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To: Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Allard, Alphonse, Bonsell, Cross, Davidson, Henrickson, Massey and McRae, and two Labour Group vacancies, and one Independent vacancy (Pensions Committee); and Mr I Hodgson, Chairperson; Mrs M Lawrence, Vice-Chairperson; Councillors Leadbitter, Mennie and Smith; and Mr N Stirling, Mr A Walker and Mr G Walters (Pension Board).

Town House,
ABERDEEN, 16 March 2023

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in the **Council Chamber - Town House on FRIDAY, 24 MARCH 2023 at 10.00am**. This is a hybrid meeting and Members may also attend remotely.

The meeting will be webcast and a live stream can be viewed on the Council's website. <https://aberdeen.public-i.tv/core/portal/home>

JENNI LAWSON
INTERIM CHIEF OFFICER - GOVERNANCE

B U S I N E S S

NOTIFICATION OF URGENT BUSINESS

1.1. There are no items of urgent business at this time

DETERMINATION OF EXEMPT BUSINESS

2.1. Members are requested to determine that any exempt business be considered with the press and public excluded

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

3.1. Members are requested to intimate any declarations of interest

DEPUTATIONS

- 4.1. There are no deputations at this time

MINUTES OF PREVIOUS MEETINGS

- 5.1. Minute of Previous Meeting of 16 December 2022 (Pages 5 - 10)

COMMITTEE BUSINESS PLANNER

- 6.1. Business Planner (Pages 11 - 12)

NOTICES OF MOTION

- 7.1. There are currently no motions to the Pensions Committee

INTERNAL AND EXTERNAL AUDIT

- 8.1. Internal Audit Plan 2023-2026 - IA/22/04 (Pages 13 - 22)
- 8.2. Internal Audit Update Report - IA/22/003 (Pages 23 - 32)
- 8.3. Internal Audit Report AC2309 - Pension Fund Governance Arrangements - IA/AC2309 (Pages 33 - 48)
- 8.4. Statement of Accounts Action Plan - PC/MAR23/ACCOUNTS (Pages 49 - 56)
- 8.5. External Audit - NESPF 2022-23 Annual Audit Plan (Pages 57 - 74)

BUDGET

- 9.1. Budget Forecast 2022/2023 - PC/MAR23/BUD (Pages 75 - 88)

LEGAL OBLIGATIONS

- 10.1. Review of NESPF Compliance with the Public Service Pensions Act 2013 (PSPA 2013) & Pension Regulator Requirements - PC/MAR23/GOV (Pages 89 - 100)

SCRUTINY

11.1. Strategy - PC/MAR23/STRAT (Pages 101 - 136)

EXEMPT BUSINESS - NOT FOR PUBLICATION

12.1. Asset and Investment Manager Performance - PC/MARCH23/AIMPR
(Pages 137 - 180)

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 16 December 2022. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Allard, Alphonse, Bonsell, Davidson, Henrickson and McRae (Pensions Committee); and Mrs M Lawrence, Vice Chairperson; Councillors Leadbitter, Mennie and Smith; and Mr N Stirling, Mr A Walker and Mr G Walters (Pension Board).

Also in attendance:- Jonathan Belford, Chief Officer – Finance; Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; and Rachel Browne and Colin Morrison, Audit Scotland.

The agenda and reports associated with this minute can be found [here](#).

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

WELCOME

1. The Convener welcomed Councillor Bonsell to her first meeting of the Committee and also welcomed Councillor Allard, noting that this was his first meeting but that he had previously been a member of the Committee in the last Council term.

DETERMINATION OF EXEMPT BUSINESS

2. The Committee was requested to determine that the following item of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – Items 11.1 (Investment Strategy Update) and 11.2 (Asset and Investment Manager Performance Report).

The Committee resolved:-

in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of the above-mentioned items so as to avoid disclosure of exempt information of the class described in paragraphs 6 and 12 (Item 11.1) and paragraph 6 (Item 11.2).

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

3. There were no declarations of interest nor transparency statements made.

MINUTE OF PREVIOUS MEETING OF 5 OCTOBER 2022

4. The Committee had before it the minute of its previous meeting of 5 October 2022 for approval.

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The Committee resolved:-

to approve the minute as a correct record.

BUSINESS PLANNER

5. The Committee had before it the committee business planner, as prepared by the Interim Chief Officer – Governance.

The Committee resolved:-

- (i) to note the reason set out in the planner for the delay to item 8 (Pensions Committee Annual Effectiveness Report) and that the report would now be presented to the September 2023 meeting; and
- (ii) to otherwise note the planner.

EXTERNAL AUDIT ANNUAL AUDIT REPORT 2021/22

6. The Committee had before it a report by the External Auditor on the 2021/2022 Annual Audit of the North East Scotland Pension Fund. The report noted that auditors were required to report on specific matters arising from the audit of the financial statements to those charged with governance of a body, prior to the financial statements being approved and certified. The report advised that the financial statements gave a true and fair view of the financial position of the North East Scotland Pension Funds at 31 March 2022 and the transactions for 2021/22.

In the opinion of External Audit:-

- the information given in the Management Commentary for the financial year for which the financial statements were prepared was consistent with the financial statements and the report had been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements were prepared was consistent with the financial statements and the report had been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements were prepared was consistent with the financial statements and the report had been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

The audit further noted that although Fund performance levels in 2021/22 were below the annual target, due to the impact of Covid-19 and other world events, the Fund had appropriate and effective financial management arrangements in place which included

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comprehensive reporting of investment performance. Medium-term financial planning arrangements were considered to be appropriate and effective.

The audit concluded that governance arrangements were appropriate and operated effectively during 2021/22, however the External Auditor noted that there had been several membership changes in the Pensions Committee during 2022 and considered that this reinforced the need for member engagement with robust training and development.

The Committee heard in detail from Ms Browne in respect of the report. Ms Browne concluded by advising that External Audit wished to record their thanks for staff for the support received during the audit and their time as External Auditor for the Committee.

Members asked a number of questions of Ms Browne and officers.

The Committee resolved:-
to note the report.

**CONSIDERATION AND SIGNING OF AUDITED ANNUAL REPORT AND ACCOUNTS
- PC/DEC22/ARA**

7. The Committee had before it a report by the Director of Resources which presented the Audited Annual Report and Accounts for the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) for consideration and signing.

The Committee heard from Mr Belford in respect of the report. Mr Belford stated that he wished to record his thanks to the NESPF team and to External Audit for the work undertaken in the production of the annual report and accounts.

Members asked a number of questions of officers in respect of the report.

The report recommended:-
that the Committee –

- (a) consider and approve the Audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund; and
- (b) instruct the Chief Officer – Finance, as the Local Government (Scotland) Act 1973 – Section 95 Officer, to sign the accounts on behalf of the Funds.

The Committee resolved:-

- (i) to thank staff for the work in preparing the annual report and accounts;
- (ii) to note that the annual training report contained high level information on upcoming training, but to request that officers provide further detail where possible to set out the programme for Member training for the year;

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- (iii) to note that officers would work to develop a programme to address where further training might be helpful to Members, with the possible inclusion of personal development plans;
- (iv) to request that officers give consideration to providing training on environment, social and governance matters to Members; and
- (vv) to approve the recommendations.

BUDGET/FORECAST AND PROJECTED SPEND 2022/2023 - PC/DEC22/BUD

8. The Committee had before it a report by the Director of Resources which provided details of the Management Expenses Budget/Forecast and Projected Spend 2022/23 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that the Committee approve the NESPF Management Expenses Budget/Forecast 2022/23 and Projected Spend, shown in Appendix 1 to the report.

The Committee resolved:-

- (i) to note that officers would bring a report to a future meeting of the Committee in respect of employer exits from the Fund and the circumstances surrounding these;
- (ii) to note that officers would facilitate a separate discussion with the Committee and Board in respect of whether there was a role for Members in supporting the Employer Relations Team to help employers to remain with the Fund; and
- (iii) to approve the recommendation.

STRATEGY - PC/DEC22/STRAT

9. The Committee had before it a report by the Director of Resources which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

The report provided a final update on the issuing of the annual benefit statements, noting that the project had now been successfully completed; a reminder about the training available to Members on the Hymans Learning Academy; information on documents which had been updated as part of the annual governance review process, namely the Conflicts of Interest Policy (minor changes to improve readability) and the Breaches of Law Policy (very minor changes to improve readability); and included a request for approval for officer travel overseas to various Advisory Committees.

The report recommended:-

that the Committee –

- (a) note the final outcome of the annual benefit statement project, which was completed successfully, for assurance (6.2 of the main report);
- (b) note the updates to the Fund Policy documents as set out in 6.4;

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- (c) approve the travel for one Advisory Committee Officer (Pension Fund Manager or suitable Officer substitute) to attend the following Advisory Committee (as per item 6.5):
- RCP, June 2023, Chicago
 - Unigestion, June 2023, Milan Italy
 - HarbourVest, December 2023, Boston; and
- (d) delegate authority to the Chief Officer – Finance, following consultation with the Convener of the Pensions Committee, to approve travel for one Advisory Committee Officer (Pension Fund Manager or Suitable Officer Substitute) to attend the following Advisory Committee meetings once locations and times had been confirmed:
- Partners Group, March 2023, location to be confirmed
 - Blackrock, April 2023, location to be confirmed
 - IFM, date and location to be confirmed
 - Blackrock, date and location to be confirmed

The Committee resolved:-

to approve the recommendations.

PENSIONS ADMINISTRATION STRATEGY - PC/DEC/PAS

10. The Committee had before it a report by the Director of Resources which presented the draft Pensions Administration Strategy (PAS) for approval. The report advised that the PAS had been last approved in 2017 and therefore had been reviewed to bring it in line with current processes and requirements.

The report noted that the underlying objectives of the PAS were as follows:

- To provide high quality pension service delivery
- Paying pensions and calculating benefits due accurately and on time
- Good working relationships between the North East Scotland Pension Fund (NESPF) and its participating employers
- Delivery of the Local Government Pension Scheme (LGPS) requirements in line with the scheme regulations and compliance around the Codes of Practice put in place around service delivery and service standards.

The draft PAS set out how these objectives would be achieved with the Fund and the employers working together.

The report recommended:-

that the Committee approve the draft NESPF Pension Administration Strategy 2022 as attached at Appendix 1.

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The Committee resolved:-

to approve the recommendation.

In accordance with the decision taken under article 2, the following item was considered with the press and public excluded.

INVESTMENT STRATEGY UPDATE - PC/DEC22/INVSTRAT

11. The Committee had before it a report by the Director of Resources which provided a review of the investment re-balancing activity for the North East Scotland Pension Fund (NESPF) for the three month period ending 30 September 2022. The report also provided an update the Under Armour Class Action.

Members heard from Mr Buntain in respect of the report and asked a number of questions.

The report recommended:-

that the Committee note the contents of the report for assurance.

The Committee resolved:-

to note the report.

**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/DEC22/AIMPR**

12. The Committee had before it a report by the Director of Resources which provided a review of the investment activity of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 30 September 2022.

Members heard from Mr Buntain in respect of the report and asked a number of questions.

The report recommended:-

that the Committee note the content of the reports for assurance.

The Committee resolved:-

- (i) to request that officers investigate whether it would be possible to use the graphics in future reports to outline the NESPF voting patterns at the Local Authority Pension Fund Forum, as well as any effect of the LAPFF on environmental, social and governance matters; and
- (ii) to note the report.

- **COUNCILLOR JOHN COOKE, Convener**

	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	24 March 2023								
4	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
5	Pensions Committee - Internal Audit Update Report	To provide an update on Internal Audit's work since the last update to Committee		Jamie Dale	Internal Audit	Internal Audit	2.2		
6	Pension Fund Governance Arrangements	To present the planned Internal Audit report on Pension Fund Governance Arrangements.		Jamie Dale	Internal Audit	Internal Audit	2.2		
7	Internal Audit Plan 2023-2026	To seek approval of the attached Internal Audit plan for 2023-26		Jamie Dale	Internal Audit	Internal Audit	2.2		
8	External Audit Annual Plan 2023/24	To present the annual plan			External Audit	External Audit	2.1		
9	Review of NESPF Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements	To provide a review of compliance for 2022/23		Mairi Suttie	Finance	Resources	4.1 and 4.2		
10	Statement of Accounts Action Plan	To provide Elected Members with high level information and key dates to the 2022/23 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors		Laura Colliss	Finance	Resources	3.1		
11	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
12	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
13	23 June 2023								
14	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
15	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
16	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
17	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
18	15 September 2023								
19	NESPF Annual Report & Accounts	To present the audited annual accounts		Laura Colliss	Finance	Resources	3.1		

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
20	NESPF Annual Audit Report and Covering Letter	To present the External Audit annual audit report			External Audit	External Audit	2.1		
21	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Resources	GD 8.5		
22	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
23	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
24	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
25	15 December 2023								
26	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
27	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
28	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
29	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 March 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Plan 2023-26
REPORT NUMBER	IA/23/002
DIRECTOR	N/A
CHIEF OFFICER	Jamie Dale Chief Internal Auditor
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek approval of the attached Internal Audit plan for 2023-26

2. RECOMMENDATION

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2023-26.

3. CURRENT SITUATION

- 3.1 It is one of the functions of the Pensions Committee to approve the Internal Audit plan relating to the North East of Scotland Pension Fund.
- 3.2 The audits included in the attached plan, as well as those in previous and future plans, will help familiarise Internal Audit with the Pension Fund's control environment and governance arrangements, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider. Where appropriate, Internal Audit will obtain assurance from other sources, for example external audit, based on their work and reported outcomes.
- 3.3 Internal Audit's work will be undertaken in compliance with Public Sector Internal Audit Standards and Aberdeen City Council's Internal Audit Charter as approved by the Audit, Risk and Scrutiny Committee.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. RISK

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. The purpose of this report is to seek approval for the Internal Audit plan.

7. OUTCOMES

7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to consider Internal Audit's annual report. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

9.1 There are no relevant background papers related directly to this report.

10. APPENDICES

10.1 Appendix A – North East Scotland Pension Fund - Internal Audit Plan - 2023-26

11. REPORT AUTHOR DETAILS

Jamie Dale, Chief Internal Auditor
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Internal Audit

North East Scotland Pension Fund Internal Audit Plan 2023-26

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1 Executive Summary

1.1 Introduction and background

Internal Audit's primary role is to provide independent and objective assurance on the Fund's risk management, control, and governance processes. This requires a continuous rolling review and appraisal of the internal controls of the Fund involving the examination and evaluation of the adequacy of systems of risk management, control, and governance.

The purpose of this report is to seek approval of the attached Internal Audit plan for 2023-2026.

All audits included in the attached plan, as well as those in future plans, will help inform Internal Audit's opinion on the adequacy and effectiveness of the Fund's framework of governance, risk management and control, which is expressed in an annual report, and provides assurance to the Pensions Committee. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for Management to consider.

1.2 Management commentary

Management welcomes this risk-based Internal Audit Plan, setting our internal audit activities over a three-year period. It is likely that, during this period, the political landscape, risk environment and financial backdrop will continue to develop. The Committee will welcome the opportunity to revisit the Plan annually to ensure that it reflects our risk appetite and delivers the required assurance on the priority areas for the Council.

The incorporation of wider assurance audits is also welcomed and management will work with Internal Audit to refine the developing approach to these, within the overarching purpose of adding value in these areas of work.

Internal Audit continue to prioritise engagement with management on audit scoping, fieldwork, and the finalising and closing off of audit recommendations. We have every expectation that the three-year audit plan will continue this approach.

2 Internal Audit Plan

2.1 Plan development

In previous years a single-year Plan has been set out for the Committee's approval. This provided clarity over planned work during each financial year, as changes in the risk environment were often less pronounced over a shorter period. However, this provided less opportunity for the Committee to gain an understanding of the wider context or 'audit universe'. In addition, the Plan was regularly not concluded in full during the financial year to which it originally referred – due to changes in priority, risks, and resources.

There was therefore scope to develop and extend planning to provide a clearer picture of Internal Audit's work and priorities, and to provide flexibility in timing of elements of that work, over an extended period. Therefore, from 2022, the Committee approved a rolling three year plan, with the recognition that this would still be assessed each year and updates made as required.

In formation of the plan, Internal Audit:

- **Reviewed historic audit outputs** – The initial planning stage involved a review of completed work from across the previous years. This looked to gauge the assurance that had been obtained recently and develop a baseline that could be built upon with the current plan. Where it is hoped that the greatest coverage can be obtained in a single year, this is not always possible, so instead it will be ensured that there has been coverage over a number of years, both previously and forward looking.
- **Reviewed the agreed Plan for 2022-25** – In addition to the review of previous assurance work, the agreed plans for 2023/24 and 2024/25, agreed as part of the 2022-2025 plan overall, were reviewed. This is the starting position for the current plan; however this will change based on developments in year and the changing risk profile of the Fund.
- **Reviewed Management's progress in implementing agreed audit recommendations** – A review of the work of Management to implement audit recommendations. This looked to identify any areas where management has struggled to implement agreed actions, and where the risks remain, for these to be factored into the audit plan.
- **Reviewed different sources of information** – A suite of information, primarily Committee reporting and the Fund's Risk Register, was reviewed to further develop Internal Audit's understanding of the operations and issues of the Fund.
- **Reviewed information from other assurance providers** – Discussions were held and reports reviewed from other assurance providers.
- **Held discussion with key stakeholders** – Discussions were held with key stakeholders across the Fund. These discussions focused on three key areas:
 - Key risks within the auditable area.

-
- Any recent or upcoming developments.
 - Suggestions for assurance reviews, including value adding pieces of work.
 - **Benchmarked against other funds** – A review of the Internal Audit plans for other funds as per their Committee reporting available online. This looked to gain an understanding of issues being faced by other funds and identify any auditable areas for North East Scotland.

The Internal Audit plan for the period April 2023 to March 2026 is presented in Appendix 1 to this report.

The plan details what Internal Audit anticipates being able to review in the year, assuming stability in resources available to the Section. The plan is flexible and can be amended to reflect changes in priority or because of new risks being introduced or identified, although consideration needs to be given to the requirement for Internal Audit to complete sufficient work to provide an evidence based annual opinion. Internal Audit will continue to review the Fund's risk registers and update its own risk assessments based on audit findings, throughout the Plan's term.

All audits included in the attached plan are part of a rolling programme of work, each element of which will help inform Internal Audit regarding the adequacy and effectiveness of the Fund's framework of governance, risk management and control, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider. This is the priority of the work however where there are opportunities to provide value adding work, this has been factored into the plan.

The time allocation for all audits assumes that systems to be reviewed are adequately documented, detailing the controls put in place by management, and that testing identifies that these controls are being complied with. If this is not the case, there will be an impact on the time taken to review planned areas and on the plan's achievability.

With approval of the plan, we will work with Management to schedule the audit work for the year. This will look to match our internal resourcing but also ensure that it is suitable for those relevant stakeholders across the Fund. We will look to ensure that management are not inundated with consecutive audits and that fieldwork, where most input is required, is at a time which does not clash with other priorities or commitments.

2.2 Undertaking planned work

When commencing each planned audit, Internal Audit contacts Management responsible for the area to be reviewed along with any other nominated officer. They are reminded of the objective and scope of the review and of how Internal Audit intends to achieve the level of assurance required. Officers are invited to identify any specific aspects of the area to be reviewed that are of particular concern- and all of this is factored into the agreed scoping document. Once fieldwork has been completed, a draft report is issued to Management responsible for the area reviewed along with any

other nominated officer. Prior to issuing the final report, Internal Audit seeks confirmation from the officers involved that they are satisfied with the report and actions agreed to address any identified issues.

Outputs from the Fund's Internal Audit plan will be shared with Aberdeen City Council's Audit, Risk and Scrutiny Committee after they have been considered by Pensions Committee.

Whilst undertaking planned work, it is possible that Internal Audit may identify governance issues that are not within the stated scope of the review being undertaken. Public Sector Internal Audit Standards require that Internal Audit report such instances to those charged with governance. In this respect, Internal Audit's reports may contain issues that appear to be "outwith scope".

3 Appendix 1 – 2023-26 Internal Audit Plan

Function	Auditable Area	Objective	Principal Risk	Assurance
2023/24				
Pension Fund	Pensions Investment Strategy	To provide assurance over compliance with the pension fund investment strategy, and the adequacy of controls over management of investments.	Financial	Core
2024/25				
Pension Fund	Pension Fund Payroll	To consider whether arrangements are adequate to start and terminate payments from the pension fund payroll, and to ensure that payments are accurate.	Financial	Core
2025/26				
Pension Fund	Pension Fund Key Administrative Processes	To provide assurance over the fulfilment of the key administrative processes across the Pension Fund.	Operational	Core

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 March 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Update Report
REPORT NUMBER	IA/23/001
DIRECTOR	N/A
CHIEF OFFICER	Jamie Dale Chief Internal Auditor
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with an update on Internal Audit's work since the last update. Details are provided of the progress against the approved Internal Audit plans, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the progress of the Internal Audit plan.
- 2.2 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports, with none due as at 31 January 2023.

3. CURRENT SITUATION

- 3.1 Internal Audit's (IA) primary role is to provide independent and objective assurance on the North East Scotland Pension Fund's (NESPF), and Aberdeen City Council's (whose systems the NESPF relies on) risk management, control, and governance processes. Where this report focuses on the NESPF specifically, consideration has been given and reference will be made to the work we have carried out with the Council overall. This requires a continuous rolling review and appraisal of the internal controls of the Fund and the Council, involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and

copies of these are provided to the Pensions Committee and the Audit, Risk and Scrutiny (ARS) Committee.

3.2 This report is designed to provide an update to the Pensions Committee on the work of Internal Audit since our last update to the Committee.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to consider Internal Audit's update report. As a result, there will be no differential impact, as a result of the proposals in this report, on

	people with protected characteristics.
Data Protection Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Appendix A - North East Scotland Pension Fund - Internal Audit - Update Report.

12. REPORT AUTHOR DETAILS

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Internal Audit

North East Scotland Pension Fund Pensions Committee Internal Audit Update Report March 2023

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1 Executive Summary

1.1 Introduction and background

Internal Audit's (IA) primary role is to provide independent and objective assurance on the North East Scotland Pension Fund's (NESPF), and Aberdeen City Council's (whose systems the NESPF relies on) risk management, control, and governance processes. Where this report focuses on the NESPF specifically, consideration has been given and reference will be made to the work we have carried out with the Council overall. This requires a continuous rolling review and appraisal of the internal controls of the Fund and the Council, involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and these are provided to the Pensions Committee and the Audit, Risk and Scrutiny (ARS) Committee.

This report advises the Pensions Committee of Internal Audit's work since the last update. Details are provided of the progress against the approved Internal Audit plans, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

1.2 Highlights

Full details are provided in the body of this report however Internal Audit would like to bring to the Committee's attention that since the last update:

- One audit report has been completed – Pension Fund Governance Arrangements.
- No audit recommendations were due as at 31 January 2023.

1.3 Action requested of the Pensions Committee

The Pensions Committee is requested to note the contents of this report and the work of Internal Audit since the last update.

2 Internal Audit Progress

2.1 2022-23 Audits

Service	Audit Area	Position
Pensions	Pension Fund Governance Arrangements Including Risk Management	Final audit report issued

2.2 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2209 – Pension Fund Governance Arrangements	2022-23	<p>The level of net risk is assessed as MINOR, with the control framework deemed to provide SUBSTANTIAL assurance over the Fund's governance arrangements.</p> <p>The Management Team has instilled a strong governance structure and operation across the Fund, including effective policies, procedures, training, and monitoring arrangements. There is an overarching Governance Policy, with a suite of subsequent policy documents covering the main areas of governance, including Training, Risk Management, Conflicts of Interest (COI), Breaches and Complaints Handling.</p> <p>Whilst governance is the responsibility of Management, there is also a recognition of the importance both the Pensions Board and Pensions Committee play in ensuring effective operations, which is primarily carried out through the review and scrutiny of papers.</p> <p>The Fund is operating a framework of control that is on the whole conscious and comprehensive of all aspects of governance and Management employs a variety of different mechanisms to ensure effective operations, including but not limited to team meetings, staff bulletins, training, registers, workplans, task checklists and performance management measures for staff. Testing of the processes around risk management, breaches, training, and COIs found these to be designed and operating effectively. Operations were also found to be aligned with Aberdeen City Council Standing Orders and Financial Regulations.</p> <p>Where no areas were found to be devoid of controls completely, recommendations have been made to enhance elements of operations across three areas:</p> <ul style="list-style-type: none"> • Training – Management should continue their efforts to ensure full compliance with mandatory training for Committee members and Fund staff. • Risk Management Appetites and Tolerances – Management should review the Risk Management Policy and update it accordingly to reflect appetites for the different risk categories. • Breaches Process – Management should review the Personal Data Breaches Procedure and either ensure that it is followed for all incidents or update it to reflect current operations.

2.3 Follow up of audit recommendations

Public Sector Internal Audit Standards require that Internal Audit report the results of its activities to the Committee and establishes a follow-up process to monitor and ensure that management actions have been effectively implemented.

As at 31 January 2023 (the baseline for our exercise), no audit recommendations were due.

Appendix 1 – Grading of Recommendations provides the definitions of each of the ratings used.

3 Appendix 1 – Grading of Recommendations

Risk level	Definition
Corporate	This issue / risk level impacts the Fund as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net risk rating	Description	Assurance assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual issue / risk	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, such as those described in the Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Fund. Action should be taken within three months.
Severe	This is an issue / risk that is likely to significantly affect the achievement of one or many of the Fund's objectives or could impact the effectiveness or efficiency of the Fund's activities or processes. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Fund. Action is considered imperative to ensure that the Fund is not exposed to severe risks and should be taken immediately.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 March 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2309 – Pension Fund Governance Arrangements
REPORT NUMBER	IA/AC2309
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the planned Internal Audit report on Pension Fund Governance Arrangements.

2. RECOMMENDATION

2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

3.1 Internal Audit has completed the attached report which relates to an audit of Pension Fund Governance Arrangements.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations,

consistent with the Council’s Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2309 – Pension Fund Governance Arrangements

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Pension Fund Governance Arrangements

Status: Final
Date: 31 January 2023
Risk Level: Corporate

Report No: AC2309
Assurance Year: 2022-23

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial

Report Tracking	Planned Date	Actual Date
Scope issued	26/10/2022	26/10/2022
Scope agreed	04/11/2022	04/11/2022
Fieldwork commenced	14/11/2022	14/11/2022
Fieldwork completed	25/11/2022	25/11/2022
Draft report issued	16/12/2022	29/11/2022
Process owner response	13/01/2023	20/01/2023
Director response	20/01/2023	24/01/2023
Final report issued	27/01/2023	31/01/2023
Committee	24/03/2023	

Distribution	
Document type	Assurance Report
Director	Steven Whyte, Director - Resources
Process Owner	Laura Collis, Pensions Manager
Stakeholder	Jonathan Belford, Chief Officer – Finance
	Mairi Suttie, Governance & Communications Manager
	Jenni Lawson, Interim Chief Officer – Governance*
Final only	External Audit
Lead auditor	Jamie Dale, Chief Internal Auditor

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5	Appendix 2 – Assurance Scope and Terms of Reference	Error! Bookmark not defined.

1 Introduction

1.1 Area subject to review

The Local Government Pension Scheme (LGPS) is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Scotland) Regulations 2018 (and associated amendments). The North East Scotland Pension Fund (NESPF) (the Fund) is administered by Aberdeen City Council within the LGPS Regulations.

The Fund is one of the main public sector pension schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and loved ones. The NESPF, is comprised of two funds¹:

- **The North East Scotland Pension Fund** – Sometimes referred to as the Main Fund
- **The Aberdeen City Council Transport Fund (ACCTF)** – Created in 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen. From 2019 it also includes staff from First Glasgow who transferred from Strathclyde Pension Fund.

As per the Annual Report and Accounts for 2021/22 (unaudited), the Fund's key information as at 31 March 2022 was: Net Assets – £6,192m, Employers – 47, and Membership – 73,642.

Aberdeen City acts as the Administering Authority, with a Pensions Board (the Board) and Pensions Committee (the Committee) in place. While day to day administration of the Pension Fund is the duty of Pension Fund staff, decision making and overall responsibility has been delegated to the Committee. The Committee carries out a role similar to that of trustees of a pensions scheme. It is the key decision maker for all matters under LGPS Regulations including benefit administration and investment management.

In line with Scheme regulations, the Fund established the Board in 2015/16. The Board's primary function is to ensure that the Fund complies with regulations and meets the requirements of the Pensions Regulator. In doing so, the Board ensures the Fund operates in accordance with the law, securing the effective and efficient governance and administration of the Scheme. In assisting with compliance, the Board can report the Fund to the Pensions Regulator for non-compliance with guidance or regulations. In 2021/22 no issues were reported by the Board to the Pensions Regulator.

The Fund's governance framework comprises the systems, processes, culture, and values by which the Administering Authority (including the Pension Fund) is directed and controlled. The Pension Fund complies with this framework ensuring that strategic objectives are monitored and to assess the effectiveness of services. The Fund also places reliance upon the Council's internal financial controls for its financial systems and that monitoring is in place to ensure the effectiveness of those controls.

Rationale for the review

The objective of this audit is to provide assurance over the governance arrangements and procedures in place including risk management and performance management.

Pension Fund Governance was last reviewed in 2019 where in general the governance arrangements were found to be appropriate and aligned with regulatory requirements.

1.2 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later

¹ Any reference to "the Fund" will encompass both the NESPF and ACCTF.

sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues identified.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Corporate	This issue / risk level impacts the Fund as a whole. Mitigating actions should be taken at the Senior Leadership level.

2.2 Assurance assessment

The level of net risk is assessed as **MINOR**, with the control framework deemed to provide **SUBSTANTIAL** assurance over the Fund's governance arrangements.

The Management Team has instilled a strong governance structure and operation across the Fund, including effective policies, procedures, training, and monitoring arrangements. There is an overarching Governance Policy, with a suite of subsequent policy documents covering the main areas of governance, including Training, Risk Management, Conflicts of Interest (COI), Breaches and Complaints Handling.

Whilst governance is the responsibility of Management, there is also a recognition of the importance both the Pension Board and Pensions Committee play in ensuring effective operations, which is primarily carried out through the review and scrutiny of papers. Changes in Committee make up, especially after elections, can cause disruption and may take time for the new members to settle into their role however this is not a risk specific only to the Fund.

The Fund is operating a framework of control that is on the whole conscious and comprehensive of all aspects of governance and Management employs a variety of different mechanisms to ensure effective operations, including but not limited to team meetings, staff bulletins, training, registers, workplans, task checklists and performance management measures for staff.

Testing of the processes around risk management, breaches, training, and COIs found these to be designed and operating effectively. Operations were also found to be aligned with Aberdeen City Council Standing Orders and Financial Regulations.

Where no areas were found to be devoid of controls completely, recommendations have been made to enhance elements of operations across three areas:

- **Training** – Management should continue their efforts to ensure full compliance with mandatory training for Committee members and Fund staff.
- **Risk Management Appetites and Tolerances** – Management should review the Risk Management Policy and update it accordingly to reflect appetites for the different risk categories.
- **Breaches Process** – Management should review the Personal Data Breaches Procedure and either ensure that it is followed for all incidents or update it to reflect current operations.

2.3 Severe or major issues / risks

No severe or major issues/risks were identified as part of this review.

2.4 Management response

We thank Internal Audit for their work in this area, accept their findings and will take forward the agreed actions.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p>Training –Training helps to ensure employees learn and develop their skills so that they can become more effective at what they do and match changes within the industry. Training also acts as a main driver for ensuring an understanding of requirements from a governance perspective.</p> <p>Training is provided to members of the Pensions Committee and Pension Board through a range of opportunities and is tracked by the Fund’s Governance Team.</p> <p>Standing Orders require that: “<i>Prior to sitting as a member or a substitute of the Pensions Committee, a Councillor must have undertaken the required training</i>”. This training is led by the Pension Fund Manager giving an overview of the role and responsibility of the member in relation to their position on the Committee.</p> <p>Analysis of the training records for both councillors and staff highlighted:</p> <ul style="list-style-type: none"> • One substantive member of the Board, who has attended meetings, has not received training. However management has advised training is scheduled for 12 December and noted that the member has previous experience of the Fund. • One substitute member of the Committee, who Management advised has not attended meetings, has not received the required training. This member has been a substitute for several years but there are no plans for training. • The rate of staff completion of mandatory Aberdeen City Council training is mixed. Where the majority had completed training, including 100% completion of Information Governance training annually, pockets of staff have not completed courses such as Equality and Diversity training, Introduction to Health and Safety, and PREVENT. This lack of completion is down to individual post holders; Internal Audit was able to identify efforts to facilitate completion by the Governance Team, including reminders in staff bulletins. <p>With a lack of training there is a risk that Committee members will not have the required knowledge to carry out their role effectively. This extends to staff who may not be fully aware of corporate requirements in relation to their role.</p> <p>IA Recommended Mitigating Actions</p> <p>Management should continue their efforts to ensure full compliance with mandatory training for Committee members and Pension staff. The planned training for Committee members should be extended to the identified substitute who has not received training.</p> <p>Management Actions to Address Issues/Risks</p> <p><i>Substantive Board member has previous and acceptable level of knowledge at present to carry out their membership of the Board. However they will be expected to complete the required online training and attend future training events.</i></p> <p><i>The substitute member of the committee has not participated since 2017, having checked with the pension committee convenor they are no longer a substitute and will be removed from our training register.</i></p> <p><i>Managers will continue to support their staff in the completion of the mandatory training, further discussions will be held at the monthly managers meeting to progress and encourage the completion of these training courses.</i></p>		

Ref	Description	Risk Rating	Moderate
	Risk Agreed	Person(s)	Due Date
	Yes	Pension Manager	December 2023

Ref	Description	Risk Rating	Minor
1.2	<p>Risk Management Appetites and Tolerances – The Fund has a Risk Management Policy, last updated in February 2021, which sets out the risk management framework and specifically the strategic approach to be taken for effective risk management.</p> <p>The Policy was found to be comprehensive in terms of content and aligned with the City's approach to risk management, whilst also being tailored to a pensions context. The Policy was also found to be working in operation and embedded in other Fund processes e.g. handling of data breaches.</p> <p>One area however that was found to be lacking was risk appetites and tolerances for the different types of risks. Where the policy does have a section on risk appetite and responsibility, it did not set out explicit tolerances.</p> <p>There is a minor risk that risks may not be managed accordingly, specifically with regards to escalation and mitigation if there is a lack of clarity around appetite.</p>		
IA Recommended Mitigating Actions			
Management should review the Risk Management Policy and update it accordingly to reflect appetites for the different risk categories. This should be rolled out to staff and incorporated into any future training. Support and advice could be sought from the City Council's central Risk Team, whilst also recognising the need for the Policy to be specific to the Fund.			
Management Actions to Address Issues/Risks			
<i>The Risk Management Policy will be amended accordingly.</i>			
	Risk Agreed	Person(s)	Due Date
	Yes	Pension Manager	June 2023

Ref	Description	Risk Rating	Moderate
1.3	<p>Data Breaches Process – The Fund has a Personal Data Breaches Procedure. This was last updated in October 2022 and sets out how to identify a personal data breach, responsibilities of those involved, reporting to the Information Commissioner and other communication, and finally required training.</p> <p>A review of the Fund's operationalisation of the policy found on the whole the approach was effective, with the employment of a tracker to document all breaches, including risk assessment, actions undertaken to mitigate risks and next steps in terms of reporting or justifications why not.</p> <p>However, the following point was noted:</p> <ul style="list-style-type: none"> The policy also states that: <i>"No/low risk incidents will be managed within business as usual processes. Upon closure of the incident, line managers will complete an investigation checklist and email it, and any further documentation relating to the incident, to ISO@aberdeencity.gov.uk".</i> 		

Ref	Description	Risk Rating	Moderate
	<p>However, discussions with staff highlighted that the Information Security Officer within Aberdeen City never receives any reports following breaches, and instead the focus is on reporting information through ServiceNow. Discussions with both the Governance Team and the City Council's Cyber team did however highlight agreement that ServiceNow should be used and that dialogue and support was available through this means.</p> <p>There is a risk that the current approach does not follow policy, increasing the likelihood that incidents will not be dealt with accordingly. However, if it were to be the case that operations are effective but the policy is not up to date, there is a risk of inconsistencies in approach, with staff possibly not aware of the correct procedure to follow.</p>		
	IA Recommended Mitigating Actions		
	Management should review the Personal Data Breaches Procedure and either ensure that it is followed for all incidents or update it to reflect current operations. Any update to the policy should ensure appropriate processes in place to effectively deal with incidents within the Fund, whilst also ensuring appropriate support and oversight from central functions.		
	Management Actions to Address Issues/Risks		
	<i>Policy to be amended to reflect the current Service Now process.</i>		
	Risk Agreed	Person(s)	Due Date
	Yes	Pension Manager	February 2023

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk level	Definition
Corporate	This issue / risk level impacts the Fund as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible officers.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net risk rating	Description	Assurance assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual issue / risk	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, such as those described in the Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Fund. Action should be taken within three months.
Severe	This is an issue / risk that is likely to significantly affect the achievement of one or many of the Fund's objectives or could impact the effectiveness or efficiency of the Fund's activities or processes. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Fund. Action is considered imperative to ensure that the Fund is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

The Local Government Pension Scheme (LGPS) is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Scotland) Regulations 2018 (and associated amendments). The North East Scotland Pension Fund (NESPF) (the Fund) is administered by Aberdeen City Council within the LGPS Regulations.

The Fund is one of the main public sector pension schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and loved ones. The NESPF, is comprised of two funds²:

- **The North East Scotland Pension Fund** – Sometimes referred to as the Main Fund
- **The Aberdeen City Council Transport Fund (ACCTF)** – Created in 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen. From 2019 it also includes staff from First Glasgow who transferred from Strathclyde Pension Fund.

As per the Annual Report and Accounts for 2021/22 (unaudited), the Fund's key information as at 31 March 2022 was: Net Assets – £6,192m, Employers – 47, and Membership – 73,642.

Aberdeen City acts as the Administering Authority, with a Pension Board (the Board) and Pensions Committee (the Committee) in place. While day to day administration of the Pension Fund is the duty of Pension Fund staff, decision making and overall responsibility has been delegated to the Committee. The Committee carries out a role similar to that of trustees of a pensions scheme. It is the key decision maker for all matters under LGPS Regulations including benefit administration and investment management.

In line with Scheme regulations, the Fund established the Board in 2015/16. The Board's primary function is to ensure that the Fund complies with regulations and meets the requirements of the Pensions Regulator. In doing so, the Board ensures the Fund operates in accordance with the law, securing the effective and efficient governance and administration of the Scheme. In assisting with compliance, the Board can report the Fund to the Pensions Regulator for non-compliance with guidance or regulations. In 2021/22 no issues were reported by the Board to the Pensions Regulator.

The Fund's governance framework comprises the systems, processes, culture, and values by which the Administering Authority (including the Pension Fund) is directed and controlled. The Pension Fund complies with this framework ensuring that strategic objectives are monitored and to assess the effectiveness of services. The Fund also places reliance upon the Council's internal financial controls for its financial systems and that monitoring is in place to ensure the effectiveness of those controls.

5.2 Rationale for review

The objective of this audit is to provide assurance over the governance arrangements and procedures in place including risk management and performance management.

Pension Fund Governance was last reviewed in 2019 where in general the governance arrangements were found to be appropriate and aligned with regulatory requirements.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the Corporate level.
- Individual **net risk** ratings for findings.

² Any reference to "the Fund" will encompass both the NESPF and ACCTF.

Please see Appendix 1 – Assurance Terms and Rating Scales for details of our risk level and net risk rating definitions.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- Overall governance structure, including oversight and interaction/reporting with key stakeholders such as the Board and the Committee.
- Policies and procedures
- Internal assurance, including governance compliance
- Risk management arrangements
- Performance management arrangements

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, guidance.

Due to the flexible working arrangements, this review will be undertaken primarily remotely.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - NESPF Key Contacts (see 1.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Jamie Dale, Chief Internal Auditor (**audit lead**)

5.7 Council key contacts

The key contacts for this review across the Council are:

- Steve Whyte, Director - Resources
- Jonathan Belford, Chief Officer – Finance
- Laura Collis, Pensions Manager (**process owner**)
- Vikki Cuthbert, Interim Chief Officer – Governance
- External Audit

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	26 October 2022
Scope agreed	4 November 2022

Milestone	Planned date
Fieldwork commences	14 November 2022
Fieldwork completed	25 November 2022
Draft report issued	16 December 2022
Process owner response	13 January 2023 <i>(extended due to holidays)</i>
Director response	20 January 2023
Final report issued	27 January 2023

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 March 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Statement of Accounts 22/23 – Action Plan
REPORT NUMBER	PC/MAR23/ACCOUNTS
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Elected Members with high level information and key dates in relation to the 2022/23 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors.

2. RECOMMENDATION

- 2.1 That the Committee note the main report for assurance.

3. CURRENT SITUATION

- 3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendation in this report.

5. LEGAL IMPLICATIONS

- 5.1 In terms of The Local Authority Accounts (Scotland) Regulations 2014, there is a statutory requirement for the Council to produce both a draft and audited Statement of Accounts within certain timescales and to a high standard. This is a major task which requires co-operation and input from a large number of people across all services of the Council. It is only with the commitment of all staff that these high standards and deadlines can be met.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendation of this report.

7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified.	N/A	N/A	N/A
Compliance	Failure to meet statutory requirement to produce draft and audited Statement of Accounts within certain timescales and to high standard.	Process and procedures in place to ensure teams work together to produce within timescales.	M	Yes
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	Possible financial penalties for failure to meet regulatory requirements.	Compliance monitoring and regular reporting to Pensions Committee.	M	Yes
Reputational	Failure to meet regulatory requirements may result in adverse publicity	Processes and procedures in place based on the timetable set out in the attached report.	M	Yes
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

8.1 The proposals in this report have no impact on the Council Delivery Plan.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required

Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

None

11. APPENDICES

None

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

Statement of Accounts 2022/23

Annual Report to March 2023

1. Background

The Statement of Accounts 2022/23 will summarise the Pension Fund's transactions for the period 1 April to 31 March and its financial position at the year end 31 March 2023. It will be prepared in accordance with the Internal Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Service Reporting Code of Practice (SeRCOP). There are no changes to either of the codes in 2022/23 which will have any significant impact on the Statement of Accounts.

There are a number of key dates and these are summarised as follows:

31 March 2023	End of Financial Year 2022/23
17 June 2023	Deadline for giving notice to the public of the right to inspect and object to Accounts
23 June 2023	Pensions Committee
30 June 2023	Statutory deadline for submission of Draft Statement of Accounts to the Controller of Audit
July 2023	Advertising and Inspection of Accounts
31 July 2023	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
15 September 2023	Pensions Committee
30 September 2023	Deadline for submission of Audited Statement of Accounts to the Controller of Audit
31 October 2023	Deadline for submission of the Audited WGA to the Scottish Government
15 December 2023	Pensions Committee

23 June 2023

The Pensions Committee will receive the Draft Statement of Accounts 2022/23, including the Annual Report for overall scrutiny.

July 2023

This is the period within which the Council must give public notice of the rights of interested parties to inspect and object to its accounts. There are statutory requirements currently under The Local Authority Accounts (Scotland) Regulations

2014 which define the notice period, the inspection period, deadline for submission of any objections and the information which must be made available for inspection.

September 2023

The Pensions Committee will receive Audit Scotland's combined ISA260 ad "Report to those charged with the governance of the 2022/23 audit" for debate and consideration, together with the Audited Statement of Accounts 2022/23 for signing.

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North East Scotland Pension Fund

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Aberdeen City Council Pensions Committee

March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of North East Scotland Pension Fund (the fund). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, leading to an independent audit opinion
- independent audit opinions on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement.
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Audit Appointment

2. We are pleased to be appointed as the external auditor of the fund for the five year period 2022/23 to 2026/27 inclusive. An introduction to the core members of your audit team is at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of the fund and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment to inform our planned audit approach, we keep this under review as the audit progresses. We will inform you of any significant changes in our assessment of risk and/or our planned audit work.

4. Our Annual Audit Plan has been prepared on the basis that North East Scotland Pension Fund manages one pension fund and will produce one set of financial statements in respect of financial year 2022/23. This reflects the planned merger of the Aberdeen City Council Transport Fund with the Main Fund by 31 March 2023.

5. The audit team will actively engage with you over the course of the audit to ensure our work continues to be focused on risk.

Adding value

6. We aim to add value to the fund through our external audit work by being constructive and forward looking, by identifying and encouraging good practice and making recommendations. In so doing, we aim to help the fund promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the fund

7. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the fund. Key responsibilities are summarised below.

Auditor responsibilities

8. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

9. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements within the fund. In doing this, we aim to support improvement and accountability.

The fund's responsibilities

10. The fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

11. The fund has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

12. The annual accounts are an essential part of demonstrating the fund's stewardship of resources and its performance in the use of those resources.

13. We focus our work on the areas of the highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risks relating to each of the key systems on which the financial statements will be based.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the fund are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for the Fund

Materiality	
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the fund's operations. For the year ended 31 March 2023, we have set our materiality at 2% of net assets based on the audited financial statements for 2021/22.</p>	£124m
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.</p>	£80m

Materiality

Reporting threshold– We are required to report to those charged with governance £250,000 on all unadjusted misstatements more than the 'reporting threshold' amount.

Source: Audit Scotland

Lower specific materiality levels for the 2022/23 audit

16. In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

17. We recognise that transactions relating to fund members such as contributions receivable, payments to pensioners, benefits and transfers out of/into the fund account are likely to be of key interest to the users of the financial statements and we set specific materiality levels as shown in [Exhibit 2](#).

Exhibit 2

2022/23 Lower specific materiality levels for the Fund

Materiality

Specific materiality – It has been set at 10% of payments to pensioners for the year ended 31 March 2023 based on the latest audited financial statements for 2021/22. £18m

Specific performance materiality – Using our professional judgement, we have calculated specific performance materiality at 65% of the specific materiality. £12m

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

18. Our risk assessment draws on our cumulative knowledge of the fund, its major transaction streams, key systems of internal control and risk management processes. In addition, it is informed by our discussions with management, meetings with internal audit, the work of the Pensions Committee and a review of supporting information. In this, the first year of our audit appointment, we have also held a handover meeting with the outgoing external auditor.

19. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

20. Based on our initial risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 3](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 3

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (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"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess any changes since the prior year to the methods and underlying assumptions used to prepare accounting estimates.

Source: Audit Scotland

21. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

22. We have rebutted this risk for the pension fund on the basis that employee contributions follow a predictable pattern and consist of a high volume of low value transactions. Investment income and unrealised gains on investments on the other hand, are derived from investing activities managed by the global fund custodian and individual fund managers who are independent of management. There is therefore limited opportunity for fraudulent manipulation of income, and we have not identified a significant risk in this area.

23. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

24. We have also rebutted this risk because controls are in place to ensure benefits paid are correct. Such payments also follow a predictable pattern and consist of a high volume of low value transactions. There is no real incentive for the fund to manipulate benefits paid. Management expenses largely relate to fund managers' fees and these can be agreed to fund managers reports. The risk of material manipulation of the financial statements due to fraudulent expenditure recognitions is therefore low.

25. We have not, therefore, extended the planned audit work in these areas beyond our standard audit procedures.

Other areas of audit focus

26. As part of our assessment of audit risks, we have identified other areas where we consider there are risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

27. The areas of specific audit focus are:

- There is a significant degree of subjectivity in the measurement and classification of certain investments, in particular private equity funds. These investments are valued by the investment managers. As a result, we will carry out a 'review of the work of an expert' in accordance with ISA 500 and confirm valuations to valuation reports and/or other supporting documentation. We will also discuss with officers and assess other sources of assurances management relies on.
- An actuarial valuation of future retirement benefits is calculated on an annual basis under IAS 26 by an independent firm of actuaries with specialist knowledge and experience. Valuation estimates are based on a number of assumptions about the future and therefore, there is a risk that the assumptions used are not appropriate. Assumptions include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. As a result, we will carry out a 'review of the work of an expert' in accordance with ISA 500 for the work of the actuary, review actuarial assumptions and consider the report by Audit Scotland's consulting actuary on actuarial valuations across Scottish local government pension funds.
- Aberdeen City Council Transport Fund will merge with the Main Fund by 31 March 2023. With regard to the 2022/23 annual report and accounts, this will largely be reflected as a consolidation of the results of the two funds. Any re-allocation of investments may be implemented as part of a longer term strategy. We will undertake an early discussion of the merger

accounting treatment and disclosure requirements for the 2022/23 annual accounts with officers.

- The Transport Fund held an insurance buy-in which is also revalued annually by the actuary and based on similar assumptions about the future. We will carry out a 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary and review actuarial assumptions.

Wider Scope

Introduction

28. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

29. In summary, the four wider scope areas cover the following:

- **Financial management** – we consider the financial capacity of the fund and whether there are sound internal controls in place including budgetary and forecasting processes.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the fund’s vision, strategy and priorities. We also consider the effectiveness of the governance arrangements adopted in managing the fund.
- **Use of resources to improve outcomes** – we will consider how the fund demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

30. We have not identified any significant wider scope risks. However, we have identified the following areas which will be kept under review as the audit progresses.

31. Investment performance - Fund investment performance levels in 2021/22 were below target. There has been improvement in 2022/23 after a turbulent start to the year. While high inflation and energy costs continue to have an adverse impact on quarterly returns, performance continues to outperform medium and longer term benchmarks. We will review performance against benchmark over the short, medium and long terms. We will also consider performance against Scottish local government pension fund comparators.

32. Pension Service Business Plan - There has been limited formal reporting of progress against business plan aims and objectives since it was approved by the Pension Committee. Also, there is limited narrative to the committee to explain how significant risks are managed and mitigated. It is therefore unclear how those charged with governance monitor the fund’s progress in delivering the

plan or the adequacy of scrutiny around the pace of delivery and the management/mitigation of identified risks. Through our engagement with the committee, we will assess the arrangements in place to ensure it has effective oversight of governance.

33. Cyber security – There continues to be a significant risk of cyber-attacks to public bodies. We will therefore review the fund’s arrangements to mitigate such risks.

34. Climate change – The public sector has a key role to play in ensuring that national climate change targets are met and in adapting the impacts of climate change. The Accounts Commission is developing a programme of work on climate change. As part of this work, auditors will initially focus on a body’s arrangements for responding to climate change. We will therefore consider whether the fund has developed a strategy and action plan, what targets have been set and how they will be monitored and reported.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

35. All Annual Audit Plans and reports , as detailed in [4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

36. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

37. We will provide an independent auditor’s report to the fund and the Accounts Commission setting out our opinions on the annual accounts. We will provide the fund and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

38. [4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor’s report by the statutory deadline of 30 September 2023.

Exhibit 4 2020/21 Audit outputs

Audit Output	Target date per audit planning guidance	Aberdeen City Council Pensions Committee
Annual Audit Plan	31/03/2023	24/03/2023
Independent Auditor's Report	30/09/2023	15/09/2023
Annual Audit Report	30/09/2023	15/09/2023

Source: Audit Scotland



Timetable

39. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same

time maintaining high standards of quality. Our proposed timetable for the audit is included at [Exhibit 5](#) and this has been discussed with management.

40. We intend to take a hybrid approach to the 2022/23 audit with a blend of remote and onsite working as required. We will work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	23 June 2023
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Director of Finance	18 August 2023
Approval of audited accounts for signature and consideration of Annual Audit Report by those charged with governance	15 September 2023
Submission of signed accounts and Annual Audit Report	By 30 September 2023

Source: Audit Scotland

Audit fee

41. Audit Scotland's fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

42. In determining the audit fee for the fund, we have taken account of our risk assessment and the planned management assurances in place. The proposed audit fee for 2022/23 is £48,370 (2021/22 £44,100).

43. In setting the fee, we have assumed that the fund has sound governance arrangements in place and operating effectively and will prepare comprehensive and accurate financial statements for audit, including supporting papers. It also assumes there is no major change in respect of the scope of the audit work in year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

44. It is the responsibility of the fund to establish adequate internal audit arrangements. Services are currently provided by the chief internal auditor of Aberdeenshire Council. We review the internal audit plan and consider the impact of internal audit's findings on our audit work.

45. We intend to draw general assurance from internal audit when assessing the fund's governance arrangements. We are not however currently planning to use the work of internal audit to provide assurance for our audit procedures on the financial statements.

Independence and objectivity

46. Auditors appointed by the Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

47. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

48. The appointed auditor for the fund is Michael Oliphant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the fund.

Quality control

49. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

50. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

51. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1), applicable from 15 December 2022, and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

52. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the [Code of Audit Practice](#) and the application of professional auditing, quality and ethical standards. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

53. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead and/or manager.

Appendix 1. Your audit team

54. The senior team involved in the external audit of the fund have significant experience in public sector audit

Name	Position
Michael Oliphant moliphant@audit-scotland.gov.uk	Audit Director/Engagement Lead
Anne MacDonald amacdonald@audit-scotland.gov.uk	Senior Audit Manager/Engagement Manager
Arlene Deeming adeeming@audit-scotland.gov.uk	Senior Auditor
Deirdre Sim dsim@audit-scotland.gov.uk	Auditor

55. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

North East Scotland Pension Fund

Annual Audit Plan 2022/23

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

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



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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 March 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Budget / Forecast 2022/23
REPORT NUMBER	PC/MAR23/BUD
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Michael Scroggie
TERMS OF REFERENCE	1.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast and Projected Spend 2022/23 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION

- 2.1 That the Committee note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend 2022/23, shown in the main report.

3. CURRENT SITUATION

3.1 BUDGET/FORECAST 2022/23

- 3.1.1 The main report shows the Council's Budget for 2022/23 for the NESPF. The re-alignment of cost headings follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.

- 3.1.2 Administrative Expenses – all staff costs of the pension administration team are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.

- 3.1.3 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.

- 3.1.4 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market value of these investments change. Fund Managers charge their fees quarterly

in arrears. In addition, the Fund has negotiated performance related fees with a few of its investment managers. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.

3.1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed and revised their guidance to Pension Funds on Accounting for Scheme Management Costs. As a result, the Fund no longer accounts for indirect limited partnership fees.

3.1.6 Transaction Costs and Direct Property Expenses are included within the section 'Investment Management Expenses'. Other investment related expenses (e.g. investment advice and litigation, etc) are included within the section 'Oversight & Governance Expenses'.

3.2 GOVERNANCE

3.2.1 The Pension Fund projected costs for salaries and direct costs are included in monthly monitoring reports to the Service and Corporate Management Teams. The Chief Officer-Finance reports to the Pensions Committee on a quarterly basis.

3.2.2 Although all the Pension Fund costs are paid for by the Fund, avoiding complacency and ensuring value for money remain key drivers for making savings within the Scheme. Therefore, it is important that the Fund scrutinise and understand the costs of administering the Pension Fund and explore the opportunities for any savings.

4. FINANCIAL IMPLICATIONS

4.1 All Pension Fund costs are paid for by the Fund.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendation of this report.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The assessment of risk contained within the table below is considered to be consistent with the Council's Risk Appetite Statement.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified	N/A	N/A	N/A
Compliance	No significant risks identified	N/A	N/A	N/A
Operational	No significant risks identified	N/A	N/A	N/A
Financial	Complacency and not ensuring value for money by making savings within the Scheme.	Ongoing scrutiny and understanding of the costs of administering the Pension Fund with the exploration of opportunities for any savings.	L	Yes
Reputational	No significant risks identified	N/A	N/A	N/A
Environment / Climate	No significant risks identified	N/A	N/A	N/A

8. OUTCOMES

8.1 The proposals in this report have no impact on the Council Delivery Plan.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	Not Required
Data Protection Impact Assessment	Not Required
Other	N/A

10. BACKGROUND PAPERS

- 10.1 North East Scotland Pension Fund (NESPf) Annual Report & Accounts (2021/22) and Fund Governance Policy Statement.

11. APPENDICES

- 11.1 None

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

Budget/Forecast & Projected Spend 2022/23

Reporting Period to December 2022

1. Budget/Forecast and Projected Spend 22/23

Sections 3 – 6 below show the NESPF Budget 2022/23. The budget includes a re-alignment of cost headings that follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.

Administrative Expenses – all staff costs of the pension administration team are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.

Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.

Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointment. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the Fund has negotiated performance related fees with a few of its investment managers. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed and revised their guidance to Pension Funds on Accounting for Scheme Management Costs, as a result, the Fund no longer accounts for indirect partnership fees.

Transaction Costs and Direct Property Expenses are included within the section 'Investment Management Expenses'. Other Investment related expenses (e.g. investment advice and litigation, etc) are included within the section 'Oversight & Governance Expenses'.

2. Governance

The Pension Fund projected costs for salaries and direct costs are included in monthly monitoring reports to the Service and Corporate Management Teams. The Chief Officer-Finance reports to the Pensions Committee on a quarterly basis.

3. Budget and Projected Spend for NESPF Administration Expenses

	Notes	Full Year Budget 2022/23 £'000	Budget to 31/12/22 £'000	Actual Spend to 31/12/22 £'000	Accrual to 31/12/22 £'000	Amended Spend to 31/12/22 £'000	Over or (Under) to 31/12/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Administrative Staff Costs		1,626	1,219	779	440	1,219	0	1,625	(1)
Information Technology		488	366	433	25	458	92	473	(15)
Supplies & Services	1	140	105	90	29	119	14	153	13
Accommodation		543	407	415	97	512	105	526	(17)
Printing & Publications		13	10	10	0	10	0	13	0
Administration Expenses Total		2,810	2,107	1,727	591	2,318	211	2,790	(20)

Note (Spend Variance \pm 5%):

1. Overspend – Increase in postage and stationery costs. In particular, the recharges from Aberdeen City Council.

4. Budget and Projected Spend for NESPF Oversight & Governance Expenses

	Notes	Full Year Budget 2022/23 £'000	Budget to 31/12/22 £'000	Actual Spend to 31/12/22 £'000	Accrual to 31/12/22 £'000	Amended Spend to 31/12/22 £'000	Over or (Under) to 31/12/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Investment Staff Costs	1	265	199	99	60	159	(40)	214	(51)
Pension Fund Committee	2	18	13	0	4	4	(9)	5	(13)
Pension Board	3	13	10	0	5	5	(5)	7	(6)
External Audit Fee		47	35	0	13	13	(22)	45	(2)
Internal Audit Fee		12	9	0	9	9	0	12	0
Actuarial Fees	4	180	135	223	22	245	110	327	147
General Expenses	5	297	223	133	44	177	(46)	233	(64)
Oversight & Governance Expenses Total		832	624	455	157	612	(12)	843	11

Note (Spend Variance \pm 5%):

1. Underspend – Vacancies pending the recruitment process.
2. Underspend – Saving based upon the annual training event held in London not proceeding.
3. Underspend – Saving based upon the annual training event held in London not proceeding.
4. Overspend - Increase in Actuarial advice on several matters, e.g. Valuation, Projects, Market Volatility, Deferred Debt, etc.
5. Underspend – Delayed Project Costs, i.e. Task force on Climate related Financial Disclosures (TCFD).

5. Forecast and Projected Spend for NESPF Investment Management Expenses

	Notes	Full Year Forecast 2022/23 £'000	Forecast to 31/12/22 £'000	Actual Spend to 31/12/22 £'000	Accrual to 31/12/22 £'000	Amended Spend to 31/12/22 £'000	Over or (Under) to 31/12/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Investment Management	1	14,304	10,728	1,777	7,336	9,113	(1,615)	12,149	(2,155)
Performance Fees		8,817	6,613	(129)	6,613	6,484	(129)	8,688	(129)
Direct Property Expenses	2	1,184	888	568	0	568	(320)	757	(427)
Transaction Costs	3	2,226	1,669	766	0	766	(903)	1,021	(1,205)
Custody Fees	4	177	133	73	22	95	(38)	128	(49)
Investment Management Expenses Total		26,708	20,031	3,055	13,971	17,026	(3,005)	22,743	(3,965)

Note (Spend \pm 5%):

1. Management Costs are reported by the Custodian (HSBC) as at the reporting date then projected for the remaining part of the year. Albeit a useful guide, using past costs as a basis for projecting the remaining costs carries the risk of over/under stating the spend for the year. If current cost trend continues then it is anticipated that there will be an underspend.
2. Underspend – Decrease in Bad Debt Write Off.
3. Transaction Costs are reported by the Custodian (HSBC) as at the reporting date (see further analysis) then projected for the remaining part of the year. Albeit a useful guide, using past transaction activity as a basis for projecting costs carries the risk of over/under stating the spend for the year. If current transaction activity continues then it is anticipated that there will be an underspend.
4. Underspend – Rebates relating to previous years and a reduction in transaction activity when compared to that budgeted.

Important to Note:

The above is a forecast of costs for Investment Management Expenses rather than a traditional budget. This is due to the level of estimation involved and the extent of the unknown, especially given that Investment Management and Performance Fees are based upon an unpredictable Market Value. This terminology has been adopted following discussions with the CIPFA Pensions Network.

6. Analysis of Transaction Costs for the Period 1 April 2022 to 31 December 2022

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	222,188.35	23,042.99	458,158.68	703,390.02
Pooled – Unit Trust	0.00	62,098.06	0.00	62,098.06
Grand Total (£)	222,188.35	85,141.05	458,158.68	765,488.08

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 March 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Review of NESPF Compliance with the Public Service Pensions Act 2013 (PSPA 2013) and Pension Regulator Requirements
REPORT NUMBER	PC/MAR23/GOV
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	4.1 & 4.2

1. PURPOSE OF REPORT

- 1.1 To provide Elected Members with a review of the North East Scotland Pension Fund's (the "Fund") compliance with the Public Service Pensions Act 2013 ("PSPA") and the Pensions Regulator's ("tPR") requirements during the financial year 2022/23.

2. RECOMMENDATION

- 2.1 That the Committee note the assurance provided in the main report.

3. FINANCIAL IMPLICATIONS

- 3.1 The performance of the Fund over the long term can impact on the Fund's funding level and therefore the ability to meet its long-term liabilities.

4. LEGAL IMPLICATIONS

- 4.1 There are no legal implications arising from the recommendation of this report.

5. ENVIRONMENTAL IMPLICATIONS

- 5.1 There are no direct environmental implications arising from the recommendation of this report.

6. MANAGEMENT OF RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Lack of effective governance framework and effective internal controls.	The Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.	L	Yes
Compliance	Failure to meet statutory and regulator requirements.	The Pension Fund carries out a six monthly compliance review, with annual reporting to the Pensions Committee.	L	Yes
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	No significant risks identified.	N/A	N/A	N/A
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

7. OUTCOMES

7.1 The proposals in this report have no impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

Other	N/A
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9. BACKGROUND PAPERS

None

10. APPENDICES

None

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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Governance Review –

**Compliance with the Public Service Pensions Act
2013 and Pension Regulator Requirements**

Annual Report to March 2023

1. Background

1.1 Governance Framework Review

A review of the Fund's governance framework is conducted on an annual basis. The purpose of the review is to assess current practices and procedures; ensuring the Fund has in place a robust governance framework and complies with legislation and best practice guidance.

In terms of Scheme compliance with legislation such as the Local Government Pension Scheme (Scotland) Regulations, the Public Service Pensions Act 2013 (PSPA 2013) and The Pensions Regulator (tPR) requirements (as set out in Code of practice no. 14 Governance and administration of public service pension schemes) a review is carried out on a six monthly basis by Fund officers with annual reporting to the Pensions Committee.

This report focuses primarily on governance relating to the North East Scotland Pension Fund Pension Board. The Pensions Committee are covered separately in other reports primarily the Training Report and the Pensions Committee Effectiveness Report.

1.2 Pension Board

The NESPF Pension Board is made up of equal numbers of member (4) and employer (4) representatives as follows:

- 1 x Aberdeen City Council
- 1 x Aberdeenshire Council
- 1 x The Moray Council
- 1 x Scheduled/Admitted bodies
- 1 x Unison
- 1 x Unite
- 1 x GMB
- 1 x UCATT

The role of the local pension board is to assist the Scheme Manager to:

- Ensure effective and efficient governance and administration of the Local Government Pension Scheme (LGPS); and
- Ensure compliance with the LGPS (Scotland) Regulations and other relevant legislation, together with any requirements imposed by tPR.

The Pension Board has a monitoring, assisting and reviewing purpose rather than being a decision-making body. In so doing, the Pension Board is helping to manage the reputational risk of the fund, and of the administering authority.

Meeting Attendance

During 2022/23 the Pension Board met formally (and concurrently with the Pensions Committee on):

24 June 2022
5 October 2022
16 December 2022
24 March 2023

During 2022/23 there was an overall 94% attendance rate at meetings (up to December 2022).

High attendance levels, and active participation at both the quarterly meeting and training events, demonstrates a strong commitment to the ongoing effectiveness of the NESPF Pension Board. In addition, low turnover of members ensures knowledge and experience is retained.

The table below details meeting attendance during 2022/23:

	24/06/2022	5/10/2022	16/12/2022	27/03/2023*	Individual (out of a possible 4)*
Cllr Jessica Mennie	✓**	✓**	✓	✓	4
Cllr Stephen Smith	✓	✓	✓	✓	4
Cllr Graham Leadbitter	X	✓	✓	✓	3
Morag Lawrence	✓	✓	✓	✓	4
Ian Hodgson	✓	✓	X	✓	3
Alan Walker	✓	✓	✓	✓	4
Neil Stirling	✓	✓	✓	✓	4
Gordon Walters	✓	✓	✓	✓	4

* Projected attendance

** Substitute member attended

Training Attendance 2022/23

It is a statutory requirement under Schedule 4 of the PSPA 2013 that members of local pension boards have “knowledge and understanding” of pensions law and are “conversant” with Scheme regulations and Fund documents. The issue of training is

approached carefully by both the administering authority and individual Board members.

The Board sits in June, following the main Committee and Board meeting, to review their annual report. This provides an opportunity for any issues around attendance to be addressed or gaps in training or knowledge to be discussed. Members are also asked to appoint a new Chair and Vice Chair for the forthcoming year.

During 2022/23 Pension Board members have continued to demonstrate a commitment to developing their “knowledge and understanding” by attending various training events covering key areas, with particular focus on Environmental, Social and Governance (ESG) topics and Scheme governance.

Fund officers maintain a training register to allow attendance to be monitored on an ongoing basis. The Training Policy, approved by Committee and reviewed annually, sets out review arrangements to address any poor attendance or failure to achieve or maintain the required level of knowledge and understanding. A copy of the Training Policy is available at <https://www.nespf.org.uk/about/policies-and-statements/>.

The table below details training attendance for 2022/23 to date as per our records:

	1	2	3	4*	5
Cllr Mennie	✓	X	X	✓	X
Cllr Smith	N/A	X	✓	T**	X
Cllr Leadbitter	N/A	X	✓	✓	X
Ian Hodgson	N/A	X	X	T**	✓
Morag Lawrence	N/A	✓	✓	✓	✓
Alan Walker	N/A	✓	✓	✓	✓
Neil Stirling	N/A	X	✓	X	✓
Gordon Walters	N/A	X	X	✓	✓

*Projected attendance

**T = tentative acceptance

1) 16th June 2022 – Elected Member Training

Training was carried out for elected members of Aberdeen City Council following the Local Government elections in May.

2) 25th and 26th May 2022 - PLSA Investment Conference

Dominant topics during the Conference included how to tackle climate change through ESG integration and increased investment in alternatives, private markets.

3) 20th-21st October 2022 - LGC Investment Scotland Seminar

A range of topics were covered over both days.

Day 1:

- LGPS State of Play
- Social Investing: where next to invest to meet your Sustainable Development Goals
- Commercial property: Green or bust – The future of real estate
- Emerging Markets – a sustainable investor's paradise?
- Macroeconomic Mayhem – helping to see the wood from the trees
- Birds of a feather – discussion session

Day 2:

- Exploring Investment opportunities in the current economic climate
- Where are we now on stewardship and governance
- Infrastructure 2.0 – where should we invest next
- How the LGPS can capitalise on opportunities in private credit
- Evolving Dynamic of the UK Power Market – Where Energy Security meets the Decarbonisation Agenda
- Case Study: Lothian and Falkirk Pension Fund Merger

4) 27th March 2023 - Net Zero Training Session

Training session (and follow up discussion) provided by Laura Colliss, Pension Manager and Graham Buntain, Investment Manager around Net Zero.

5) Hymans LGPS Online Academy

The training portal offers flexible on-demand learning modules covering the following topics to support Pensions Committee and Board members:

- An introduction to the LGPS
- LGPS Governance & Oversight Bodies
- Administration & Fund Management
- Funding & Actuarial Matters
- Investments
- Current Issues

Board members are expected to carry out an annual personal assessment of their knowledge and understanding and ensure they are meeting the requirements of the Training Policy.

Costs of Operation 2022/23

The costs and expenses of the Pension Board are met as part of the administration costs of the Fund. The Pension Board carries out its role in a cost effective manner, mindful of delivering value for money.

The costs and expenses of the Pension Board are principally travel related expenses to attend meetings and training events.

Summary of Costs

Train	£627.80 (Board)
Hotels	£1,873.70 (Board)
Total	£2,501.50

As we moved to a new “normal” following the pandemic more training events took place in person. As a result, the accompanying travel costs increased during 22/23 although still remained relatively low.

1.3 COMPLIANCE REVIEW

A compliance review is carried out by the Pension Fund on a six monthly basis, with annual reporting to the Pensions Committee.

Again the review found that the key internal controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively with the latest compliance review taking place in December 2022. A further review using tPR’s Scheme Assessment Tool confirmed there are no areas for concern.

Elected Member and Board Knowledge and Understanding

As per the Pensions Regulator Code of Practice no. 14, Pension Board members must have knowledge and understanding of the law relating to pensions, and any other matters which are prescribed in regulations. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

1.4 GOING FORWARD

Scheme Structure Review

While work progresses on the scheme structure review, elected members remain committed to delivering a well run and well governed scheme. The Pension Board will continue to assist and constructively challenge officers to deliver effective management and administration within their existing remit. Updates are available on the Scottish Scheme Advisory Board website at <https://lgpsab.scot/>

The Pensions Regulator's Code of Practice

Work is ongoing within the Fund to ensure it continues to meet legislative and tPR requirements. The new tPR single Code of Practice is now expected during 2023. A full compliance review will be carried out by officers once the new Code is finalised, although preparatory work is ongoing based on the draft Code to ensure we are in a strong position to meet any anticipated new requirements.

Pensions Administration Review

A report was presented to the Pensions Committee in March 2021 ([PC/MAR21/ADMIN](#)) to update on the outcome of an administration review carried out by the Fund's actuary, Mercer. The report produced 16 key recommendations and 13 have either been completed or are underway. Completed recommendations include transfer out quotations online, bulk processing of deferred benefits, improvements to active retirement processing and a new reporting suite using business intelligence software. Ongoing work includes automation for final pay provision, bulk processing of refunds, documentation review, matrix for calculation testing and making more processes available online. The only outstanding recommendation is reducing manual processes following automated updates for new joiners. Two recommendations, including centralised printing which would have been useful during the pandemic, are no longer in scope.

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 March 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/MAR23/STRAT
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	1.2-1.4, 4-5

1. PURPOSE OF REPORT

- 1.1 To inform the Committee and provide recommendations (if applicable) to changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

2. RECOMMENDATION

- 2.1 That the Committee note the contents of the report for assurance.

3. CURRENT SITUATION

- 3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

- 4.1 The performance of the Fund over the long term can impact on the Fund's funding level and therefore the ability to meet its long-term liabilities.

5. LEGAL IMPLICATIONS

- 5.1 There are a number of legal implications arising from the implementation of the strategy which have been identified and addressed as set out in this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendation of this report.

7. RISK

- 7.1 The Pension Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.

Appendix I, Copy of Risk Register (February 2023)

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) <small>*taking into account controls/control actions</small>	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy.	The Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.	L	Yes
Compliance	No significant risks identified.	N/A	N/A	N/A
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	No significant risks identified.	N/A	N/A	N/A
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

8.1 The proposals in this report have no impact on the Council Delivery Plan.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix I Copy of Risk Register (February 2023)
Appendix II Pension Administration Strategy
Appendix III Data Quality Improvement Plan

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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Strategy Report

Quarterly Reporting March 2023

1. Background

1.1 Quarterly Report to March 2023

The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations.

In line with the structural review of the Pension Fund, six specific areas were identified to fully address the strategic management of the Fund;

- Investment
- Accounting
- Benefit Administration
- Systems
- Governance
- Employer Relations

The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.

To support this support services updates covering the six strategic areas will also be available via the secure website at <http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>.

Also available on the Pension Fund website are all the policy documents that govern the Pension Fund including its various strategies.

2. Investment

2.1 Asset & Investment Manager Performance Report

Separate report, provided

2.2 Local Authority Pension Fund Forum (LAPFF)

Copies of the latest e-bulletins, quarterly engagement and annual reports are available at <http://www.lapfforum.org>.

3. Accounting

3.1 Budget/Forecast and Projected Spend 22/23 Report Statement of Accounts 2022-23 Action Plan

Separate reports, provided

4. Benefit Administration

4.1 Award Success

The Pension Fund were winners at the Local Authority Pension Fund (LAPF) Awards that took place on 15 December 2022, winning the Scheme Administration Award, having been shortlisted for this award and LGPS Fund of the Year (assets over £2.5 billion).

The Fund is also currently shortlisted for two awards with Pensions Age for DB Scheme of the Year and Best Investment Strategy Award – Pension Fund. The award ceremony will be held on 21 March 2023.

5. Systems

5.1 Performance Reporting

The quarterly update covering the period to December 2022 is attached to this report.

Appendix II, Pension Administration Strategy Report

6. Governance

6.1 Scheme Advisory Board

Copies of the latest bulletins and meeting are available at <http://lgpsab.scot>.

6.2 Staff Training Update

Individual staff training and development continued during 2022/23.

All staff once again completed the mandatory annual Information Governance refresher training. Focus then turned to completion of a range of other “mandatory” Aberdeen City Council online learning courses, with the aim of having all these completed by December 2023.

The Fund currently has 7 Trainee Pensions Officer (TPO) – Benefit Administration navigating through its internally developed training programme under the guidance of the Training & Development Team. The internal training programme was re-vamped at the end of 2022, the new learning modules will be more flexible and ensure training can be aligned to current work pressure demands within the wider benefits administration team. Given the number of Trainees, there will be an increased workload on the Training & Development Team during 2023/24, however we are confident in seeing a number of highly qualified Pensions Officers emerge at the end of the programme.

6.3 Recruitment

Two unfilled posts within the existing Pension Fund staff structure have now been converted to Modern Apprentice (grade 4) positions. The aim is to use the government backed scheme to get young, enthusiastic staff into the pensions department and train them up, with the hope of them then going on to become permanent members of staff. This is one solution for helping address the issue of staff recruitment and retention going forward.

6.4 Annual Governance Review

Review of NESPF compliance with the Public Service Pensions Act 2013 and the Pensions Regulator Code of Practice no.14.

Separate report, provided

6.5 Fraud, Whistleblowing and Breaches of the Bribery Act

There have been no cases during the year. All NESPF staff are required to familiarise themselves with the Whistleblowing Policy and compliance is monitored by the Governance Team. Aberdeen City Council will approve an updated Whistleblowing Policy in 2023.

7. Employer Relationship

7.1 Data Quality Improvement Plan

The last update to the Data Quality Improvement Plan was noted in the Strategy Report taken to the December 2021 Committee meeting (PC/DEC21/STRAT). The Plan has now been updated for 23/24.

Appendix III, Data Quality Improvement Plan

7.2 Terminations/Exiting the Fund

Under the current Termination Policy, for employers with no guarantor in the Fund (i.e. someone who agrees to take on responsibility for the exiting employer's orphaned liabilities), the termination position is assessed on an "insurance" basis upon exiting. This is a more cautious basis of assessment of the final liabilities for the employer than compared to an ongoing employer who would fund their liabilities in the longer term.

Further details of the current approach are set out in the Funding Strategy Statement (FSS) but critically the financial assumptions are predominately related to the yields on Government debt (known as Gilts). The principle of the Termination Policy and the assumptions used is to ensure, as far as possible, that there is sufficient monies to pay all the benefits due in relation to the members of the outgoing employer. The Fund chooses to take a more cautious view to avoid these costs falling to remaining employers via their contributions at subsequent valuations.

More recently, interest rates have risen and bond markets have been volatile which has led to a fundamental shift in the termination assumptions, generally resulting in lower termination liabilities and thus less money being requested on termination. The Fund therefore needs to consider if this is appropriate, given the risk associated with funding the liabilities left behind by an exiting employer then being passed to other Fund employers and ultimately the tax payer. In the short term, the Fund intends to consider this on a case by case basis taking into account all factors (financial and non-financial) as per the discretion in the FSS. A more formal review of the Termination Policy will be undertaken in conjunction with the Fund Actuary as part of the 2023 valuation and employers and Committee will be consulted with on any changes as part of the FSS consultation towards the end of 2023.

7.3 Employer Update

Osprey Housing exited the scheme with effect from 31 December 2022. All liabilities have been discharged following payment of the termination fee.

Inspire have secured a guarantee with Aberdeen City Council, Aberdeenshire and The Moray Council.

Aberlour Childcare Trust, having entered into a deferred debt arrangement in August 2022, have now terminated from the Fund with effect from 30 November 2022. In accordance with the Regulations the Scheme Actuary calculated the value of the liabilities as at the exit date in line with the NESPF Termination Policy. Due to the recent interest rate increases and volatility in the bond markets (as described above in 7.2) additional considerations were given to the appropriateness of the assumptions used. This resulted in a slight adjustment to the inflation assumption to take a more prudent approach to inflation risk. Following completion

of the termination process a termination certificate will be issued to Aberlour Childcare Trust and the liabilities will be discharged.

7.4 Financial Forum & Training

With the arrival of the bad weather in December, the decision was taken to postpone the Financial Forum and training session which had been scheduled to follow.

The Financial Forum will now take place the day preceding the September Committee meeting on 14 September, with the training session following the meeting on the 15 September 2023. This will allow the event and training to tie in with the results from the whole Fund valuation.

Risk Register



Pensions Dashboard

In line with best practice and the Pensions Regulator (tPR) Code of Practice, NESPF maintains a risk register to ensure the risks the Fund faces are properly understood, and risk mitigation actions are in place.

This Risk Register is reviewed and updated quarterly, with reporting to the Pensions Committee.

The Pensions Committee is responsible for receiving assurance on the effectiveness of NESPF risk management arrangements as per their Terms of Refence.

Risk Scoring Process

In order to apply an assessment rating (score) to a risk, NESPF implements a 4 x 6 matrix. The 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

4	Very Serious	4	8	12	16	20	24
3	Serious	3	6	9	12	15	18
2	Marginal	2	4	6	8	10	12
1	Negligible	1	2	3	4	5	6
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Current Heat Map (where risks NESPF001 through 029 fall)

4	Very Serious	●●	●●	●			
3	Serious	●	●●●●	●●●		●	
2	Marginal	●	●●●●	●●●●	●		●
1	Negligible						
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Red = High Priority (urgent action required)

Orange = Medium Priority (assess adequacy of current controls, consider further action required to mitigate risk)

Green = Low Priority (no immediate action subject to exceptions, continue to review)

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Pension Fund Level									
NESPFO01	Risk: Lack of effective risk controls	<ul style="list-style-type: none"> NESPF risk register is reviewed and updated quarterly by senior management team Consideration by Pensions Committee & Board at quarterly meetings NESPF specific Risk Management Policy in place 	4	1	4	↔	TREAT		Ongoing
	Causes: Failure to implement risk management framework								
	Potential Impact: Operational, financial and reputational issues								
NESPFO02	Risk: Poor Governance	<ul style="list-style-type: none"> Annual review of Funds Governance Compliance Statement and supporting policies and procedures Adherence to Council's Scheme of Governance Committee Effectiveness Report to support good governance 	2	2	4	↔	TREAT	Committee Effectiveness Report will be taken to September 2023 meeting. Normal governance arrangements are operating. ACC Scheme of Governance annual review completed in April 2022.	Ongoing
	Causes: Lack of robust and effective governance framework and supporting policies and procedures								
	Potential Impact: Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk								
NESPFO03	Risk: Lack of performance measures	<ul style="list-style-type: none"> Statutory and local KPI's Pension Administration Strategy published quarterly 	2	3	6	↔	TREAT	Revised PAS to Dec'22 Committee meeting.	Ongoing
	Causes: Failure to develop performance reporting framework								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Lack of transparency, poor performance could go unaddressed	<ul style="list-style-type: none"> Investment performance (against benchmark) reported to Committee quarterly 			6				
NESPF004	Risk: Failure of Pensions Committee and Pension Board to operate effectively	<ul style="list-style-type: none"> Publication of Pension Board Annual Report Training Policy reviewed annually and training register in place Nomination & Appointment procedure Annual Committee Effectiveness Report 	3	2	6	↔	TREAT	Normal Governance arrangements are operating. Pension Board Annual Report will be taken to June 2023 meeting. Reminders issued Jan'23 for Hymans training to be completed/feedback sought for further training areas.	Ongoing
	Causes: Poor attendance/commitment to role, high turnover of members, lack of training								
	Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk								
NESPF005	Risk: Operational Disaster; unable to access the workplace	<ul style="list-style-type: none"> ACC Disaster Recovery policy in place NESPF Business Continuity Plan to address loss/disruption to benefit administration system 	2	2	4	↔	TOLERATE	Disaster Recovery Testing is underway.	Ongoing
	Causes: Major incident, natural disaster								
	Potential Impact: Loss of service delivery, staff downtime								
NESPF006	Risk: Failure to recruit, retain and develop staff		3	3	9	↔	TREAT	Some posts currently being	

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Causes: Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities</p> <p>Potential Impact: Loss of service delivery, risk to succession planning</p>	<ul style="list-style-type: none"> All staff have individual development plans which are reviewed regularly through CR&D Training register to monitor 2 full time training & development staff Internal 2 year training programme for benefit admin staff Future-focused staffing structure, subject to ongoing review 						recruited but increased concerns regarding retaining and attracting right applicants. Jobs now advertised on LinkedIn and NESPF website for more targeted advertising. Recruitment process underway for Modern Apprenticeships.	Laura Colliss, ongoing
NESPF007	<p>Risk: Pay and price inflation valuation assumptions either higher or lower</p> <p>Causes: Economic factors</p> <p>Potential Impact: Potential increase in employer contribution rates and liabilities</p>	<ul style="list-style-type: none"> Quarterly funding updates to Committee (using FSM) Tri-ennial valuation Individual employer contribution rates 	3	5	15	↔	TOLERATE	Discussions commenced for 2023 valuation. Inflation risk and pay inflation continue to be a serious concern, risk level raised as a result.	Ongoing
NESPF008	<p>Risk: Over reliance on services provided by the Administering Authority (e.g. HR, Payroll, Legal, IT)</p> <p>Causes: VS/ER exercise leading to loss of knowledge and expertise, recruitment</p>	<ul style="list-style-type: none"> Internal controls including Policies and procedures Pensions Administration Strategy in place 	3	2	6	*NEW*	TOLERATE		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	freeze, poor service provision Potential Impact: Ability to meet regulatory and tPR requirements, staff downtime, loss of service delivery/delays and staff time	<ul style="list-style-type: none"> Communication between Pensions Manager and ACC Chief Officers 							
Governance									
NESPF009	Risk: Failure to adhere to relevant pensions legislation and guidance Causes: Political and legislative changes, increased administrative complexity, staff training issue Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action	<ul style="list-style-type: none"> Six monthly compliance review, with annual reporting to Pensions Committee and Board Active participation at LGPS events, Testing Working Party for administration software updates Established processes for staff training Oversight by Pensions Board Regular benefit admin team meetings to share knowledge 	3	3	9	↔	TREAT	Six monthly compliance review completed Dec'2022 with no issues. Next Annual Compliance report to Committee in March 2023.	Ongoing
NESPF010	Risk: Failure to comply with FOI or SAR requests Causes: Missed statutory deadlines due to training or resource issues	<ul style="list-style-type: none"> Internal written procedures in place FOI/SAR log to record & monitor 	3	1	3	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Audit criticism, legal challenge, reputational risk	<ul style="list-style-type: none"> Online process through GovServices 							
NESPFO11	Risk: Conflicts of Interest	<ul style="list-style-type: none"> Regular discussions between CO-Finance and Pension Fund Manager Standing agenda item at meetings Conflicts policy & register in place, with conflicts declarations issued annually 	2	4	8	↔	TREAT		Ongoing
	Causes: Competing professional and personal interests of staff, Committee and Board members								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
Benefit Administration									
NESPFO12	Risk: Fraud/Negligence	<ul style="list-style-type: none"> Segregation of duties for benefits staff authorising/submitting lump sum payments Pension payments signed off by benefits senior Participation in National Fraud Initiative exercise Overseas pensioner existence checking Breaches Policy & register Internal Audit control reviews 	2	3	6	↔	TREAT	Enhanced Admin to Pay module to provide secondary calculation checks as system requirement implemented into Live system in October 2020 with ongoing developments.	Ongoing
	Causes: Dishonesty or human error by staff, scheme members								
	Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk								
Investments									
NESPFO13	Risk: Insufficient assets to meet the Funds long term liabilities		4	3	12	↔	TREAT	Tri-ennial valuation process underway, investment	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Causes: Failure of investment strategy or fund managers to produce expected returns</p> <p>Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss</p>	<ul style="list-style-type: none"> Quarterly assessment of investment performance and funding updates Tri-ennial valuation and investment strategy review Diversification of assets Due diligence of fund managers External advisor for specialist guidance on strategy 						<p>strategy review to follow.</p> <p>Investment Management Consultancy Services appointed in August 2021.</p>	
NESPF014	<p>Risk: Failure to monitor investment managers and assets</p> <p>Causes: Lack of internal procedures</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> Quarterly assessment and reporting of asset performance Regular meetings with investment managers 	3	3	9	↔	TREAT		Ongoing
NESPF015	<p>Risk: Failure of world stock markets</p> <p>Causes: Systemic</p> <p>Potential Impact: Increase in employer contribution rates, financial loss</p>	<ul style="list-style-type: none"> Diversification of Scheme assets Tri-ennial valuation and investment strategy review 	4	2	8	↔	TOLERATE	Tri-ennial valuation underway, investment strategy review to follow.	Ongoing
NESPF016	<p>Risk: Negligence/Fraud/Default</p> <p>Causes: Dishonesty by fund managers, lack of care or human error</p>	<ul style="list-style-type: none"> Due diligence on appointment and appropriate clause in legal agreements 	2	1	2	↔	TOLERATE		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Financial loss, reputational damage	<ul style="list-style-type: none"> Fund management monitoring SAS 70 reports 							
NESPF017	Risk: Failure of Global Custodian	<ul style="list-style-type: none"> Regular meeting with custodian Service Level Agreement in place Receipt of SAS 70 reports and monitoring 	4	2	8	↑	TOLERATE	Global Custodian tender process to commence end of 2023/early 2024. Risk raised this quarter as service delivery is being impacted on by staffing issues.	Ongoing
	Causes: Financial market crisis, regulatory/political								
	Potential Impact: Loss of assets or control of assets								
NESPF018	Risk: Failure to implement ESG policy	<ul style="list-style-type: none"> Member training on roles and fiduciary duties Policy incorporated within SIP PRI membership, annual signatory assessment Monitor impact of climate change Adoption of TCFD Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work. 	2	3	6	↔	TREAT	Training session on Net Zero scheduled for March 27.	Ongoing
	Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy								
	Potential Impact: Reputational damage								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPFO19	Risk: Poor financial reporting	<ul style="list-style-type: none"> Comprehensive policies and procedures in place and review of <i>the Code</i> Attending CIPFA meeting and reviews Regular reconciliations e.g. fund managers, custodian Internal/External Audits 	3	2	6	↔	TREAT	Audited Annual Report and Accounts to Dec'22 meeting for approval and signing.	Ongoing
	Causes: Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues								
	Potential Impact: Qualified accounts								
Systems									
NESPFO20	Risk: Failure to secure and manage personal data in line with data protection requirements	<ul style="list-style-type: none"> Annual information governance training for staff Policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule) Secure physical storage measures Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc 	4	2	8	↔	TREAT	No new personal data breaches this quarter. Staff undertake annual information governance refresher training. Breaches procedure reviewed Feb 23.	Ongoing
	Causes: Cyber-attack, human processing error								
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties								
NESPFO21	Risk: Failure of the Fund's administration system		3	2	6	↔	TOLERATE	Increased risk of cyber attacks	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Causes: Outages, hardware and software failures and cyber attacks</p> <p>Potential Impact: Staff downtime, loss of service delivery</p>	<ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location Regular software updates Business continuity and disaster recovery plans in place 						<p>globally from Russia but mitigations in place.</p> <p>Work underway on new NESPF Cyber Security Policy.</p>	
NESPF022	<p>Risk Failure to track member status and trace information</p> <p>Causes: Poor record keeping</p> <p>Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action</p>	<ul style="list-style-type: none"> Tracing service in place (ATMOS) Use of 'Tell Us Once' service Data quality improvement plan including measures to trace Existence checking 	2	3	6	↔	TREAT	Tracing exercise underway with Target following committee approval in December 2021.	Ongoing
Employer Relationship									
NESPF023	<p>Risk: Failure to monitor employer covenant</p> <p>Causes: Failure of internal procedures</p> <p>Potential Impact: Orphaned liabilities could fall on remaining employers</p>	<ul style="list-style-type: none"> Continued implementation of Covenant Assessment and Monitoring Policy (within FSS) 	2	3	6	↔	TREAT	Online liability monitor now has ability to track funding levels and liabilities for each individual employer.	Ongoing
NESPF024	<p>Risk: Changes in early retirement strategies by employers</p> <p>Causes: Public service cuts to funding</p>	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) 	3	3	9	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Pressure on cash flows								
NESPF025	Risk: Employers leaving Scheme or closing to new members	<ul style="list-style-type: none"> • Management through Covenant Assessment and Monitoring Policy (within FSS) • Cost Cap mechanism introduced in LGPS regulations 	2	6	12	↔	TREAT	Regulation changes to allow greater flexibilities to exiting employers to reduce risk of orphaned liabilities now introduced. Risk level remains static, however it should be noted that the volume of discussions with employers is increasing.	Ongoing
	Causes: Public service cuts to funding, increased pension contribution costs								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPF026	Risk: Longevity	<ul style="list-style-type: none"> • Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases 	2	2	4	↔	TOLERATE	Discussions underway to prepare for 2023 valuation. Preparation of new FSS. CMI 2021 published in March'22 provides most up to date information on mortality data and will be used for 2023 valuation assumptions.	Ongoing
	Causes: Increasing life expectancy rates								
	Potential Impact: Increase in employer contribution rates and liabilities								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPF027	Risk: Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> Internal escalation procedures Breaches policy and register Monthly data submission reconciled by ERT Quarterly PAS reporting to Committee & Board Ongoing training provided by dedicated ERT to scheme employers Employer Briefings 	2	3	6	↔	TREAT	LGPS (Scotland) Regulations Summer 2022 which will help manage risk. Move to investment buckets will provide greater control to manage exits over longer term.	Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPF028	Risk: Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> Monthly data from employers which is reconciled by ERT Quarterly PAS reporting to Committee & Board Data quality improvement plan implemented 	2	2	4	↔	TREAT		Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action								
NESPF029	Risk: The Fund is unable to adequately comply with required administrative processes owing to McCloud judgement	<ul style="list-style-type: none"> SAB and other industry guidance Early and ongoing communication with employers McCloud project team created 	2	3	6	↔	TREAT	Work has begun communicating with employers and updating member records ahead of "McCloud Regulations" and Altair software sign off.	Ongoing
	Causes: Not having the required historic data, adequate resources, sufficient guidance								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation								

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North East Scotland Pension Fund
nespf

Pension Administration Strategy

Quarterly Reporting 31st December 2022

1. NESPF performance from 1st April to 31st December

1.1 Key administration tasks

Measuring performance is essential to evidence the efforts made by both the Pension Fund and Scheme employers to comply with statutory requirements and deliver a high-quality pension administration service. The Pension Fund aims to provide the information below within the agreed timescales shown.

Administration Task	Target	Completed cases during reporting period			Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
		Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	35	30	85.7%	91.4%	91.4%	91.4%	3		85.7%
Notification of retirement estimate	10 days	357	354	99.2%	99.2%	99.4%	100.0%		15	95.2%
Notification of retirement benefits	10 days	1547	1468	94.9%	96.9%	98.2%	99.2%	12	97	89.3%
Notification of deferred benefits	10 days	1211	1182	97.6%	98.4%	98.6%	98.6%	17	17	96.3%
Notification of refund	10 days	1071	1054	98.4%	99.3%	99.4%	99.6%	4	10	97.5%
Notification of transfer in value	10 days	96	80	83.3%	86.5%	89.6%	92.7%	7	22	67.8%
Notification of transfer out value	10 days	347	222	64.0%	72.9%	79.8%	83.9%	56	6	62.9%
		4664	4390	94.1%				99	167	90.9%

Completed cases during reporting period - reporting output is based on 5 and 10 day targets built into workflow cases for processing administration tasks as declared in the pension administration strategy:

- Overall revised percentage remains above 90%.

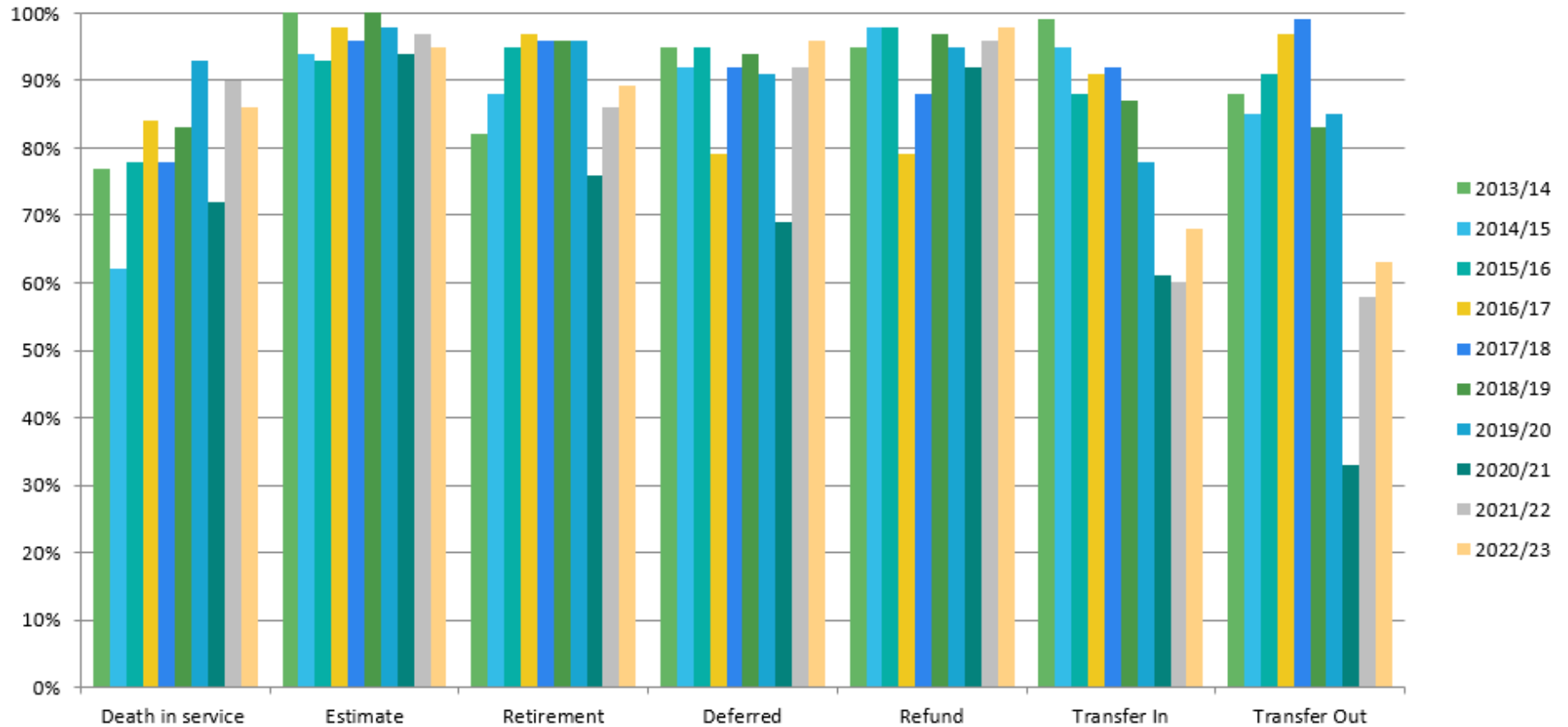
Additional targets for completed cases during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- 99 cases more than 20 days over target this period compared to 150 in Q3 2021/22.

Uncompleted cases during reporting period - cases identified that were due to be completed and do not have a Reply Due date set in advance of the end of the reporting period:

- 167 uncompleted cases this period compared to 182 in Q3 2021/22.

1.2 Previous years comparison

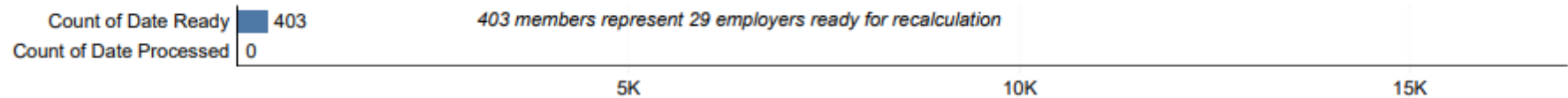


1.3 McCloud remedy

In December 2018 the Court of Appeal ruled in *McCloud v Ministry of Justice* that "transitional protection" offered to some members as part of pension reform amounted to unlawful discrimination. In July 2019 following employment tribunal Government stated difference in treatment would be remedied across all public sector schemes.

This dashboard provides an update on progress made to extend protections by recalculating benefits for all eligible members in accordance with the new regulations - recalculations will commence when the final regulations are published.

Eligible members



Count of Date Ready is the total number of eligible members ready for the revised calculation and *Count of Date Processed* is the total number of eligible members processed by the revised calculation.

Provisional guaranteed amounts

McCloud Status	Eligible Members	Provisional Cost	Provisional Members
Active	0	Null	0
Deferred	0	Null	0
Undecided	0	Null	0

This is the provisional future cost of benefits identified during the 1 April 2015 to 31 March 2022 remedy period for members taking their benefits at NPA/Age65.

Final guaranteed amounts

McCloud Status	Eligible Members	Final Cost	Final Members
Deceased	0	Null	0
Leaver	0	Null	0
Pensioner	0	Null	0
Undecided	0	Null	0

This is the additional cost of benefits identified during the 1 April 2015 to 31 March 2022 remedy period for benefits already paid to members.

Data Quality Improvement Plan 2023

1. Introduction

The quality of data held by the North East Scotland Pension Fund (NESPF) impacts directly on scheme administration. Inaccurate information leads to inaccurate calculations, administrative delays and poor customer service. In addition, holding incorrect or incomplete data could affect all aspects of the Fund including having financial, legal, operational and reputational impacts.

It is therefore essential that measuring and improving the accuracy of the information held on an ongoing basis is an administrative priority of the Fund.

In addition to the above, Pensions Regulator (tPR) is responsible for ensuring that Funds meet their legal requirements around maintaining data quality. Within the public sector environment, tPR have focused on this issue over the last few years, ensuring that Funds are compliant with Code of Practice 14 which requires Funds to carry out a review of their data regularly. The Code of Practice dictates that Funds are to review data at least annually to assess and measure their data for both accuracy and completeness.

2. Data Collection

The NESPF collect data in respect of active members from employers monthly through our secure online facility i-Connect. This system, which is currently being used by all participating employers, ensures that member data is received in a timely manner and is provided in a valid and accurate format. Collecting data in this way has had a huge impact on the quality of the data held by the Fund and will ensure it remains a high quality into the future.

The high quality of data held by the Fund had a direct impact on the triennial valuation carried out as at 31 March 2020. The valuation was carried out well within the agreed timelines and with very few queries received from the actuary on the data provided. The strike date for the next valuation is 31st March 2023 with the valuation results being signed off by the following March. The high quality of the data held by the Fund will enable both the Pension Fund and the actuarial team to have confidence in not only being able to deliver the exercise in a timely manner, but also in the accuracy of the results received.

As a result of changes to the scheme following recent legal proceedings and the imminent requirement to participate in the national pension dashboard the Fund continues to face challenges in administration. At the core of both of these large scale exercises is data and the success of meeting these requirements depends on the quality of the data held.

To meet the requirements of the additional projects, the ongoing objectives of the NESPF and the tPR, the following data improvement plan is to be implemented.

3. NESPF Objectives

1. To maintain the accuracy of members records to ensure that benefits held and paid are correct
2. To meet the regulatory requirements of pension administration including the Pension Regulator Code of Practice 14
3. To provide comfort to the administering authority and participating employers in the accuracy of the actuarial results based on the quality of the data provided
4. To ease the administrative burden of incomplete or inaccurate records.

4. Data Types

Data held by a Fund can be split into two different categories for measurement of quality:

1. **Common Data:** These data items are prescribed by tPR guidance and are the identifying fields for members
2. **Scheme Specific Data (Conditional Data):** These fields are relevant to the calculation of member benefits and there is currently no prescribed list of scheme specific data fields for the Local Government Pension Scheme (LGPS).

5. Measuring Data Quality

From September 2021, the Fund have assessed the quality of the data held on the system using the data quality dashboard available through Altair Insights. Insights uses a suite of tests against the data held to determine the validity of the information held for each members record. Missing or invalid data is available to the Fund through the dashboard and the accompanying reports.

It is important to understand that although the data quality tests can identify missing, incomplete or invalid information it is not able to test this data for accuracy. Accuracy of data held on the system is reliant upon the system calculations, Fund officer training and checking of member records as part of the administration and processing.

6. Data measured by NESPF

Common Data	Scheme Specific Data
NI Number (includes TN numbers which are classed as missing data)	Active members with zero actual pay
Surname	Active members with missing or invalid member contribution rate
Forenames/initials	Active members with inconsistency between member status and exit data
Sex	Deferred members with no date of leaving
Date of birth	Deferred members with zero pension
Date started pensionable service	Deferred members with inconsistency between member status and exit data
Retirement date	Deferred members with GMP expected based on service
Membership status	Undecided leavers with zero pension
Last status event	Undecided leavers with inconsistency between member status and exit data
Address (includes Gone Away which are classed as missing data)	Pensioner members with no retirement date
Postcode	Pensioner members with zero pension
	Pensioner members with GMP expected based on service
	Dependant members with zero pension

7. Data Score

From 2018 both Common and Scheme Specific Data scores were required to be included in the Pensions Regulator's annual scheme return. The scores declared by the NESPF for the last few years are as follows:

Data Type	2020	2021	2022	Target
Common Data	98.3%	98.1%	97.9%	100%
Scheme Specific Data	98.3%	98.8%	99.15%	100%

The 2023 common data score has reduced by 0.2% from 2021. This is as a result of an increase in the number of 'gone away' members that are held on the administration database. The large scale tracing exercise, planned for 2020, has been delayed due to the pandemic and contract negotiations. Having

resolved these issues the tracing will take place in quarter 1 of 2023 with address tracing to be carried out against all 'gone aways.' It is expected that following the tracing and verification of these members the data scores will improve significantly.

The increase in the scheme specific data score is as a result of work undertaken within the Fund to improve and correct historical data.

The Employer Relationship Team will seek to improve the scores further in the forthcoming year by investigating and fixing the errors identified as part of the suite of Insight reports.

8. Reporting

The data quality improvement plan is approved at committee level and it is expected that, from September 2023 onwards, an update will be included in the committee papers on a quarterly basis alongside the Pension Administration Strategy report.

The plan will be updated annually in January of each year and brought to committee for approval in March.

DATA QUALITY IMPROVEMENT PLAN

Objective	Action	Timetable	Area of responsibility & resource requirements	Financial implications
Address Tracing	<p>Around 2200 members are held on the system as 'gone away.' These members consist of deferred, pensioner and frozen refund members (no active members should be held as 'gone away'.) The Fund will look to directly award a contract to a tracing organisation through the National Framework.</p> <p>This exercise has been paused for some time due to the pandemic and procurement issues.</p>	One off trace exercise Quarter 1 of 2023	Employer Relationship Team	£20,000 (including address validation)
Comprehensive review of i-Connect reconciliation and checklist process	Current checklists and reconciliation process to be reviewed to include ongoing checking of additional data items including month by month changes, employer v employee contributions, pay changes.	June 2023	Employer Relationship Team	None
Insights Data Quality Dashboard	<p>Altair Insights reporting tool and the standard tests set up to create the dashboard will be used to provide data quality scores for the Annual Scheme Return.</p> <p>The detailed reports list any errors found and will be used to cleanse the data held on an ongoing basis ensuring that both current and historical data is valid.</p>	Ongoing requirement for data scores to be provided to tPR (annual return) every September	Employer Relationship Team	No additional costs expected (Insights is used for all administrative reporting and is used across the Fund)

National Insurance Database Exercise	<p>Using the NI database the Fund will identify where members have benefits with other Scottish LGPS Funds resulting in transfer/joining of records.</p> <p>This initial exercise will be used to tidy up historical issues and prepare for becoming dashboard ready. On an ongoing basis the use of the database is being incorporated into administration procedures and under constant monitoring.</p>	March 2024	Benefits Team	No additional cost expected (will result in increased transfers in and out between Scottish Funds)
Undecided Leavers Exercise (Status 2 records)	In advance of the 2023 triennial valuation a large scale exercise to reduce the backlog of aggregation cases accumulated during the pandemic is to be carried out to reduce the number of unprocessed records, this was agreed with Internal Audit.	Overtime project to run from January to June 2023	Benefits Team	£30,000 - £40,000 Estimate based on actual overtime project cost of £22,790 to reduce amount of aggregation cases prior to last valuation however there were 1500 fewer cases)
Frozen Leaver Exercise (Status 9 records)	Following completion of the tracing exercise a further review of the unpaid refunds will be carried out by the administration team to reduce the amount of unclaimed payments.	March to September 2023	Systems Team	No additional staffing costs.
Dashboard Preparation	With the introduction of the national UK pensions dashboard, which the LGPS schemes are expected to connect by end September 2024, there will be a requirement for data to be of a high quality to ensure that pensions are found and	January 2023 – September 2024 (ACC legal currently liaising with Heywood in respect of a free initial data	Systems Team /Employer Relationship Team/ Benefits Team	Data rectification costs unknown until data readiness assessment completed.

	<p>accurate figures are provided via the dashboards .</p> <p>Significant work to be undertaken in advance of the 2025 date to ensure that the NESPF data is dashboard ready and that resources are allocated to deal with the impact of this national product launch.</p>	readiness assessment)		No further staff resources required at this time.
McCloud Project	<p>Change of regulations require that all members who were active on or before the 31st March 2012 and in the CARE scheme from 1st April 2015 are now protected by an 'underpin' which compares the benefits that would have been due under the old 'final salary' scheme.</p> <p>Comprehensive review to identify any missing data in respect of hours worked will be carried out and reconciled with employers to allow the benefits team to recalculate and rectify members benefits where the underpin applies.</p> <p>The NESPF are in a good position with this requirement with work already undertaken and a project lead in place for the initial part of the process.</p>	Regulations expected to come into force in October 2023 with completion dates outlined as part of the requirements	All operational teams	<p>System Costs: £25,000 (System development for individual and bulk calculations to carry out the underpin check and amendments to programs for revaluation, pensions increase, benefit statements and valuation)</p> <p>In house staff used for all aspects of the regulatory requirements</p>
AVC Reconciliation	<p>Annual Reconciliation of AVC contracts with Prudential and Standard Life in line with year end</p> <p>From 2020 Prudential have experienced issues with providing fund values as at 31</p>	July/August 2023	Employer Relationship Team	No additional costs expected

	<p>March as part of the year end process. This is as a result of implementing a new system. Work is ongoing to rectify however this has impacted on the ability to reconcile to data held by the NESPF. The ongoing use of i-Connect within the Fund ensures that the data is as accurate as possible.</p> <p>Once information is provided as at 31 March 2023 a comprehensive review/reconciliation will be undertaken.</p>			
Mortality tracing	<p>Monthly mortality tracing, carried out in conjunction with ATMOS data services is to be revised from 1 February 2023 to include additional checks by the provider.</p> <p>For 2023, in advance of the tracing exercise and the status 9 exercise all members with a frozen refund will be included in an ATMOS to check for any deceased members.</p>	March 2023 (ACC legal liaising with ATMOS data services in respect of a change of Terms following an ICO recommendation)	Operations Manager	Cost of ATMOS tracing is £0.20 er member. Mortality tracing is carried out monthly and is part of the requirements of scheme administration and the insurance 'buy in' with Rothesay Life.
Start Date Exercise	In accordance with an audit requirement (2021/22) all start dates for members on the database system prior to the introduction of i-Connect will be checked against the scanned documents or checked with the employer for accuracy.	December 2023	Systems Team	No additional cost – large scale exercise to be completed by Pension Assistants

Claire Mullen – Employer Relationship Manager – January 2023 – Version 1.4

Exempt information as described in paragraph(s) 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

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