

ABERDEEN CITY COUNCIL

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

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

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

3. CURRENT SITUATION

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

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

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

8. OUTCOMES

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

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

9. IMPACT ASSESSMENTS

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

10. BACKGROUND PAPERS

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

11. APPENDICES

11.1 Internal Audit report AC2309 – Pension Fund Governance Arrangements

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Pension Fund Governance Arrangements

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

Report No: AC2309
Assurance Year: 2022-23

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

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

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

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1 Introduction

1.1 Area subject to review

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

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

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

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

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

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

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

Rationale for the review

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

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

1.2 How to use this report

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

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

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

2 Executive Summary

2.1 Overall opinion

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

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

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

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

2.2 Assurance assessment

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

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

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

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

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

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

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

2.3 Severe or major issues / risks

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

2.4 Management response

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

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

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

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

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

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

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

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

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

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

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

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

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

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

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5.2 Rationale for review

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

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

5.3 Scope and risk level of review

This review will offer the following judgements:

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

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

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

5.3.1 Detailed scope areas

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

The specific areas to be covered by this review are:

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

5.4 Methodology

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

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

5.5 IA outputs

The IA outputs from this review will be:

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

5.6 IA staff

The IA staff assigned to this review are:

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

5.7 Council key contacts

The key contacts for this review across the Council are:

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

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

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

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

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