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To: Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Alphonse, Davidson, Henrickson, Massey and van Sweeden (and two Labour vacancies) (Pensions Committee); Mrs M Lawrence, Chairperson; Councillor Smith Vice-Chairperson; Councillors Gordon and Mennie; Mr J Lindley, Mr N Stirling, Mr A Walker and Mr G Walters (Pension Board).

Town House,
ABERDEEN, 14 March 2024

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Committee Room 2 - Town House** on **FRIDAY, 22 MARCH 2024 at 10.00 am.** 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 (LEGAL)

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 15 December 2023 - for approval (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 2024-27 - IA/24/004 (Pages 13 - 22)
- 8.2. Internal Audit Update Report - IA/24/005 (Pages 23 - 32)
- 8.3. Internal Audit Report AC2410 - Pensions Investment Strategy - IA/AC2410
(Pages 33 - 46)
- 8.4. External Audit Annual Plan 2024/25 (Pages 47 - 64)

LEGAL OBLIGATIONS

- 9.1. Review of NESPF Compliance with the Public Service Pensions Act 2013 (PSPA 2013) and Pension Regulator Requirements - PC/MAR24/GOV
(Pages 65 - 78)

SCRUTINY

- 10.1. Strategy - PC/MAR24/STRAT (Pages 79 - 110)
- 10.2. Statement of Accounts 2023/24 - Action Plan - PC/MAR24/ACCOUNTS
(Pages 111 - 118)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 11.1. Procurement - PC/MAR24/PRO (Pages 119 - 126)
- 11.2. Investment Strategy - PC/MAR24/INVSTRAT (Pages 127 - 136)
- 11.3. Asset Investment and Performance Management Report - PC/MAR24/AIMPR (Pages 137 - 198)

Integrated Impact Assessments related to reports on this agenda can be viewed [here](#)

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 15 December 2023. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Allard, Alphonse, Cross, Davidson, Henrickson, Massey, McLellan, McRae and van Sweeden (Pensions Committee); and Mrs M Lawrence, Chairperson; Councillor Smith, Vice Chairperson; Councillors Leadbitter and Mennie; and Mr N Stirling and Mr A Walker (Pension Board).

Also in attendance:- Jonathan Belford, Chief Officer – Finance; Laura Colliss, Pensions Manager and Graham Buntain, Investment Manager.

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.

ANNOUNCEMENT

1. The Convener advised Members that Councillor Leadbitter would be stepping down from the Pension Board following today's meeting. He would be replaced by Councillor David Gordon who was in attendance to observe the meeting. The Convener welcomed Councillor Gordon and thanked Councillor Leadbitter for his helpful participation and contributions at meetings over the years.

DETERMINATION OF EXEMPT BUSINESS

2. The Committee was requested to determine that the following items of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – Items 10.1 (Termination of Admission Agreement – First Aberdeen), 10.2 (Investment Strategy Update) and 10.3 (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 classes described in paragraphs 6 and 12.

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

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

PENSIONS COMMITTEE AND PENSION BOARD

15 December 2023

MINUTE OF PREVIOUS MEETING OF 15 SEPTEMBER 2023

4. The Committee had before it the minute of its previous meeting of 15 September 2023 for approval.

The Committee resolved:-

to approve the minute as a correct record.

BUSINESS PLANNER

5. The Committee had before it the planner of committee business as prepared by the Interim Chief Officer – Governance (Legal).

The Committee resolved:-

to note the business planner.

BUDGET / FORECAST 2023/2024 - PC/DEC23/BUD

6. The Committee had before it a report by the Director of Resources which set out the Management Expenses Budget/Forecast and projected spend 2023/24 for the North East Scotland Pension Fund (NESPF).

Members asked a number of questions on the report, particularly in relation to the staffing costs variance and a mismatch with the offset from vacant posts (page 20 of the agenda refers).

The report recommended:-

that the Committee note the update on the NESPF Management Expenses Budget/Forecast and projected spend 2023/24, shown in the main report.

The Committee resolved:-

- (i) to note that officers would consider the presentation of data in future reports to address the points raised in respect of the staffing costs; and
- (ii) to otherwise note the report.

2023 ACTUARIAL VALUATION INITIAL RESULTS AND FUNDING STRATEGY STATEMENT - PC/DEC23/VAL

7. The Committee had before it a report by the Director of Resources which provided details of the 2023 triennial valuation for the North East Scotland Pension Fund including the proposed assumptions outlined in the Draft Funding Strategy Statement.

PENSIONS COMMITTEE AND PENSION BOARD

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The report recommended:-

that the Committee –

- (a) agree the funding approach outlined in the 2023 Funding Strategy Statement including the assumptions used in the calculation of the Fund liabilities for the triennial valuation as at 31 March 2023; and
- (b) note the overall whole Fund valuation as at 31 March 2023 (using the proposed assumptions).

The Committee resolved:-

- (i) to note that officers would provide the scheme actuary commentary in respect of the proposed contribution rates, either before or alongside the report to the March Committee; and
- (ii) to approve the recommendations.

PENSIONS COMMITTEE ANNUAL EFFECTIVENESS REPORT - COM/23/340

8. The Committee had before it a report by the Director of Commissioning which presented the annual report of the Pensions Committee to enable Members to provide comment on the data contained within.

The report recommended:-

that the Committee –

- (a) provide comments and observations on the data contained within the annual report; and
- (b) note the annual report of the Pensions Committee.

The Committee resolved:-

- (i) to note that officers would consider how best to communicate decisions taken at the Committee to other Members in future to ensure awareness; and
- (ii) to otherwise note the report.

STRATEGY - PC/DEC23/STRAT

9. The Committee had before it a report by the Director of Resources which provided an update to Committee and made recommendations (where applicable) to changes to the North East Scotland Pension Fund (NESPF).

The report provided a final update on the project to issue all active and deferred members with annual benefit statement information; notification that the McCloud Remedy had become law through The Local Government Pension Scheme (Remediable Service)(Scotland) Regulations 2023 on 1 October 2023; an update on Hymans Knowledge Progress Assessment, as well as the usual Pension Administration Strategy and Risk Register updates. There was also information on the fact that Aberdeen Cyrenians had terminated their admission agreement with the NESPF as of 31 October

PENSIONS COMMITTEE AND PENSION BOARD

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2023. The report also sought approval for officer travel in respect of various Advisory Committees.

Members asked a number of questions in relation to the information provided in the report.

The report recommended:-

that the Committee –

- (a) note the final outcome of the annual benefit statement project, which was completed successfully, for assurance (4.1 of the main report);
- (b) approve the travel for one Advisory Committee Officer (Pension Fund Manager or suitable Officer substitute) to attend the following Advisory Committee (as per item 6.2 of the main report);
 - Partners Group, March 2024 – Miami, US
 - HarbourVest, May 2024 – Boston, US
 - Robbins Geller, June 2024 – Baltimore, US
 - Unigestion, June 2024 – Lucerne, Switzerland
 - RCP, October 2024 – Chicago, US
 - IFM, October 2024 – US
 - HarbourVest, December 2024 – Boston, US;
- (c) 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 have been confirmed:
 - Blackrock, Date and Location to be confirmed
 - Capital Dynamics, Date and Location to be confirmed; and
- (d) note the update to the Fund policy documents as detailed in 6.4 of the main report.

The Committee resolved:-

- (i) in relation to questions around third sector organisations remaining with the Fund, to note that officers would provide detail around the optics of this on an annual basis; and
- (ii) to approve the recommendations.

In accordance with the decision taken under article 2, the following items were considered with the press and public excluded

PENSIONS COMMITTEE AND PENSION BOARD

15 December 2023

TERMINATION OF ADMISSION AGREEMENT - FIRST ABERDEEN - PC/DEC23/TERM

10. The Committee had before it a report by the Director of Resources which provided details of the termination of First Aberdeen from the North East Scotland Pension (NESPF) with effect from 31 October 2023.

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

The report recommended:-

that the Committee –

- (a) note that First Aberdeen have ceased to participate within the NESPF with effect from 31 October 2023;
- (b) note that the scheme actuary will calculate the final surplus exit credit in line with the requirements of the Local Government Pension Scheme (Scotland) Regulations 2018; and
- (c) delegate authority to the Chief Officer – Finance, in consultation with the Interim Chief Officer – Governance, to sign off the final calculated surplus exit credit amount for payment to First Aberdeen.

The Committee resolved:-

- (i) to thank Mr Ian Hodgson, First Group, for his participation and helpful questions and contributions during his time on the Pension Board; and
- (ii) to approve the recommendations.

INVESTMENT STRATEGY UPDATE - PC/DEC23/INVSTRAT

11. The Committee had before it a report by the Director of Resources which provided an update in relation to the ongoing Under Armour Class Action relating to the North East Scotland Pension Fund (NESPF) for the three month period ending 30 September 2023, and also set out information on the annual PRI (Principles for Responsible Investment) submission in respect of the Fund's Environmental Social and Governance (ESG) capabilities.

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:-

- (i) to note that officers would give consideration to the points made by Members in relation to the Fund issuing communications on investments and ESG, which could assist in the number of Freedom of Information requests received; and
- (ii) to otherwise note the report.

PENSIONS COMMITTEE AND PENSION BOARD

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**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/DEC23/AIMPR**

12. The Committee had before it a report by the Director of Resources which provided a review of the investment activity of both the North East Scotland Pension Fund and the merged former Aberdeen City Council Transport Fund (which was still held separately at an asset level) for the three month period ending 30 September 2023.

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.

- **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	22 March 2024								
4	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		
5	Pensions Investment Strategy audit	To present the outcome of the audit		Jamie Dale	Internal Audit	Internal Audit	2.2		
6	Internal Audit plan for 2024-27	To present the plan		Jamie Dale	Internal Audit	Internal Audit	2.2		
7	Internal Audit Update	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.		Jamie Dale	Internal Audit	Internal Audit	2.2		
8	Procurement	To request approval to enter into contractual arrangements for provision of soft facilities management services		Mairi Suttie	Finance	Pensions	1.2		
9	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	1.2, 1.4, 3-5		
10	Investment Strategy	1.1 To provide an update on the re-balancing activity relating to the North East Scotland Pension Fund (NESPF) for the three month period ending 31st March 2024; and to provide an update on the Principles of Responsible Investment (PRI) results.		Graham Buntain	Finance	Resources	5.2		
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	R	The Budget/Forecast and Projected Spend 23/24 Report is currently under review and a revised report is expected to be taken to the June 2024 meeting.
13	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		
14	External Audit Annual Plan 2024/25	To present the annual plan		Anne MacDonald	External Audit	External Audit	2.1		

	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
2									
15	21 June 2024								
16	Nominations to LAPFF Executive Committee	To determine any nominations		Laura Colliss	Finance	Resources	6.1		
17	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	1.2, 1.4, 3-5		
18	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		
19	Investment Strategy	To present an update on the investment strategy		Graham Buntain	Finance	Resources	5.2		
20	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
21	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
22	Internal Audit Annual Report 2023/24	To provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2023/24		Jamie Dale	Internal Audit	Internal Audit	2.2		
23	13 September 2024								
24	NESPF Annual Report & Accounts	To present the audited annual accounts		Laura Colliss	Finance	Resources	3.1		
25	NESPF Annual Audit Report and Covering Letter	To present the External Audit annual audit report		Anne MacDonald	External Audit	External Audit	2.1		
26	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	1.2, 1.4, 3-5		
27	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		
28	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
29	13 December 2024								
30	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	1.2, 1.4, 3-5		
31	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Resources	GD 8.5		
32	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		
33	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	22 March 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Plan 2024-27
REPORT NUMBER	IA/24/004
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 2024-27.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2024-27.

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 - 2024-27

11. REPORT AUTHOR DETAILS

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Internal Audit

North East Scotland Pension Fund Internal Audit Plan 2024-27

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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 2024-2027.

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.

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 2023-26** – In addition to the review of previous assurance work, the agreed plans for 2024/25 and 2025/26, agreed as part of the 2023-2026 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 2024 to March 2027 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 – 2024-27 Internal Audit Plan

Function	Auditable Area	Objective	Principal Risk	Assurance
2024/25				
North East Scotland 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				
North East Scotland Pension Fund	Key Administrative Processes	To provide assurance over the fulfilment of the key administrative processes across the Pension Fund.	Operational	Core
2026/27				
North East Scotland Pension Fund	Complaints Handling	To ensure that the Fund's complaints procedure is being complied with and that data generated is used to monitor and improve performance.	Operational	Wider

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	22 March 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Update Report
REPORT NUMBER	IA/24/005
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.

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.
- 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. MANAGEMENT OF 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
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10. APPENDICES

10.1 Appendix A - Aberdeen City Council NESPF - Internal Audit - Update Report.

11. REPORT AUTHOR DETAILS

Jamie Dale, Chief Internal Auditor
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(01467) 530 988

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Internal Audit

North East Scotland Pension Fund Pensions Committee Internal Audit Update Report March 2024

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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 – Pensions Investment Strategy. This completes the Internal Audit Plan for 2023/24
- Management has closed one audit recommendation.

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 2023/24 Audits

Service	Audit Area	Position
Pensions	Pensions Investment Strategy	Final audit report issued

2.2 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2410 – Pensions Investment Strategy	2023/24	<p>The level of net risk is assessed as MODERATE, with the control framework deemed to provide REASONABLE assurance over the Council's approach to the care management system.</p> <p>Assurance was taken over the following specific aspects of governance, risk management and control: Approved Investment Strategy, Governance Arrangements, Fund Managers, Regular Performance Monitoring, and ESG Reporting.</p> <p>However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically: Asset Class Strategic Allocation, Investment and Disinvestment Decision Making, and Board and Committee Members' Training.</p> <p>Recommendations have been made to address the above risks, including enhancing asset and investment performance reporting to cover rebalancing planned actions and reason for inaction; formalising operational investment monitoring outcomes; and documenting investment value and advice considerations and the basis for disinvestment decisions.</p>

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 December 2023 (the baseline for our exercise), one recommendation was due and has since been closed by Management.

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.

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	22 March 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2410 – Pensions Investment Strategy
REPORT NUMBER	IA/AC2410
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 the Pensions Investment Strategy.

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 the Pensions Investment Strategy.

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 AC2410 – Pension Fund Investment Strategy

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of the Pensions Investment Strategy

Status: Final

Report No: AC2410

Date: 1 February 2024

Assurance Year: 2023/24

Risk Level: Corporate

Net Risk Rating	Description	Assurance Assessment
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

Report Tracking	Planned Date	Actual Date
Scope issued	26-Sep-23	26-Sep-23
Scope agreed	29-Sep-23	29-Sep-23
Fieldwork commenced	02-Oct-23	02-Oct-23
Fieldwork completed	03-Nov-23	18-Dec-23
Draft report issued	24-Nov-23	20-Dec-23
Process owner response	15-Dec-23	16-Jan-24
Director response	22-Dec-23	29-Jan-24
Final report issued	29-Dec-23	01-Feb-24
Pensions Committee	22-Mar-24	

Distribution	
Document type	Assurance Report
Director	Steven Whyte, Director – Resources
Process Owner	Laura Colliss, Pensions Manager
Stakeholders	Jonathan Belford, Chief Officer – Finance
	Graham Buntain, Investment Manager
	Mairi Suttie, Governance and Communications Manager
	Vikki Cuthbert, Interim Chief Officer – Governance*
Final Only	External Audit
Lead auditor	Farai Magodo, Auditor

1 Introduction

1.1 Area subject to review

The North East Scotland Pension Fund (NESPF) is administered by Aberdeen City Council and was valued at £5.7b at the end of the 2022/23 financial year with nearly 77,000 members. The Aberdeen City Council Transport Fund was previously separate to NESPF but was merged with NESPF on 1 April 2022.

The Fund is built up from contributions from both employees and employing bodies, together with interest, dividends, and rent from investments, out of which pensions and other benefits are paid. Employee contributions are fixed by statute, while employer contributions are assessed every three years by an independent actuary to determine the level of contributions necessary by employing bodies to ensure that the Fund can meet future benefits as they fall due.

To maintain, and where appropriate increase, the value of the Fund's assets to meet future liabilities as they fall due, and maintain the level of contributions appropriately, the Fund has set an Investment Strategy. This sets out a strategic portfolio allocation (between different classes or types of assets e.g., equities, bonds, credit, infrastructure) that each investment decision should aim to bring the Fund closer to achieving.

The Fund employs an internal Investment Management Team, at a cost of around £232k per annum, and uses external Investment Fund Managers, expenses for the services and performance of which currently amount to around £18m per annum. Fees vary depending on the type of investment, and performance as measured by the size and growth of assets allocated to a manager as compared with relevant benchmarks. An Investment Management Consultant has been appointed, and fees are payable where consultants are engaged to provide advice or conduct research.

1.2 Rationale for review

The objective of this audit is to provide assurance over compliance with the Pension Fund investment strategy, and the adequacy of controls over management of investments.

This area was last reviewed in September 2020. A recommendation was made to address a major weakness relating investment decision supporting documentation. In addition, recommendations were made to enhance performance reporting and procedures.

This has been included in 2023/24 NESPF Internal Audit Plan due to the material value of investments and the reputational risk to the Fund should employees and pensioners suffer financially due to poor investment decisions.

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

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
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

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 **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to the care management system.

Assurance was taken over the following specific aspects of governance, risk management and control:

- **Approved Investment Strategy** – The North East Scotland Pension Fund (the Fund) has an Investment Strategy that was last approved in March 2021 by the Pensions Committee. When developing the strategy, consideration was given to the most recent actuarial valuation at that time (103% funding position), the Fund's funding strategy statement objectives (e.g. long term 100% solvency), and external investment advice.
- **Governance Arrangements** – Investment governance arrangements are clearly set out in the Council's scheme of governance and the Fund's governance policy. The Chief Officer – Finance is also supported by the Fund's Pensions Manager and Investment Manager, when making investment decisions. In addition, relevant policies and guidance are published providing a framework of control for investment decisions, including the Fund's investment policy; statement of investment principles; and conflicts of interest policy, the latter evidenced by the Fund's conflicts register for members and officers.
- **Fund Managers** – The fund managers used by the Fund are all authorised by the Financial Conduct Authority. In addition, annual audited internal controls compliance reports for all fund managers are monitored by the Investment Manager to provide assurance over the fund managers' investment management and reporting arrangements.
- **Regular Performance Monitoring** – Regular performance monitoring is in place. Quarterly performance reports are provided by the fund managers and a consolidated report validating performance across all fund managers is provided on the same frequency by the Fund's custodian. In addition, quarterly meetings take place with the fund managers to discuss reported performance, while fortnightly meetings take place with the custodian to monitor progress resolving any fund manager performance issues. Asset and investment manager performance is a quarterly Pensions Committee meeting standing item.
- **ESG Reporting** – The Fund has a fiduciary duty to consider environmental, social, and corporate governance (ESG) as an embedded principle of risk and return assessment in determining its investment portfolio and to ensure fund managers are doing likewise. Engagement with fund managers on ESG matters was evident.

However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically:

-
- **Asset Class Strategic Allocation** – The Investment strategy agreed in March 2021 is not being achieved with growth assets making up 64.6% against a target of 55% (+/-5%) and income / protection assets at 35.4% compared to a target of 45% (+/-5%) as at 15 December 2023 (see appendix 3). In addition, performance reporting to Pensions Committee lacks clarification on planned actions to rebalance the fund in line with the strategy and what is preventing action been taken. In the absence of clear performance reporting covering decisions to postpone rebalancing, there is a risk of overexposure to growth assets and of recent gains not being secured for scheme members as planned.
 - **Investment and Disinvestment Decision Making** – Aspects of investment decision making and the funding of those investments are not clearly supported. There are no minutes / action notes of internal operational meetings where decisions are made to hold off rebalancing the Fund in line with the strategic allocation. Also, once the decision has been made to make an investment it is not clear how the value of the investment is determined, when it is appropriate to seek external investment advice and the basis for disinvestment decisions to fund a given investment. These issues increase the risk Best Value will not be achieved.
 - **Board and Committee Members' Training** – Mandatory training has not been completed as required by all Pension Board and Pensions Committee members. This increases the risk Board members will lack the necessary knowledge and understanding to identify and challenge breaches of pensions legislation and regulations and Pensions Committee members will be insufficiently informed to adequately scrutinise investment decisions in the interests of the Fund. The Pensions Manager has already agreed to an External Audit recommendation to help address this by promoting and encouraging internal and external training. To avoid duplication of effort no Internal Audit recommendation has been made, however this will be monitored through updates to Committee on implementation of the External Audit action.

Recommendations have been made to address the above risks, including enhancing asset and investment performance reporting to cover rebalancing planned actions and reason for inaction; formalising operational investment monitoring outcomes; and documenting investment value and advice considerations and the basis for disinvestment decisions.

2.3 Severe or major issues / risks

No severe or major issues/risk 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>Asset Class Strategic Allocation – Strategic goals should be specific, measurable, attainable, responsible, and time-bound (SMART) to be meaningful and to ensure they are achieved as anticipated.</p> <p>The Fund’s investment strategy describes the ‘<i>strategic allocation</i>’ desired asset class percentage split, which was agreed in March 2021, and as at 15 December 2023 this is not being achieved (see appendix 3). Growth assets are making up 64.6% against a target of 55% (+/-5%), while income/protection assets are at 35.4% compared to a target of 45% (+/-5%).</p> <p>The Pensions Committee performance reporting covers the actual compared to strategic allocation asset split and separately investment decisions are reported to Pensions Committee with commentary on the basis of those decisions, including with respect to rebalancing the fund (within the Investment Strategy paper). However, commentary is absent from asset and investment quarterly performance reports to Pensions Committee describing reasons for postponing fund rebalancing in line with the strategic allocation and when it is anticipated conditions will be suitable to do so in future.</p> <p>Whilst Pensions Committee members have the opportunity to receive verbal clarification on these matters when reviewing regular asset and investment performance reports, the absence of documented rebalancing plans and reasons for postponing rebalancing actions as part of performance reporting, increases the risk of overexposure to growth assets and of recent gains not being secured for employees / pensioners as planned.</p>		
IA Recommended Mitigating Actions			
Asset and investment performance reporting to Pensions Committee should adequately cover planned actions to rebalance the Fund in line with the investment strategy and where appropriate reasons for action not being taken.			
Management Actions to Address Issues/Risks			
<i>All rebalancing decisions are approved by the CO Finance and an investment strategy update report is provided to Committee. An additional note to the Asset and Investment performance report will be provided to either refer committee to the Investment Strategy update report or to state no changes have been made during the reporting period, which will be highlighted, discussed and minuted.</i>			
Risk Agreed		Person(s)	Due Date
Yes		Pension Manager	March 2024

Ref	Description	Risk Rating	Moderate
1.2	<p>Investment and Disinvestment Decision Making – The Council’s Scheme of Governance delegates to the Chief Officer – Finance the power:</p> <p><i>“To implement investment arrangements for the North East Scotland Pension Fund in accordance with the Local Government Pension Regulations, including sourcing and appointment of investment fund managers within the approved strategy”.</i></p>		

Ref	Description	Risk Rating	Moderate
	<p>This means the Chief Officer – Finance has delegated authority to determine the approach to achieving the strategic allocation of Fund assets, which are currently overweight in terms of growth assets.</p> <p><u>Investment Timing</u></p> <p>Whilst the Service advised that regular tactical meetings take place between the Investment Manager, Pensions Manager and Chief Officer – Finance to discuss reallocation of funds, action notes or minutes of these meetings are not maintained, meaning it is not clear how it is determined when the timing is and is not right to reallocate funds between fund managers in accordance with the strategy. Where reasons to not invest in line with the strategy are not captured, there is a greater risk necessary rebalancing actions will not be taken and achieved gains not secured in line with the investment strategy.</p> <p><u>Investment Documentation</u></p> <p>Investment decision-making supporting documentation has improved due to a recommendation to address this in the last Internal Audit of this area. Documentation refers to the Fund's desired strategic asset allocation, the basis of shortlisted options and options appraisal and there are clear details of review and approval.</p> <p>However, documented explanation for the value chosen could be improved, based on the most recent decision to commit £300m to an infrastructure investment, since it was not clear how the value was determined and not for example a higher value, with additional strategic allocation capacity available for infrastructure assets, or indeed why a lower value was not chosen to enable greater diversification of infrastructure investments. In addition, external investment advice was not taken for this significant investment and the approval form lacked explanation as to why this was the case.</p> <p><u>Disinvestment Documentation</u></p> <p>Also, whilst the cash management policy states the new investment opportunity document will provide details of how the opportunity will be funded and that any changes will be reported, this was not the case for the recent £300m infrastructure investment requiring two payments of £150m i.e. there was no supporting documentation explaining the options appraisal for disinvestment decisions to determine what amount(s) should be withdrawn from which fund manager(s) based on expected performance and related risks.</p> <p>Where investment and disinvestment decisions are not adequately supported by documentation explaining the basis of those decisions, there is a greater risk Best Value will not be achieved for scheme members.</p>		
	IA Recommended Mitigating Actions		
	<p>a) Outputs of internal investment tactical meetings should be captured.</p> <p>b) Material disinvestment decisions should be supported by options appraisal.</p> <p>c) Investment approval documentation should cover basis of investment value and investment advice considerations</p>		
	Management Actions to Address Issues/Risks		
	<p>a) <i>Investment monitoring arrangements are in place, quarterly reports provided by Managers, quarterly/AGM meetings with Managers are captured. Management will review the current outputs of internal operational investment monitoring (i.e. investment tactical meetings) and ensure they are as comprehensive as possible and documented as appropriate, including reasons for not rebalancing in line with the investment strategy..</i></p> <p>b) <i>Operational assets management will be documented and decisions evidenced.</i></p>		

Ref	Description	Risk Rating	Moderate
	<i>c) Investment approval documentation, includes basis of investment and value. Officers will expand on investment advice consideration.</i>		
	Risk Agreed	Person(s)	Due Date
	a) Yes b) Yes c) Yes	Pension Manager	a) February 2024 b) February 2024 c) February 2024

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 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.

5 Appendix 2 – Assurance review scoping document

5.1 Area subject to review

The North East Scotland Pension Fund (NESPF) is administered by Aberdeen City Council and was valued at £5.7b at the end of the 2022/23 financial year with nearly 77,000 members. The Aberdeen City Council Transport Fund was previously separate to NESPF but was merged with NESPF on 1 April 2022.

The Fund is built up from contributions from both employees and employing bodies, together with interest, dividends, and rent from investments, out of which pensions and other benefits are paid. Employee contributions are fixed by statute, while employer contributions are assessed every three years by an independent actuary to determine the level of contributions necessary by employing bodies to ensure that the Fund can meet future benefits as they fall due.

To maintain, and where appropriate increase, the value of the Fund's assets to meet future liabilities as they fall due, and maintain the level of contributions appropriately, the Fund has set an Investment Strategy. This sets out a strategic portfolio allocation (between different classes or types of assets e.g., equities, bonds, credit, infrastructure) that each investment decision should aim to bring the Fund closer to achieving.

The Fund employs an internal Investment Management Team, at a cost of around £232k per annum, and uses external Investment Fund Managers, expenses for the services and performance of which currently amount to around £18m per annum. Fees vary depending on the type of investment, and performance as measured by the size and growth of assets allocated to a manager as compared with relevant benchmarks. An Investment Management Consultant has been appointed, and fees are payable where consultants are engaged to provide advice or conduct research.

5.2 Rationale for review

The objective of this audit is to provide assurance over compliance with the Pension Fund Investment Strategy, and the adequacy of controls over management of investments.

This area was last reviewed in September 2020. A recommendation was made to address a major weakness relating investment decision supporting documentation. In addition, recommendations were made to enhance performance reporting and procedures.

This has been included in 2023/24 NESPF Internal Audit Plan due to the material value of investments and the reputational risk to the Fund should employees and pensioners suffer financially due to poor investment decisions.

5.3 Scope and risk level of review

This review will offer the following judgements:

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

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:

- Investment Strategy, Procedures and Guidance
- Investment Practice
- Performance Monitoring
- Performance Reporting

It is not the intention of this audit to review or assess the actual Investment Strategy, instead to provide assurance around it.

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, and guidance.

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:
 - Fund 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:

- Farai Magodo, Auditor (**audit lead**)
- Andy Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Fund key contacts

The key contacts for this review across the Fund are:

- Steven Whyte, Director - Resources
- Jonathan Belford, Chief Officer - Finance
- Laura Colliss, Pensions Manager (**process owner**)

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	26-Sep-23
Scope agreed	29-Sep-23
Fieldwork commences	02-Oct-23
Fieldwork completed	03-Nov-23
Draft report issued	24-Nov-23
Process owner response	15-Dec-23
Director response	22-Dec-23
Final report issued	29-Dec-23

6 Appendix 3 – Strategic and Actual Allocation of Fund Assets

Asset Class	Strategic Allocation (%)	Q3 2023 Actual (%)	Q3 Strategic Allocation (£'m)	Q3 2023 Actual (£'m)
Global Equities	50.0%	57.1%	2,774.9	3,170.0
Private Equity	5.0%	7.5%	277.49	416.1
Total Growth	55.0(+/-5)%	64.6%	3,052.39 (+/-277.5)	3,586.1
Bonds / Credit	22.5%	16.8%	1,248.7	932.6
Direct Property	10.0%	8.3%	555.0	462.1
Infrastructure	10.0%	7.5%	555.0	413.5
Other (Cash)	2.5%	2.8%	138.7	155.5
Total Income / Protection	45.0(+/-5)%	35.4%	2,497.4 (+/-277.5)	1,963.7
Total	100.0%	100.0%	5,549.8	5,549.8

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North East Scotland Pension Fund

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for North East Scotland Pension Fund
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of North East Scotland Pension Fund (the Fund). The main elements of our audit work include:

- evaluation of the key controls within the main financial systems
- an audit of the annual accounts and the provision of an Independent Auditor's Report
- an opinion 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 including an Annual Audit Report setting out our conclusions on these areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Audit appointment

2. We have been appointed as external auditors of the Fund and Aberdeen City Council for the 5-year period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of our five-year audit appointment. Details of the audit team are included at [Appendix 1](#).

Adding Value

3. We aim to add value by tailoring audit work to the circumstances of the Fund and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Pensions Committee and by recommending and encouraging good practice. In so doing, we will 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

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

Auditor responsibilities

5. Our responsibilities as appointed auditor 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.

6. 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 in place at the Fund. In doing this, we aim to support improvement and accountability.

The Fund's responsibilities

7. The Fund is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

8. 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.

Annual accounts

Introduction

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

10. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the key financial systems relevant to the production of the financial statements.

Materiality

11. 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 about whether 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 2023/24 audit

12. 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

2023/24 Materiality levels for the Fund

Materiality	Amount
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 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£116.0 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£87.0 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. The threshold has been set at 3% of planning materiality.	£3.5 million

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of the Fund, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

14. 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.

15. Based on our 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 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • 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 throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing the nature of related party relationships in the financial statements, transactions during the year and outstanding balances at the year-end. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Source: Audit Scotland

16. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, 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.

17. We have rebutted this risk for the pension fund because:

- the split of responsibilities between the Fund and its fund managers, the global custodian and the bank provide a clear separation of duties independent of management which reduce the risks relating to investment income and unrealised gains on investments
- having considered the value and the nature of contribution income, which is paid over from employers, we have concluded that contributions follow a predictable pattern and consist of a high volume of low value items. Consequently, we have concluded there are no significant risks in this area.

18. 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.

19. We have also rebutted this risk because:

- pension benefits paid are the Fund's main expenditure stream. There is no incentive for the Fund to manipulate the amount of benefits paid, satisfactory controls are in place and operating appropriately
- management expenses largely relate to fund managers' fees, and these can be agreed to fund managers reports.

20. The risk of material manipulation of the financial statements due to fraudulent expenditure recognition is therefore low.

Other areas of audit focus

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

22. The areas of specific audit focus are:

- **Actuarial present value of promised retirement benefits** - valuation depends on a number of assumptions about the future. These include investment returns, rates of pay and pension increase, CPI inflation and demographic assumptions. In accordance with ISA 500, we will undertake a review of the work of the actuary as a management expert.

We will confirm that the actuarial valuation disclosures in the accounts agree with the triennial valuation at 31 March 2023 and the IAS26

report at 31 March 2024. In addition, Audit Scotland engages a consulting actuary to review actuarial work across Scottish local government pension funds. We will consider the consulting actuary's report, review the assumptions on which the triennial valuation was based and follow up any local variations.

- **Valuation of unquoted investments** - There is a significant degree of subjectivity in the measurement and classification of this type of investments. For material unquoted investments, we will undertake a review of relevant Fund Managers as management experts in accordance with ISA 500 and confirm valuations to valuation reports and/or other supporting documentation.

Other matters

23. Audit Scotland operates an agreed framework for local government pension scheme (LGPS) auditors within which the following assurances will be requested and provided for 2023/24:

- requests from LGPS pension fund auditors for assurances from employer body auditors in respect of pension contributions payable by the employer body to the pension fund
- requests from employer body auditors for assurances from pension fund auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies.

Wider Scope

Introduction

24. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

25. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the Fund is planning effectively to continue to deliver pension benefits, we will also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **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

26. We have identified wider scope audit risks in the areas, set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3**2023/24 Wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>Markets continue to be volatile due to uncertainties around inflation and interest rates. These have resulted in investment performance in the short to medium term, i.e., for the quarter, year and 3-year period being lower than benchmark as at 30 September 2023. Longer term performance, i.e., five years and since inception, is still ahead of benchmark but margins are dwindling.</p> <p>The Fund is finalising a new Funding Strategy Statement based on the results of the triennial valuation at 31 March 2023. The valuation resulted in an increased funding level of 125% compared with 103% previously. The new strategy will set employer rates for the next three years and prompt a review of investment strategy as appropriate to ensure that the Fund has sufficient assets to meet its liabilities.</p>	<p>Management will continue to work with fund managers to identify investments which help support income generating assets.</p> <p>Management has been working with the actuary regarding appropriate contribution rates.</p>	<ul style="list-style-type: none"> • Review the performance of the Fund through the year through quarterly performance reports. • Review investment performance against the benchmark returns set for the year. • Evaluate the Fund's arrangements for monitoring performance against its financial plans, including funding strategy. • Review the triennial valuation's underlying assumptions and the factors considered by the Fund in setting new contribution rates from 1 April 2024.
<p>2. Governance</p> <p>There have been instances of political disagreement between members of the Pension Committee over the last 12-18 months. As a result, there were three resignations from the committee with ongoing vacancies at March 2024 and a related hearing by the Standards Commission resulted in a temporary suspension for a</p>	<p>The committee is supported by officers at meetings and through ongoing training.</p>	<ul style="list-style-type: none"> • Review the operation of the Pensions Committee, assess the level of scrutiny and challenge undertaken and consider any implications for the governance statements.

Description of risk	Management's sources of assurance	Planned audit response
<p>former member of the committee.</p> <p>Members of the committee effectively act as trustees for the benefit of members of the pension fund. There is a risk the disagreements between members and the vacancies on the committee have weakened the level of scrutiny undertaken by the committee.</p>		

Reporting arrangements, timetable, and audit fee

Reporting arrangements

27. We will aim to report matters arising from our audit on a timely basis with agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

28. We will provide:

- an Independent Auditor's Report to the Fund and the Accounts Commission setting out our opinions on the annual accounts
- the Fund and the Controller of Audit with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

29. [Exhibit 4](#) outlines the target dates set by the Accounts Commission for our audit outputs. In determining the target reporting date, due regard has been paid to the statutory deadline of 30 September for approving the annual accounts. For the 2023/24 financial year, we are planning to deliver the audit in line with the statutory deadline and the Accounts Commission's expectations.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Pensions Committee Date
Annual Audit Plan	31/03/2024	22/03/2024
Independent Auditor's Report	30/09/2024	13/09/2024
Annual Audit Report	30/09/2024	13/09/2024

Source: Audit Scotland



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

Timetable

31. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#). This timetable may be subject to change if we experience delays with the audits of other bodies scheduled earlier in the audit programme.

32. 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	21 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Chief Officer Finance	23 August 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	30 August 2024
Agreement of audited and unsigned annual accounts	30 August 2024
Issue of Annual Audit Report to those charged with governance.	3 September 2024
Signed Independent Auditor's Report	By 30 September 2024

Source: Audit Scotland

Audit fee

33. In determining the audit fee, we have taken account of the risk exposure of the Fund and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £51,270 (2022/23 £48,370).

34. In setting the fee for 2023/24, we have assumed that the Fund has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

35. 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 will review the internal audit plan and consider the impact of internal audit's findings on our audit work.

36. We will use the work of internal audit when considering our wider scope work and when assessing the Fund's governance arrangements. We are not however planning to place formal reliance on the work of internal audit to provide assurance for our audit procedures on the financial statements.

Independence and objectivity

37. We are independent of the Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

38. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

39. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the Fund.

Audit Quality

40. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

41. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring

arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

42. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

43. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

44. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

The audit team involved in the audit of the Fund have significant experience in public sector audit.

Michael Oliphant

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Audit Director/Engagement Lead

Anne MacDonald

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Senior Audit Manager/Engagement Manager

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Senior Auditor

Deirdre Sim

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Auditor

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

North East Scotland Pension Fund

Annual Audit Plan 2023/24

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	22 March 2024
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/MAR24/GOV
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	4.1 AND 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 2023/24.

2. RECOMMENDATION

That the Committee: -

- 2.1 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

- 6.1 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.

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	It is confirmed by Chief Officer Jonathan Belford that no Integrated Impact Assessment is required.
Data Protection Impact Assessment	Not required
Other	N/A

9. BACKGROUND PAPERS

9.1 None

10. APPENDICES

10.1 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 2024

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 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, which are usually presented during the June and December meetings.

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 (merged with Unite)

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 2023/24 the Pension Board met formally (and concurrently with the Pensions Committee) on:

23 June 2023
15 September 2023
15 December 2023
22 March 2024

During 2023/24 there was an overall 97% attendance rate at meetings (up to December 2023).

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. There were 2 resignations and 2 appointments during 23/24.

The table below details meeting attendance during 2023/24:

Name	23/06/23	15/09/23	15/12/23	22/03/24*	Individual (out of a possible 4)*
Morag Lawrence	✓	✓	✓	✓	4
Ian Hodgson	✓	N/A	N/A	N/A	1
Neil Stirling	✓	✓	✓	✓	4
Alan Walker	✓	✓	✓	✓	4
Gordon Walters	✓	✓	X	✓	3
Cllr Graham Leadbitter	✓	✓	✓	N/A	3
Cllr Stephen Smith	✓	✓	✓	✓	4
Cllr Jessica Mennie	✓	✓	✓	✓	4
Cllr David Gordon	N/A	N/A	✓	✓	2
Jeremy Lindley	N/A	N/A	N/A	✓	1

* Projected attendance

Notes:

Ian Hodgson resigned from the Pension Board on 22/09/2023.

Councillor Graham Leadbitter resigned from the Pension Board on 16/12/2023.

Councillor David Gordon joined the Pension Board on 19/12/2023. He attended the December meeting in an observing role.

Jeremy Lindley (RGU) joined the Pension Board on 15/02/2024.

Training Attendance 2023/24

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 2023/24 Pension Board members have continued to demonstrate a commitment to developing their “knowledge and understanding” by attending various training events covering key areas as set out below. 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.

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 2023/24 to date as per our records:

Pension Board									
Training Sessions Attended (See below for corresponding training sessions)	Name								
	Morag Lawrence	Neil Stirling	Alan Walker	Gordon Walters	Cllr Graham Leadbitter	Cllr Stephen Smith	Cllr Jessica Mennie	Cllr David Gordon	Jeremy Lindley
A	✓		✓			✓		N/A	N/A
B		✓	✓					N/A	N/A
C		✓	✓					N/A	N/A
D	✓	✓	✓			✓		N/A	N/A
E	✓		✓					N/A	N/A
F	✓		✓	✓				N/A	N/A
G			✓	✓				N/A	N/A
H		✓	✓			✓		N/A	N/A
I		✓						N/A	N/A
J	✓	✓		✓				N/A	N/A

K		✓						N/A	N/A
L								N/A	N/A
M			✓		✓	✓		N/A	N/A
N	✓	✓	✓	✓	✓	✓	✓	N/A	N/A
O								N/A	N/A
P	✓	✓	✓		✓	✓		N/A	N/A
Q	✓	✓	✓		✓	✓		N/A	N/A
R			✓					N/A	N/A
S			✓					N/A	N/A
T					N/A				N/A
U			✓	✓	N/A	✓			
No. of Training Sessions Attended	8	10	15	5	4	8	1	0	0

Notes:

In addition to the advertised training, Alan Walker attended a further 4 webinars. As per above, Councillor Gordon and Mr Jeremy Lindley joined the Board in late 2023/early 2024.

Training Sessions:

A. PLSA: Get Ready for Pensions Dashboards – 20 April 2023 (Webinar)

This webinar covered the latest developments with the Pensions Dashboards and what will be required to be compliant when the changes come into place.

B. Barnett Waddingham: Investment In Focus: Market Outlook – 26 April 2023 (Webinar)

The webinar provided a review of current market events – rising inflation, high interest rates, government decisions, and changing circumstances. It included discussions about investments in both the short and long term future.

C. Barnett Waddingham: Investment In Focus: Tackling Tomorrow – 28 April 2023 (Webinar)

This session discussed the Investment market and explored how the change in the market backdrop might impact investment portfolio building in 2023 and beyond.

D. PLSA: Investment Conference – 6-8 June 2023

Attendees had the chance to listen to industry leaders and experts on economics, geopolitics, digital development and risk management.

The Conference included stream sessions, masterclasses, fireside chats and roundtables. Topics covered included funding, asset allocation, stewardship and net zero challenges facing pensions schemes in 2023 and many more.

E. Hymans Robertson: Data Submission for LGPS 2023 Valuation – 9 May 2023 (Webinar)

This webinar covered a focus on all things data and what Administering Authorities should focus on when it comes to cleansing and submitting data for the valuation.

F. Hymans Robertson: Making your LGPS Training a Success – 16 June 2023 (Webinar)

This webinar covered dealing with the challenge of engagement; training plans, strategies and the support available from Hymans.

G. Hymans Robertson: Setting your Funding Strategy at the LGPS 2023 Valuation – 19 June 2023 (Webinar)

This webinar covered a focus on topical areas of your funding strategy and how to effectively manage these risks, including:

- Setting a strategy which is clear and transparent for your employers;
- Getting the most out of your Funding Strategy Statement;
- Reviewing and optimising your investment strategy.

H. Hymans Robertson: Managing risk in the LGPS - A Spotlight on Holistic Risk Management – 22 June 2023 (Webinar)

This webinar covered a discussion on risk management, why it is important and why looking at risk holistically can help with decision-making.

I. One Year On – TCFD Reporting for Pension Funds

A Pensions for Purpose Impact Lens report, sponsored by Redington, looking at how pension funds are using Task Force on Climate-related Financial Disclosures (TCFD) reports to inform strategy. The research paper shares insights on how pension funds use the output from their TCFD reports, what challenges they face and which metrics they favour. This was shared to the Committee and Board by NESPF as another training opportunity.

J. Mercer: Cyber Webinar – we could all be at risk – is your scheme protected? – 22 August 2023 (Webinar)

During this webinar a panel of experts;

- Explained the latest developments in cyber-attacks;
- Described the steps you should take to protect your schemes and members
- Prepare you so you take the right action if the worst does happen;
- Consider how you might do this efficiently and effectively as a sole trustee.

K. LGPS Live: The Gender Pensions Gap & Levelling Up - 6 September 2023

This webinar discussed;

- The gender pensions gap;
- Investment opportunities for LGPS funds in line with the Government's Levelling-Up agenda.

L. PLSA Webinar: The Mansion House reforms - Where do we stand now? - 13 September 2023

In this webinar the PLSA's Policy Team discussed pensions growth, the future of LGPS pooling and discussed what happens next in pensions policy.

M. NESPF Finance Forum – 14 September 2023

Held at Aberdeen Beach Ballroom, the event covered;

- NESPF Investment Overview
- Actual ESG: Looking for Long-term Growth - Baillie Gifford
- Pensions Landscape 2023
- Challenges for the NESPF
- Actuarial Considerations for Fund Valuation 2023 – Mercer

N. Actuarial Training – 15 September 2023

Training was held by Mercer and covered the actuarial services that they provide to the Fund.

O. Scheme Advisory Board Cost Transparency Session – 28 September 2023

This event provided;

- An explanation of the purpose and background of the Board's ground-breaking Code of Transparency;
- A case study from an LGPS fund on how investment cost information has been used;
- A facilitated discussion on the information that fund officers should be receiving and how this information should be reported to pension boards and committees.

P. LGC Investment Conference – 19-20 October 2023

Held over two days in Edinburgh, this event covered a range of topics including;

- Implications of the 2023 actuarial valuation;
- Economic overview;
- The role of Trustees.

Q. Hymans Robertson: Managing risk in the LGPS - a spotlight on administration risk – 8 November 2023

This session discussed administration risks around processes and controls, resourcing, and the changing needs of LGPS administration functions.

R. Hymans Robertson: Managing risk in the LGPS - a spotlight on climate risk – 29 November 2023

In this webinar information was provided on climate scenarios and what actions funds can take in response to climate risk.

S. PLSA Webinar: Policy Insights Webinar: The Regulatory Horizon for 2024 – 7 December 2023

The PLSA's Policy and Advocacy team presented this webinar discussing the policy and lobbying work they do on member's behalf. Their policy experts covered developments and challenges expected in 2024 in pensions.

T. Hymans Robertson: Managing risk in the LGPS - a spotlight on cyber risk – 24 January 2024

This webinar discussed the current cyber risk guidance from tPR, what actions LGPS funds can take and how to engage with stakeholders on this issue.

U. Hymans Robertson: LGPS Online Learning Academy – Continuous Online Training

On the 24th of April 2023, Hymans released version 2.0 of their LGPS online learning academy to our members, the topics covered are as follows;

- Committee Role and Pensions Legislation
- Pensions Governance
- Pensions Administration
- Pensions Accounting and Audit Standards
- Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge
- Actuarial methods, Standards and Practices

Costs of Operation 2023/24

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	£512.15
Hotels	£2,481.80
Total	£2,993.95

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 23/24 to more reflect pre-pandemic level.

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 2023. 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 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

The Pensions Regulator's Code of Practice

In January 2024 tPR laid their new General Code of Practice before Parliament. The Governance Team are now working on a full compliance review to ensure that we are in a strong position to meet any new requirements. The General Code mirrors most of the requirements already found within Code of Practice 14 but with a stronger focus on Cyber Security and Pensions Scams. The exercise will provide an opportunity to review existing controls as well as carry out a gap analysis to identify areas we need to improve.

Training on the new General Code will be provided for Fund Officers, Committee and Board members in due course ahead of its anticipated implementation on 27 March 2024.

Additional Areas of Focus for the Governance Team:

Although our controls have been found to be effective, a number of improvements have already been identified through the regular governance review and day to day business as usual:

- Assisting the Employer Relationship Team to develop its Pension Administration Strategy Reporting (PAS) for inclusion in the Committee and Board Strategy Report.
- Developing Insights Reporting to improve our analysis and reporting capabilities, facilitating improved monitoring of casework across the Fund and supporting regulatory compliance.
- Working with the Systems Manager to review and develop Cyber Security controls. For example, development of the NESPF Incident Response Plan to run alongside our existing Cyber Security Policy and seeking assurances from 3rd parties including the administering authority where reliance is placed on them.

- Developing our commitment to preventing Pensions Scams. As a first step, all customer facing Officers have successfully completed the Pensions Scams Module within the online tPR Trustee Toolkit. We've also signed NESPF up to tPR's Pledge to Combat Pensions Scams.

Governance Structure

Full Council voted on 8 February 2024 to reduce Pensions Committee membership from 13 to 9 elected members. The political composition of the Pensions Committee is made up as follows: 5 x Partnership, 2 x Labour, 1 x Conservatives and 1 x Independent. There remain two long term vacancies on the Committee. This has been highlighted in previous audit reports with a recommendation that ACC work to fill these vacancies to ensure the Pensions Committee can provide effective scrutiny.

In terms of training, Officers will continue to work on providing sufficient opportunities for both Pensions Committee and Board members to enable them to meet their ongoing knowledge and understanding requirements. Hymans Robertson's produced a Knowledge Progress Assessment for the Fund at the end of 2023. Overall, the results of the KPA were positive, demonstrating that there were areas of greater knowledge levels as well as areas in which knowledge should be developed across the 17 participants from the Committee and Board. Officers will use this report to help shape the direction of training for the forthcoming year.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	22 March 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/MAR24/STRAT
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	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.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Note the updates to the Fund Policy documents in item 6.5 of the main report; and
- 2.2 Note the remainder of the report for reassurance.

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 recommendations 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 2024)

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	It is confirmed by Chief Officer Jonathan Belford that no Integrated Impact Assessment is 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 (March 2024)
Appendix II, PAS Report Q3

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

Strategy Report

Quarterly Reporting March 2024

1. Background

1.1 Quarterly Report to March 2024

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](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 Investment Strategy Report

Separate reports, 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 Statement of Accounts 2023-24 Action Plan

Separate report, provided

Please note the Budget/Forecast and Projected Spend 23/24 Report is currently under review and a revised report is expected to be taken to the June 2024 meeting.

4. Benefit Administration

4.1 Modern Apprentice Update

One of our Modern Apprentices gave a fantastic presentation at the ABZ Works Supporting Our Future Workforce Session for Employers at the Beach Ballroom on the 29th November 2023. The presentation covered their experience of doing a Foundation Apprenticeship which led them to their current role as a Modern Apprentice with the Pension Fund.

Both Modern Apprentices, who started in May 2023, completed the education element of their apprenticeship to a high standard in January/February 2024. Having received training throughout the apprenticeships they have both indicated a desire to obtain permanent employment within the Pension Fund. We will be working with each of them to find suitable posts within existing vacant posts.

Our first trial of Modern Apprenticeships has been very successful from a Fund perspective and adds another tool to our belts in terms of recruitment and retention of staff. We will continue to consider taking on young staff through this programme for future recruitment needs.

4.2 Pensions Increase/Inflation

The Government confirmed that Local Government Pension Scheme (LGPS) pensions and CARE pots will increase by 6.7% from April 2024 (based on the Consumer Price Index (CPI) to September 2023).

5. Systems

5.1 Performance Reporting

The quarterly update covering the period to December 2023 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 2023/24.

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 the December 2023 deadline agreed with the audit team in report IA/AC2309. With the exception of 1 staff member, all other members of staff had successfully completed or were booked onto the required courses by the deadline.

The Fund currently has 6 Trainee Pension Officers (TPO’s) – Benefit Administration navigating through its internally developed modular training programme under the guidance of the Training & Development Team. Due to increasing work pressures on the Benefit Administration Team, the training programme was re-vamped at the end of 2022 to ensure TPO’s were able to help the existing fully trained Pensions Officers to target high pressure areas. This new way of training is now having the desired impact, reducing pressure while also freeing up fully qualified Pensions Officers to focus on other areas and address backlogs. This can be seen in more detail through the PAS Reporting.

6.3 Annual Governance Review

Review of NESPF Compliance with the Public Service Pensions Act 2013 and the Pensions Regulator Code of Practice 14.

Separate report, provided

6.4 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’s updated Whistleblowing Policy was approved by the Staff

Governance Committee in November 2023. The new Policy and accompanying procedure has been circulated to all NESPF staff.

There was a case of attempted fraud in July 2023 following a data breach. Swift action taken by both NESPF and ACC staff ensured that the situation was dealt with effectively following internal procedures, thereby preventing any serious consequences. Post incident training was provided to staff as part of “lessons learned” and improvements implemented to strengthen existing protections.

6.5 Document Updates

- Local Contingency Plan (minor corrections for clarity, removal of data centre naming)
- Cyber Security Policy (minor corrections for clarity, removal of names of some 3rd party external providers due to contractual changes)
- Governance Policy (minor corrections for clarity, number of Committee members reduced from 13 to 9 following recent Council decision)
- Breaches of Law Policy (updated to remove reference to Transport Fund)

Copies of the above documents can be found on the NESPF website.

6.6 The Pensions Regulator’s New General Code

The Pensions Regulator’s new and long awaited general code was laid in parliament on 10 January 2024. The new code brings together and updates 10 existing codes of practice into one set of clear, consistent expectations on scheme governance and administration. This includes Code of Practice 14. TPR’s research on governance and administration shows that the LGPS already has high standards of governance in place. Most of the expectations of the General Code are not new, however the new format makes it easier for governing bodies to review current practices to identify whether they are indeed meeting these expectations.

The laying period in parliament will last for 40 days, 21 further days will be needed to repeal existing codes, with the new General Code expected to come into force on 27 March 2024. TPR will take a pragmatic approach to bedding in of the new Code, with Funds being given around 6 months to demonstrate they are working towards compliance. Most of the requirements for LGPS funds are carried over from Code 14 with a few new noticeable additions around Pension Scams and Cyber Security. The Governance Team are reviewing compliance with the new General Code and training sessions will be provided in due course for Pensions Staff as well as Committee and Board members. Further support for authorities will be provided by the Scheme Advisory Board (SAB).

6.7 Procurement

Separate report, provided

7. Employer Relationship

7.1 Tracing Exercise

As part of the NESPF Data Quality Improvement Plan the Fund entered into a contract with Target Professional Services (UK) Ltd to carry out an exercise to attempt to trace 2027 “gone away” members where we did not hold up to date addresses. The exercise consisted of a mortality trace, to identify deceased members, followed by a digital trace of all remaining members.

As a result of the digital trace 3 members were identified as deceased, 113 members living as stated, with 1301 new addresses identified. Following on from the digital trace to comply with General Data Protection Regulation (GDPR) requirements, the Fund requested Target carry out a verification exercise to ensure that the new addresses were correct and the individuals traced were indeed the members being searched for. Of the original 2027 gone aways, 610 members could not be traced digitally, therefore due to the additional cost, we identified 393 deferred and pensioner members that required to be manually traced.

To date we have updated the addresses of 1007 (49%) members who have been traced and verified. We have been provided with a further 704 (35%) addresses for members that did not respond to the verification process. A further in-house exercise will be undertaken to verify this information before updating records. The remaining members will continue to be held as “gone away” as we were unable to trace up to date addresses for them.

Tracing “gone away” members is a continuous process and, with the requirement for onboarding to the national Pensions Dashboards on the horizon, this continues to be a priority for the Fund. We are currently looking at different methods of tracing members on an ongoing basis with our pensions database provider and other organisations with suitable products.

7.2 Regulation Updates

On 8 February 2024, the Scottish Public Pensions Agency (SPPA) published amendments to the Local Government Pension Scheme (Scotland) Regulations 2018. The changes covered three areas: the CARE annual revaluation date, triennial actuarial valuations and employer cessation valuations. These new regulations will come into force on 31 March 2024, and be backdated to 31 March 2023.

Under the amended Regulations:

- the revaluation date for pension benefits in the LGPS is moved to 6 April each year, aligning it with the HMRC annual allowance assessment period.
- the whole fund valuation will only be required on an ongoing basis, with the cessation basis removed. The requirement to specify the amount of an employer’s liabilities in the Rates and Adjustments Certificate (on any basis) has also been removed.

- An employer proposing to exit the scheme may request an indicative cessation valuation as at a specific date, which should the employer exit the scheme within the subsequent 90 days, be used in substitution for a valuation as at the employer's actual exit date. The amended Regulations also require that administering authorities provide an indicative cessation valuation on request, unless an employer has made a new request for an indicative cessation valuation within the previous 12 months.

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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 taken to December 2023 meeting. ACC Scheme of Governance annual review completed and approved in June 2023.	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 Investment performance (against benchmark) reported to Committee quarterly 	2	3	6	↔	TREAT	Revised PAS effective from Jan'23 with new reporting expected for Sept'24 meeting.	Ongoing
	Causes: Failure to develop performance reporting framework								
	Potential Impact: Lack of transparency, poor								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	performance could go unaddressed								
NESPFO04	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 • Monthly Committee & Board Bulletin 	3	3	9	↔	TREAT	Pension Board Annual Report to June'24 meeting. High turnover of Committee members. Currently 2 long term vacancies on Committee. Hymans Knowledge Progress Assessment completed in 2023.	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								
NESPFO05	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								
NESPFO06	Risk: Failure to recruit, retain and develop staff	<ul style="list-style-type: none"> • All staff have individual development plans which are reviewed regularly through CR&D 	3	2	6	↔	TREAT	Two Modern Apprentices started in May 2023, update in Mar'24 Strategy Report.	Laura Colliss, ongoing
	Causes: Limited pool of resources/competition with private sector, lack of								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>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"> • 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 						<p>Number of vacancies being advertised and recruitment process ongoing.</p>	
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 PFaroe) • Tri-ennial valuation • Individual employer contribution rates 	3	4	12	↔	TOLERATE	<p>Short term inflation continues to be impactful, directly affecting liabilities and pensions paid but starting to reduce. Pensions Increase from April 2024 confirmed.</p> <p>2023 valuation will set inflation assumption higher than in 2020 based on current environment but also reflect national long term forecast for lower inflation.</p>	Ongoing
NESPF008	<p>Risk: Over reliance on services provided by the</p>		3	3	9	↔	TOLERATE	<p>Risk remains static due to ongoing</p>	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Administering Authority (e.g. HR, Payroll, Legal, IT)</p> <p>Causes: VS/ER exercise leading to loss of knowledge and expertise, recruitment freeze, poor service provision</p> <p>Potential Impact: Ability to meet regulatory and tPR requirements, staff downtime, loss of service delivery/delays and staff time</p>	<ul style="list-style-type: none"> Internal controls including policies and procedures Pensions Administration Strategy in place Communication between Pensions Manager and ACC Chief Officers 						issues being experienced.	
Governance									
NESPF009	<p>Risk: Failure to adhere to relevant pensions legislation and guidance</p> <p>Causes: Political and legislative changes, increased administrative complexity, staff training issue</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action</p>	<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	2	6	↔	TREAT	<p>Annual Compliance Report to Mar'24 committee meeting.</p> <p>Six monthly compliance review completed in Dec'23.</p>	Ongoing
NESPF010	<p>Risk: Failure to comply with FOI or SAR requests</p>		3	1	3	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Causes: Missed statutory deadlines due to training or resource issues</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> Internal written procedures in place FOI/SAR log to record & monitor Online process through GovServices 							
NESPF011	<p>Risk: Conflicts of Interest</p> <p>Causes: Competing professional and personal interests of staff, Committee and Board members</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p>	<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
Benefit Administration									
NESPF012	<p>Risk: Fraud/Negligence</p> <p>Causes: Dishonesty or human error by staff, scheme members</p> <p>Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> Segregation of duties for benefits staff authorising/submitting lump sum payments Pension payments signed off by benefits senior Enhanced Admin to Pay and Arrears Modules to provide calculation checks Participation in National Fraud Initiative exercise Overseas pensioner existence checking 	2	3	6	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		<ul style="list-style-type: none"> Breaches Policy & register Internal Audit control reviews 							
Investments									
NESPFO13	Risk: Insufficient assets to meet the Funds long term liabilities	<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 	4	2	8	↓	TREAT	Tri-ennial valuation process underway, Fund in very healthy position (around 126% funded - TBC) and valuation approach continues to ensure high level of prudence, therefore risk reduced. Investment strategy review to follow.	Ongoing
	Causes: Failure of investment strategy or fund managers to produce expected returns								
	Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss								
NESPFO14	Risk: Failure to monitor investment managers and assets	<ul style="list-style-type: none"> Quarterly assessment and reporting of asset performance Regular meetings with investment managers 	3	2	6	↔	TREAT		Ongoing
	Causes: Lack of internal procedures								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
NESPFO15	Risk: Failure of world stock markets		4	2	8	↔	TOLERATE	Tri-ennial valuation underway,	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<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 						investment strategy review to follow.	
NESPF016	<p>Risk: Negligence/Fraud/Default</p> <p>Causes: Dishonesty by fund managers, lack of care or human error</p> <p>Potential Impact: Financial loss, reputational damage</p>	<ul style="list-style-type: none"> • Due diligence on appointment and appropriate clause in legal agreements • Fund management monitoring • SAS 70 reports 	2	1	2	↔	TOLERATE		Ongoing
NESPF017	<p>Risk: Failure of Global Custodian</p> <p>Causes: Financial market crisis, regulatory/political</p> <p>Potential Impact: Loss of assets or control of assets</p>	<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	<p>Global Custodian tender process underway following approval at Sept'23 Committee & Board meeting.</p> <p>Risk remains static as service delivery is being impacted on by HSBC's staffing issues.</p>	Ongoing
NESPF018	<p>Risk: Failure to implement ESG policy</p> <p>Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy</p>	<ul style="list-style-type: none"> • Member training on roles and fiduciary duties • Policy incorporated within SIP 	2	3	6	↔	TREAT	Members of Committee and Board attended Net Zero training in March 2023.	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Reputational damage	<ul style="list-style-type: none"> • 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. 							
Accounting									
NESPF019	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 & Accounts approved and signed following Sept'23 Committee & Board meeting.	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									
NESPF020	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 	4	2	8	↔	TREAT	Staff have completed annual information governance refresher training.	Ongoing
	Causes: Cyber-attack, human processing error								

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, financial penalties	<p>regularly (Breaches, Data Protection, Systems Access and Retention Schedule)</p> <ul style="list-style-type: none"> Secure physical storage measures Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc 						<p>Breaches procedure reviewed Feb'23.</p> <p>NESPF staff to receive further training on data protection/cyber security during 2024.</p>	
NESPF021	Risk: Failure of the Fund's administration system	<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 	3	2	6	↔	TOLERATE	<p>Increased risk of cyber-attacks globally, mitigations in place.</p> <p>NESPF Cyber Security Policy went to Sept'23 Committee & Board meeting.</p>	Ongoing
	Causes: Outages, hardware and software failures and cyber attacks								
	Potential Impact: Staff downtime, loss of service delivery								
NESPF022	Risk: Failure to track member status and trace information	<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 	2	3	6	↔	TREAT	<p>Final trace results from Target received end of 2023. New mortality tracing will check against national death records monthly</p>	Ongoing
	Causes: Poor record keeping								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		<ul style="list-style-type: none"> Existence checking 						following file upload and automatically upload to Altair administration database.	
Employer Relationship									
NESPF023	Risk: Failure to monitor employer covenant	<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
	Causes: Failure of internal procedures								
	Potential Impact: Orphaned liabilities could fall on remaining employers								
NESPF024	Risk: Changes in early retirement strategies by employers	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) 	2	3	6	↔	TREAT	Surplus calculated at 2023 valuation.	Ongoing
	Causes: Public service cuts to funding								
	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 allow greater flexibilities to exiting employers to reduce risk of orphaned liabilities.	Ongoing
	Causes: Public service cuts to funding, increased pension contribution costs								
	Potential Impact: Orphaned liabilities could fall to remaining employers								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		<ul style="list-style-type: none"> Termination Policy to be reassessed in line with the 2023 Fund Valuation 						Calculated surplus for 2023 valuation may create opportunities for employers to exit in the near future. Discussions expected as part of valuation consultation.	
NESPFO26	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	Valuation outcomes will reflect fact that life expectancy is decreasing at lower rate than previously expected, positive effect on liability calculation compared to previous valuation in 2020.	Ongoing
	Causes: Increasing life expectancy rates								
	Potential Impact: Increase in employer contribution rates and liabilities								
NESPFO27	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 	2	3	6	↔	TREAT	LGPS (Scotland) Regulations delivered Summer 2022 to help manage risk. Employer contribution requirements to be	Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Orphaned liabilities could fall to remaining employers								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		<ul style="list-style-type: none"> Ongoing training provided by dedicated ERT to scheme employers Employer Briefings 						issued during valuation consultation.	
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 Data readiness assessment for Pensions Dashboard Project 	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								
	Potential Impact: Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation								



North East Scotland Pension Fund
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Pension Administration Strategy

Quarterly Reporting 31st December 2023

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	30	27	90.0%	93.3%	96.7%	96.7%	1	1	87.1%
Notification of retirement estimate	10 days	349	347	99.4%	99.4%	99.7%	99.8%	1	5	98.0%
Notification of retirement benefits	10 days	1334	1243	93.2%	93.6%	96.3%	98.4%	22	4	92.9%
Notification of deferred benefits	10 days	1540	1480	96.1%	97.9%	98.9%	99.3%	11	8	95.6%
Notification of refund	10 days	968	964	99.6%	99.8%	99.9%	99.9%	1	11	98.5%
Notification of transfer in value	10 days	140	98	70.0%	70.7%	72.9%	75.7%	34	2	69.0%
Notification of transfer out value	10 days	424	228	53.8%	54.2%	56.4%	63.2%	156	6	53.0%
		4785	4387	91.7%				226	37	91.0%

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:

- *SCAPE rate change announced in March and McCloud regulations coming into force from October impacted on transfer performance as cases had to be paused until revised factors received from GAD and SPPA guidance published for McCloud - 75 completed in Q1 whilst awaiting factors, 304 completed in Q2 once factors received and 185 completed in Q3 with 47 currently paused for McCloud guidance.*

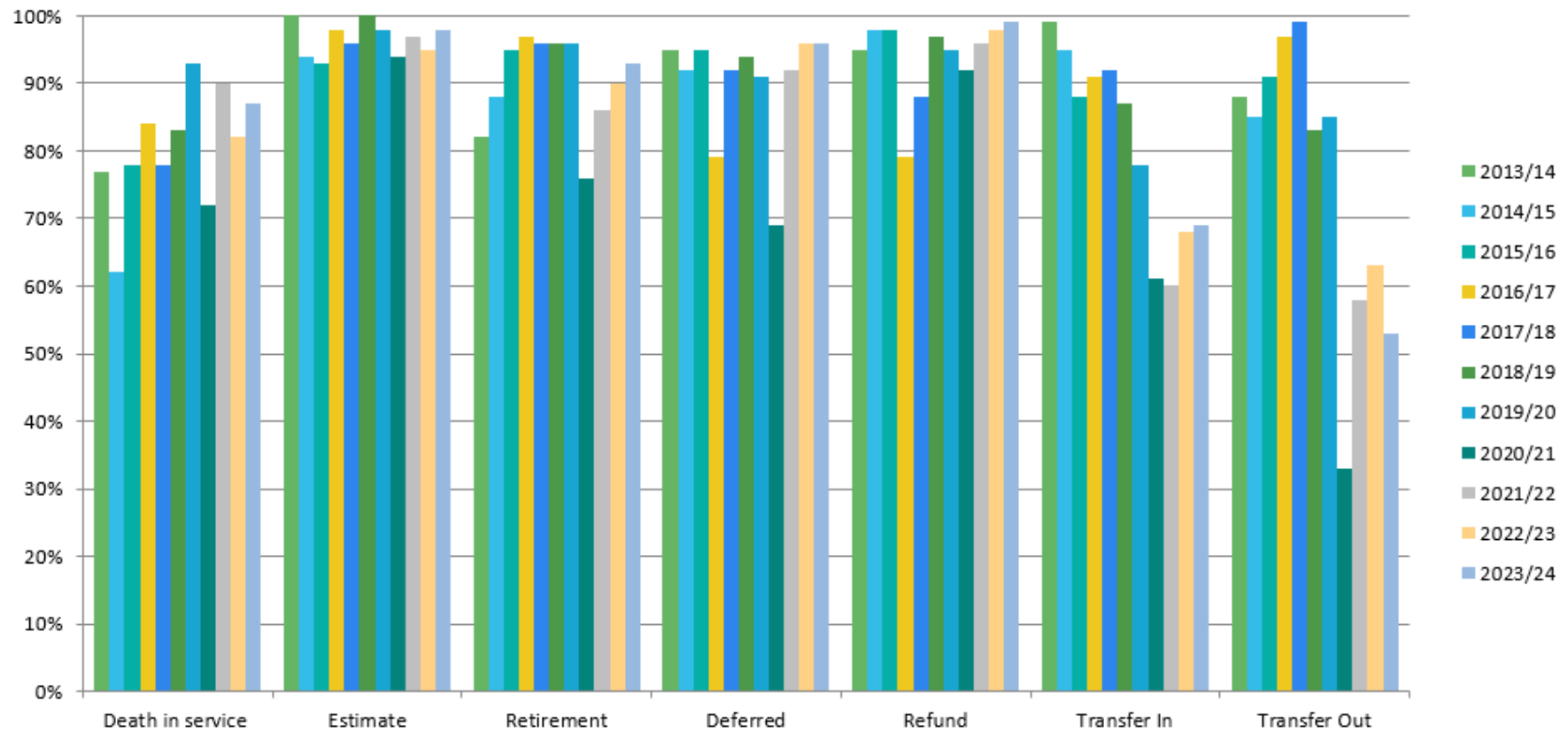
Additional targets for completed during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- *Transfers that were paused explains the high numbers taking more than +20 days.*

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:

- *Uncompleted cases remain lower than previous year with 37 compared to 167 in Q3 2022/23.*

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 Local Government Pension Scheme (Remediable Service) (Scotland) Regulations 2023.

Before calculating the underpin we must first calculate the assumed benefits which is the Care benefits that will be compared against the Final Salary benefits to determine whether revised protection applies. Where protection applies this will be known as the Final Guaranteed Amount.

Eligible member processing



Members with Final Guaranteed Amounts



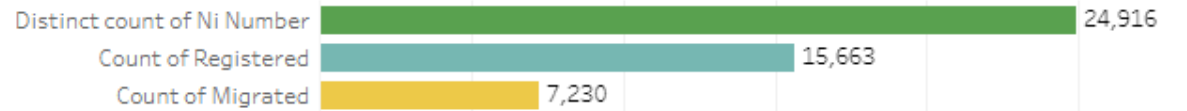
Cost of Final Guaranteed Amounts



1.4 Members online

This dashboard shows members that have registered for online self service and those that have migrated to *My Pension+* which went live on 26 June 2023.

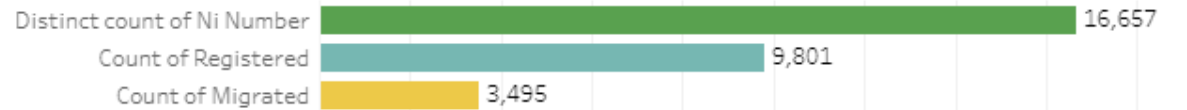
Actives



Percentages

Registered members	62.9%
Migrated members	46.2%

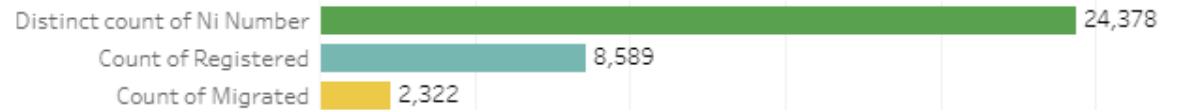
Deferreds



Percentages

Registered members	58.8%
Migrated members	35.7%

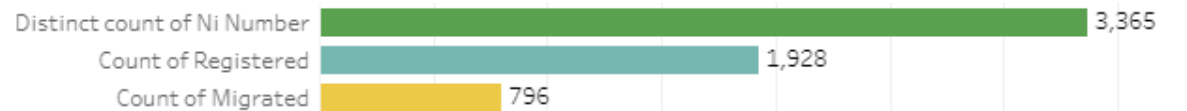
Pensioners & Dependants



Percentages

Registered members	35.2%
Migrated members	27.0%

Undecided Leavers



Percentages

Registered members	57.3%
Migrated members	41.3%

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	22 March 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Statement of Accounts 2023/24 – Action Plan
REPORT NUMBER	PC/MAR24/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 2023/24 Statement of Accounts including linkages to the plans and timetables of the Council’s External Auditors.

2. RECOMMENDATION

That the Committee: -

- 2.1 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

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.

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	It is confirmed by Chief Officer Jonathan Belford that no Integrated Impact Assessment is 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

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Statement of Accounts 2023/24

Annual Report to March 2024

1. Background

The Statement of Accounts 2023/24 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 2024. 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 20223/24 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 2024	End of Financial Year 2023/24
17 June 2024	Deadline for giving notice to the public of the right to inspect and object to Accounts
21 June 2024	Pensions Committee
30 June 2024	Statutory deadline for submission of Draft Statement of Accounts to the Controller of Audit
July 2024	Advertising and Inspection of Accounts
31 July 2024	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
13 September 2024	Pensions Committee
30 September 2024	Deadline for submission of Audited Statement of Accounts to the Controller of Audit
31 October 2024	Deadline for submission of the Audited WGA to the Scottish Government
13 December 2024	Pensions Committee

21 June 2024

The Pensions Committee will receive the Draft Statement of Accounts 2023/24, including the Annual Report for overall scrutiny

July 2024

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 2024

The Pensions Committee will receive Audit Scotland's combined ISA260 and "Report to those charged with the governance of the 2023/24 audit" for debate and consideration, together with the Audited Statement of Accounts 2023/24 for signing.

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