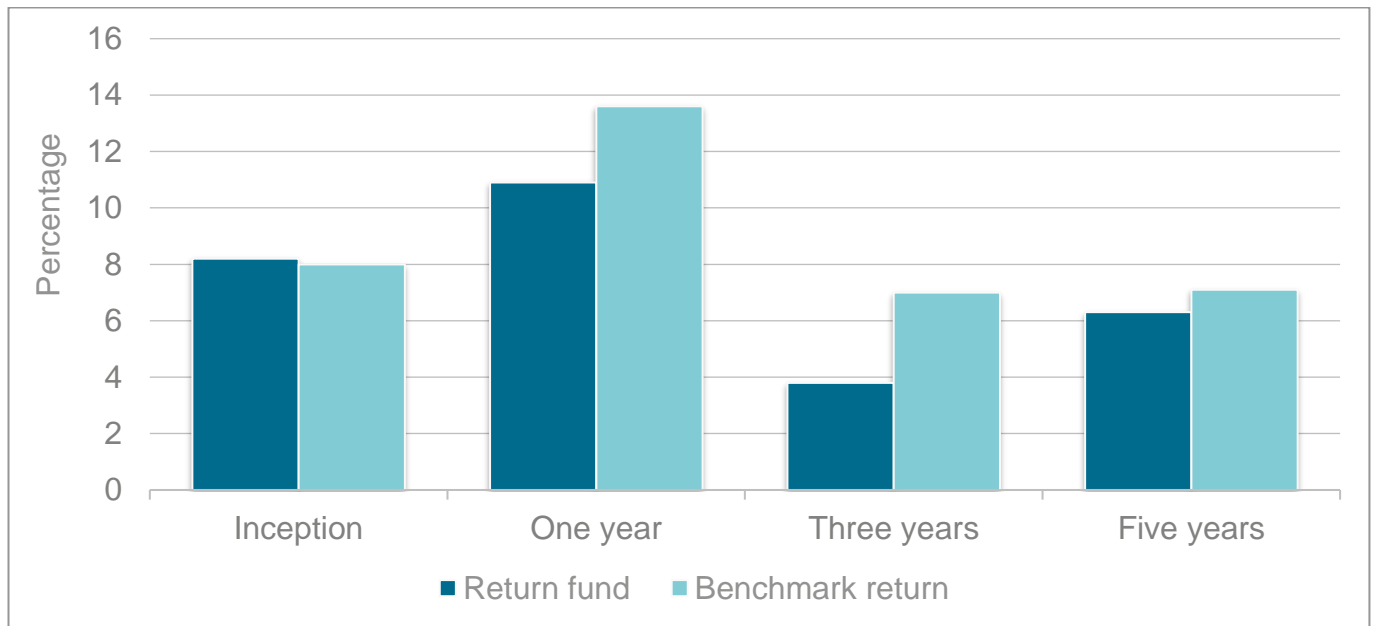
**67.** Financial markets have remained volatile. Despite positive returns against some asset classes, overall performance was below the benchmark, although it is noted that the fund is a long-term investor and performance needs considered in context of longer-term returns.

**68.** [Exhibit 12](#) shows that over the year, the fund generated a return of 10.9% against a benchmark of 13.6%. The fund reported in its Annual Report and Accounts, that the main detractor for the underperformance in year was private equity. Over the medium term, the fund has underperformed against its three and five-years benchmarks. However, there is a positive performance since inception (8.2% compared to 8.0%).

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## **Exhibit 12**

### **Fund investment performance**



Source: Highland Council Pension Fund 2023/24 audited financial statements

### Highland Council has appropriate arrangements in place for securing Best Value at the fund

**69.** The administering authority (Highland Council) has responsibility for the ensuring that its business, including that of the fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value, which are subject to audit.

**70.** The outcome of audit work on the administering authority's Best Value arrangements is reported in the Highland Council's Annual Audit Report. In 2023/24, a Best Value review of Workforce Innovation was undertaken for the Highland Council. There were no findings that are directly applicable to the fund.

# Appendix 1: Action plan 2023/24

## Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed actions	Progress
<p><b>1. Staffing Capacity (re-raised for 2023/24)</b></p> <p>During the course of our audit, pension administration and accounting staff were under significant pressure due to capacity issues, and responses to requests for audit evidence were delayed by due to competing priorities.</p> <p><b>There is a risk that key financial and administrative functions are not being carried out timely.</b></p>	<p><b>Recommendation</b></p> <p>Management should ensure the fund has sufficient staffing capacity to support external audit requests.</p>	<p><b>Agreed Action</b></p> <p>The Pension Manager and Principal Accountant are now in post. In the Pensions Administration team, there were successful recruitment exercises completed in May and July 2024, following which the Systems team is fully staffed with appointments made to the majority of posts in the Benefits team and the Transfers and Aggregations team.</p> <p>In the Pensions Administration team is estimated that it will take approximately 6-12 months for staff to be fully trained and achieve full competency and for backlogs to reduce.</p> <p><b>Chief Officer, Finance</b></p> <p><b>Target date: 30 June 2025</b></p>
<p><b>2. Year-end reconciliations</b></p> <p>Year-end cumulative reconciliations between financial and data systems provide assurance that the information contained within the financial ledger is complete and accurate. We were unable to obtain a year-end reconciliation for the pensions administration</p>	<p><b>Recommendation</b></p> <p>A year-end reconciliation between the general ledger and the Altair/payroll systems, which is signed and dated, should take place to provide assurance the data in each system is complete and accurate.</p> <p><b>Agreed Action</b></p>	<p><b>Implemented</b></p>

Issue/risk	Recommendation and Agreed actions	Progress
<p>(Altair) and payroll systems which was signed and dated.</p> <p><b>There is a risk that errors in the financial ledger are not quickly identified and rectified.</b></p>	<p>As part of the year end processes, the year-end reconciliation between the general ledger and the Altair and payroll system will include all supporting reports and be signed and dated.</p> <p><b>Head of Corporate Finance June 2024</b></p>	
<p><b>3. Member attendance at committee and training events</b></p> <p>Members of the pensions board and committees should ensure meetings are quorate, and attend scheduled training to build their knowledge in this complex area and provide them with essential skills for effective scrutiny.</p> <p><b>There is a risk that members of the pensions committees are not effective in discharging their responsibilities for scrutiny of the fund.</b></p>	<p><b>Recommendation</b></p> <p>We encourage Highland Council, as the administering authority, to encourage members to attend meetings and training events.</p> <p><b>Agreed Action</b></p> <p>The Valuation training held on 24 January 2024, was well attended with 13 Pensions Committee and Pensions Board members attending. Recordings of training events are circulated to members so those unable to attend live can benefit from the training. Highland Council as the administering authority will take the following action:</p> <ul style="list-style-type: none"> <li>• Continue to circulate recordings of training events.</li> <li>• Continue to provide a Training Plan to members on an annual basis.</li> <li>• Identify any Members not attending training and contact them to discuss training requirements.</li> </ul> <p><b>Head of Corporate Finance December 2024</b></p>	<p><b>Implemented</b></p>

# The Highland Council Pension Fund

## 2023/24 Annual Audit Report – DRAFT

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