

# Scottish Borders Council Pension Fund

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scottish Borders Council, as the administering authority for the Scottish Borders Council Pension Fund, and the Controller of Audit

September 2023

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# Key messages

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## 2022/23 annual report and financial statements

- 1 Our audit opinions on the annual report and accounts are unmodified.
- 2 The annual accounts of the Scottish Borders Council Pension Fund (the Fund) give a true and fair view of the state of affairs of the Fund as at 31 March 2023 and have been properly prepared in accordance with the financial reporting framework.

## Financial management

- 3 The Fund's investments fell in value by £43 million in year to £866 million. This reflected market movements impacting fund performance with a return on investments of -4.8%, significantly below the benchmark of 2.3%. Fund performance has deteriorated in year reflecting challenging market conditions. However, it is expected that liabilities will have fallen further over this period due to higher interest rates.
- 4 There is comprehensive reporting of investment performance permitting oversight by Committee members. The Fund is looking to build capacity to support financial management arrangements.

## Financial sustainability

- 5 The Fund is currently undertaking its triennial valuation. The accounts show an investment asset position in the accounts of £866 million which is greater than the actuarial present value of liabilities of £731 million, which would mean a well-funded position.
- 6 Fund membership levels continue to increase but the ratio of active members to pensioners has reduced over the last five years.
- 7 Cash flows in relation to members continue to be negative with more paid in benefits than received in contributions. Surplus cash is generated through investment income to give overall positive cash flows.

## Vision, leadership and governance

- 8 Governance arrangements are appropriate and operate effectively, although members training was not in line with the training policy during 2022/23.
- 9 An independent review of governance was completed during 2022/23 with recommendations to be actioned going forward.

- 10** The Fund was accepted as a signatory to the UK Stewardship Code during 2022/23.

### **Use of resources to improve outcomes**

- 11** 2022/23 was a challenging year for Scottish Local Government Pension Schemes. Only two of the eleven funds reported positive movements in net assets during the year and only three funds, not including Scottish Borders Council Pension Fund Council, reported above benchmark returns. This was the poorest return in the last five years for the Fund.
- 12** Fund administration performance levels in 2022/23 were in line with agreed targets in most areas.
- 13** The Fund has an appropriate best value framework in place which includes effective arrangements for monitoring investment performance and scrutinising investment management.

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# Introduction

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**1.** This report summarises the findings from the 2022/23 annual audit of the Scottish Borders Council Pension Fund (the Fund). The scope of the audit was set out in an annual audit plan presented to the 21 March 2023 meeting of the Pension Fund Committee and Pension Board. This Annual Audit Report comprises:

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

**2.** This report is addressed to Scottish Borders Council, as the administering authority for the Fund, and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

**3.** I have been appointed by the Accounts Commission as auditor of the Fund for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

**4.** My team and I would like to thank councillors, pension fund committee members, senior management, and other staff of the administering authority, particularly those in finance and HR, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

**5.** The administering authority for the Fund, Scottish Borders Council, has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts for the pension fund that are in

accordance with proper accounting practices. Scottish Borders Council, as the administering authority, is also responsible for compliance with legislation, and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

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

**7.** Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of administering authority from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

## Auditor Independence

**9.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £24,880 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**10.** We add value to the Fund by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

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# 1. Audit of 2022/23 annual accounts

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

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## Main judgements

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

The annual accounts of the Scottish Borders Council Pension Fund (the Fund) give a true and fair view of the state of affairs of the Fund as at 31 March 2023 and have been properly prepared in accordance with the financial reporting framework.

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## Audit opinions on the annual report are unmodified.

**11.** The Pension Fund Committee agreed the annual accounts for the Fund for the year ended 31 March 2023 on 22 September 2023, and the annual accounts were approved by the Council on 28 September 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor, the financial statements:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- the management commentary, annual governance statement and governance compliance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Overall materiality was assessed as £13 million.

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

**13.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and updated on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#). There was no change to our audit approach.

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## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£13.0 million
Performance materiality	£7.8 million
Reporting threshold	£0.25 million

Source: Audit Scotland

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**14.** The overall materiality threshold for the audit of the annual accounts of the Fund was set with reference to gross investment assets, which we judged as the figure most relevant to the users of the financial statements.

**15.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting the staffing changes working on the pension fund accounts.

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

## Our audit work responded to the risks of material misstatement we identified in the annual accounts.

**17.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed. No additional risks were identified during the audit process.



## Exhibit 2

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• 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.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>	<p>No issues were identified regarding the design and implementation of journal entry processing.</p> <p>Testing of year end and post-closing journal entries were focused on risk areas and no issues were identified.</p> <p>No issues were identified relating to unusual activity relating to journal processing.</p> <p>No significant transactions outside the course of normal business were identified.</p> <p>No changes were made to methodology or assumptions used to prepare accounting estimates in year.</p> <p><b>Conclusion:</b> no evidence of management override of controls.</p>
<p><b>2. Estimation applied to Level 3 Investments</b></p> <p>The fund has a significant portfolio of level 3 investments (£324 million at 31 March 2022) for example in unquoted equities where valuations involve the application of a variety of estimates in determining appropriate valuations. This subjectivity gives rise to a significant risk of material misstatement in the financial statements, relating to accuracy.</p>	<ul style="list-style-type: none"> <li>• Confirmation of year end valuations to Fund Manager valuation reports and custodian report as at 31 March 2023.</li> <li>• Review of the controls in place at the Fund over valuations, including the work of the custodian and the fund managers.</li> <li>• Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk.</li> </ul>	<p>Level 3 investments were agreed to custodian and independently sourced fund manager reports.</p> <p>A walkthrough of user entity controls relating to the custodian was completed and no issues identified.</p> <p>A review of investment managers controls' reports was completed, and no exceptions noted.</p> <p>Reviewed the results of questionnaires used by the Fund to assess investment manager's arrangement but noted that there was no</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> <li>Review the arrangements in place at the Fund to assess investment managers' governance arrangements.</li> <li>Analytical procedures to gain assurance that the valuation of level 3 investments is appropriate.</li> <li>Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.</li> </ul>	<p>evidence of overall review of the results by the Fund, see paragraph <a href="#">29</a>.</p> <p>Analytical procedures allowed us to gain assurance that the valuation of level 3 investments is appropriate.</p> <p>Reviewed the accounts disclosures and minor points were identified relating to notes in the accounts.</p> <p><b>Conclusion:</b> no significant issues identified but housekeeping points were raised.</p>

Source: Audit Scotland

**18.** In addition, we identified an “area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be a risk of material misstatement to the financial statements. This area of specific audit focus was:

- Estimations applied to the International Accounting Standard (IAS) 26 actuarial valuation** - The disclosure of the actuarial valuation of the pension fund liabilities involves a complex accounting estimate. The Fund engage an independent actuary to support the estimation. The valuation is based on a range of financial and demographic estimations about the future, based on a well-established methodology. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.

**19.** We kept this area under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

## Significant findings and key audit matters

**20.** Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the fund's accounting practices.

**21.** The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

**22.** We have no significant issues to report from the audit.

**Identified misstatements of £2.72 million were identified within the financial statements. These were less than our performance materiality and we did not require to change our audit approach.**

**23.** Late information was received regarding management expenses and taxes. An adjustment was made to the Fund account statement which resulted in increasing taxes by £0.47 million and decreasing management expenses by the same amount in the Fund Account statement. There was no overall impact on the Fund Account totals.

**24.** We identified two misstatements which were not corrected by management in the audited accounts.

- Level 3 late valuations – misstatements identified were £1.93 million, which if adjusted would have a net impact of increasing investment assets by £1.65 million. These consisted of late valuations for level 3 investment assets. Whilst preparing the accounts, the values which were available were those dated 31 December 2022 and the final valuations were received during our audit. As in previous years this has not been adjusted in the accounts. We are satisfied these are not material to the understanding of investment assets in the accounts.
- Accrued income – we identified that accrued income £0.32 million in the custodian reports and subsequently the accounts reflected a refund of tax from a fund manager with whom the Fund has not had investments for a number of years. We are satisfied this is not material to the understanding of investment assets in the accounts. Management have undertaken to review this in 2023/24.

**25.** We identified that transfers in/out are being treated on an accruals basis as opposed to cash basis. This was not material in the accounts and management has taken to review this in 2023/24.

**26.** The information included in the actuarial present value of promised retirement benefits reflected the Council's IAS (International Accounting Standard) 19 report rather than the Fund liabilities and assets calculated as required by IAS 26. This has been updated and has increased the liabilities by £60 million. The fair value of fund assets has been revised upwards by £131 million to reflect the Fund investment position. This has no impact on the core financial statements but is reported because the Code allows for the actuarial information to be included in the statements.

**27.** We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material. Further details of the uncorrected misstatements are included in [Appendix 2](#).

## **The unaudited annual accounts were received in line with the agreed audit timetable but working papers could be improved.**

**28.** The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023. There were delays in getting some of the working papers for the audit and there were areas where working papers could be improved. Whilst a reconciliation between the ledger and custodian records was completed, this could be improved by also reconciling to investment/fund manager records held by the Fund. There were differences between working papers and accounts in areas such as including profits and losses on disposal of investments, transfers in/out, and therefore these can be improved. Management recognised they have faced significant resourcing challenges in year which they are looking to address in 2023/24 to support next year's accounts process.

**29.** An annual due diligence review of investment managers is carried out, where the Fund issues governance questionnaires to fund managers requesting specific information such as internal controls reports. These should be reviewed to check for any concerns which may impact the fund. In 2022/23 whilst the questionnaires were issued in late 2022, there was one which was not returned by the end of the audit and there was no evidence these had been subject to review by management.

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### **Recommendation 1**

Management should review working papers to ensure they are reconciled with the accounts. In addition, a wider reconciliation between the ledger, the custodian and investment/fund managers records held by the Fund should be reconciled.

### **Recommendation 2**

Due diligence questionnaires shared with investment managers should be subject to review to ensure that management are aware of any issues arising which could impact the investments held by the Fund.

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## **Good progress was made on prior year recommendations.**

**30.** The Fund has made good progress in year in implementing the audit recommendations identified by Audit Scotland in 2021/22, with four out of six brought forward recommendations completed with no issues have been identified in 2022/23 testing. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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## 2. Financial management

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

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### Conclusions

The Fund's investments fell in value by £43 million in year to £866 million. This reflected market movements impacting fund performance with a return on investments of -4.8%, significantly below the benchmark of 2.3%. Fund performance has deteriorated in year reflecting challenging market conditions. However, it is expected that liabilities will have fallen further over this period due to higher interest rates.

There is comprehensive reporting of investment performance permitting oversight by Committee members. The Fund is looking to build capacity to support financial management arrangements.

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### **There was a reduction in investment assets of £43 million in year reflecting uncertainty in financial markets.**

**31.** The Fund has faced a challenging year in 2022/23. During 2022/23 gross investment assets reduced from £909 million by £43 million to £866 million. The fund has seen a return on investments of -4.8%, against a benchmark of 2.3%.

**32.** Investment assets fell during the year and were under £840 million at end of quarter 2 and 3 reflecting world events, including the war in Ukraine and the global impact of the pandemic, which impacted on financial markets and investments. The UK mini budget in autumn also impacted on investments, before the markets improved towards year end. The Fund's performance in 2022/23 is summarised in [Exhibit 3](#).

**33.** As noted in [paragraph 48.](#), the actuary advised that despite the fall in investment, the funding level is likely to be higher than reported at the 31 March 2020 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

### Exhibit 3

#### Assets, funding level and investment performance

Decrease in net assets	Funding level	Investment performance
<b>£866 million</b>	<b>110%</b>	<b>6.6%</b>
Closing net assets as at 31 March 2023 (-4.73%)	2020 Funding valuation	Average annual return on investments over 3 years
<b>£909 million</b>	<b>114%</b>	<b>-4.8%</b>
Opening net assets at 1 April 2022	2017 Funding valuation	Return on investments 2022/23 against benchmark of 2.3%

Source: 2022/23 Scottish Borders Council Pension Fund audited annual report and accounts

**34.** Each year the Fund's actuary, Hymans Robertson, estimates pension liabilities at the accounting date as required by International Accounting Standards (IAS) 26 requirements and calculated in line with IAS 19 requirements. At year end there was a significant reduction in liabilities from £1,057 million at 31 March 2022 to £731 million at 31 March 2023. This figure is not directly comparable to the liability measures on a funding basis.

### **There is comprehensive reporting of investment performance. The Fund is looking to strengthen financial management arrangements.**

**35.** The Director of Finance and Procurement for Scottish Borders Council is the Proper Officer responsible for the Fund. The financial regulations of the Council, as administering authority, apply to the Fund. We consider these to be current, comprehensive and support the financial management process.

**36.** Management identified that there are currently capacity issues in the pensions team with support being provided from across the Council's finance team. A new pensions manager is due to be filled and this will help strengthen financial management arrangements for the Fund.

**37.** The Pension Fund Committee receives administration and performance reports at its quarterly meetings. These reports are comprehensive and include fund performance trends, investment manager performance against benchmarks and commentaries about each fund manager. From attendance at the Committee, we observed and concluded that reports presented to members are subject to appropriate review and scrutiny.

## **Financial controls operated during the year. However, there are opportunities to enhance these arrangements.**

**38.** From our review of the design and implementation of systems of internal control relevant to our audit approach, we did not identify any internal control weaknesses which could affect the Fund's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

**39.** Our work in 2022/23 involved a walkthrough of the key controls over the systems used for pension administration activity and the pension fund's investments. The Fund also uses the financial systems of the administering authority, Scottish Borders Council. The main council systems used by the Fund are the general ledger system, payroll system, Altair pension administration system and the Northern Trust custodian system.

**40.** Our review of the systems used by the Fund did not identify any significant control weaknesses which could affect the Fund's ability to report financial and other relevant data in the financial statements, and we concluded that systems of internal control for the Fund operated effectively during 2022/23.

**41.** We identified some weaknesses in financial management regarding the accounts preparation process which management noted related to capacity issues. We will discuss lessons learned from the audit year and to support management we will provide a detailed schedule of audit requirements to support audits over our appointment cycle.

## **Internal audit provided an annual opinion for the annual accounts.**

**42.** The Fund's internal audit function is carried out by the Scottish Borders Council's internal audit function. Internal audit completed its planned work in year and issued its opinion for 2022/23 to the June 2023 Pension Fund Committee meeting. The Chief Officer Audit & Risk's opinion was that there were generally sound systems of governance, risk management and internal control operating within the Fund during 2022/23. Some areas for improvement were identified which include completing the recommendations and actions from the independent governance review and from the UK Stewardship Code.

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

**43.** Scottish Borders Council Pension Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place. We note that the Fund uses services such as the Department of Work and Pensions Tell Us Once service which will help support identification of errors regarding pension overpayments. We also noted that two overpayments in year were identified through engagement with the NFI (National Fraud Initiative) process.

**44.** The Fund relies on the Council's arrangements for the prevention and detection of fraud and corruption. We have reviewed the arrangements put in place by the Council to address risks and concluded that there are appropriate arrangements for the prevention and detection of fraud and error.



# 3. Financial sustainability

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

## Conclusions

The Fund is currently undertaking its triennial valuation. The accounts show an investment asset position in the accounts of £866 million which is greater than the actuarial present value of liabilities of £731 million, which would mean a well-funded position.

Fund membership levels continue to increase but the ratio of active members to pensioners has reduced over the last five years.

Cash flows in relation to members continue to be negative with more paid in benefits than received in contributions. Surplus cash is generated through investment income to give overall positive cash flows.

45. [Exhibit 4](#) sets out the wider scope risks relating to Financial Sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

**Audit work has addressed the wider scope risks identified in our Annual Audit Plan.**

## Exhibit 4

**Risks identified from the auditor's wider responsibility under the Code of Audit Practice**

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Financial sustainability</b></p> <p>The Fund's investments have reduced from £911 million at 31 March 2022, to £835 million at 30 September 2022. This fall in value of investments relates to the</p>	<ul style="list-style-type: none"> <li>Review the performance of the Fund through the year through ISIO quarterly performance reports.</li> <li>Review investment performance against the benchmark returns set for</li> </ul>	<p>Reviewed all ISIO quarterly performance reports in year to support understanding of fund manager performance.</p> <p>Over the last ten years eight out of 10 years has had a positive relative return with</p>

Audit risk	Assurance procedure	Results and conclusions
<p>economic climate during 2022. If this fall in value of investments continues throughout the financial year, it may place pressure on contribution rates. Given the current economic environment, there could be challenges around affordability for increased contributions (if required).</p>	<p>the year in the Statement of Investment Principles 2022.</p> <ul style="list-style-type: none"> <li>Evaluating the arrangements in place at the Fund for monitoring performance against its financial plans, including funding strategy. We will consider how the Fund monitors its investment portfolio to ensure investment risk is managed while delivering financial returns.</li> </ul>	<p>actual performance being greater than the benchmark return.</p> <p>For 2022/23, there were negative relative returns for almost all investment managers in year reflecting market conditions.</p> <p>Performance reporting was of a good quality and allowed scrutiny.</p> <p><b>Conclusion:</b> No specific issues identified in year, and the ongoing triennial valuation will provide future contribution rates in due course.</p>

### Net assets of £866 million are greater than the IAS 19 liability of £731 million in 2022/23.

**46.** The results of the 2020 full triennial valuation of the Fund showed a funding level of 110%. This meant that overall, the Fund had a surplus of assets over liabilities and that the fund assets were higher than projected liabilities.

**47.** The next detailed triennial valuation will be carried out for the Fund as at 31 March 2023. The valuation is being carried out during the 2023/24 financial year and results expected to be released in quarter 3 2023/24. This will drive the level of contributions from employees and employers over the three years from 2024/25 and results in a new funding strategy.

**48.** In the Fund's actuarial statement for 2022/23, the actuary provided details about the experiences since the last triennial valuation. The actuary noted that markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered very strongly in 2020 and 2021. Markets have continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. The high levels of UK inflation (compared to recent years) have resulted in a higher than expected increase in pensioner benefits of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

**49.** The investment asset position in the accounts of £866 million is greater than the actuarial present value of liabilities of £731 million which has been calculated in line with accounting standards, IAS 19. The triennial valuation is ongoing but this supports a well-funded position.

## Medium term financial planning arrangements are appropriate.

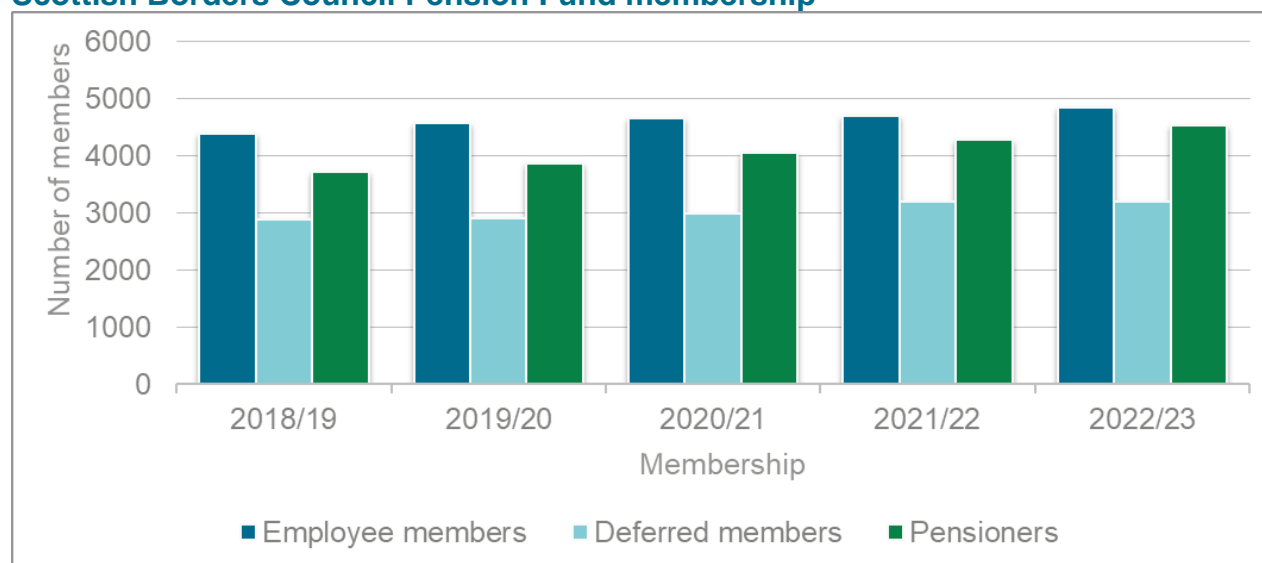
**50.** There is considerable volatility in pension funding and the results of the triennial valuation were in effect a snapshot of the Fund at 31 March 2020, with the next snapshot due at 31 March 2023. Following each triennial valuation, the Fund reviews and revises its funding strategy and allocation of assets as required. The funding strategy is a summary of the Fund's approach to funding liabilities. The investment principles outline the types of investment to be held and the balances between the different types of investment. We will review the work done for the 2023 triennial valuation in our 2023/24 audit.

## Fund membership levels continue to increase but the ratio of active members to pensioners has reduced over the last five years.

**51.** The Fund is a multi-employer fund with Scottish Borders Council and seven other admitted and scheduled bodies making contributions at present. There are 17 employer organisations in total, with nine small organisations having only deferred pensioners or pensioners. Although overall membership increased by 383 in year, this was an increase of 139 contributors and an increase of 251 pensioners, with a reduction of 7 deferred members. The current membership profile is shown at [Exhibit 5](#).

**52.** The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each members' life. It is important that the fund maintains the capacity to meet the current and future pension entitlements of its members.

### Exhibit 5 Scottish Borders Council Pension Fund membership



Source: Scottish Borders Council Pension Fund 2022/23 unaudited financial statements

**53.** Active membership of the fund increased by 139 to 4,842 members at 31 March 2023; an increase in membership of 3.0%. The impact of auto-enrolment continues to contribute to the increase in employee members. Total membership increased by 383 to 12,561 members, an increase of 3.1%.

**54.** In 2022/23 the number of pensioners receiving a pension from the Fund increased by 251 to 4,532 and the number of pensioner members continues to increase steadily each year. The number of active members continues to slightly outweigh the number of pensioners but the ratio of active members to pensioners has reduced over the past five years. In 2018/19 pensioners were 84.7% of active members with this increasing so that pensioners are now 93.6% of active members in 2022/23. This change in membership profile is a red risk on the risk register.

**Cash flows in relation to members continue to be negative with more paid in benefits that received in contributions. Surplus cash is generated through investment income to give overall positive cash flows.**

**55.** Cash flows from dealings with members continue to be negative as has been the case over the last number of years, with more paid out in benefits than that received from contributions. Over the long term, the cash flow position will impact on the investment strategy as income from investments rather than contributions will be needed to pay pensions.

**56.** The Fund is a maturing fund, with the continued growth in pensioner numbers within the Fund's membership making future funding pension payments increasingly challenging. The Statement of Investment Principles 2022 (approved in March 2022) has reflected this in the investment strategy with a move towards a greater focus on income generating assets to address the negative cashflows. The main focus of the fund however is to continue to seek capital growth to meet future liabilities. Following the 2023 triennial actuarial valuation, it is expected that with support from consultants, a full review of the funding strategy and investment principles will be carried out.

**57.** Following the triennial valuation in 2020, the actuary agreed employer contribution rates with individual employers from 1 April 2021. These continue to be used during 2022/23. For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates. For one employer, their rate includes an element of deficit recovery contributions to support the employer's financial planning. The approximate split of all contributions received in year is set out at [Exhibit 6](#). This shows the difference in contributions and benefits paid in year.

## Exhibit 6

### Contributions and benefits in 2022/23

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Total £m
Employer contributions	15.100	0.759	2.325	18.184
Employee contributions	5.103	0.260	0.771	6.134
<b>Total contributions</b>	<b>20.203</b>	<b>1.019</b>	<b>3.096</b>	<b>24.318</b>
<b>Total benefits paid</b>				<b>28.281</b>

Source: Scottish Borders Council Pension Fund 2022/23 audited financial statements and working papers

### The regular triennial pension valuation process will take place in 2023/24, this may impact the funding strategy and pension contribution rates.

**58.** There is a statutory requirement for local government pension funds to undertake a full actuarial valuation of assets and liabilities every three years. This is referred to as a triennial valuation, with the next valuation being carried out as at 31 March 2023 and results due in autumn 2023. The outcome of the triennial valuation will include setting the funding strategy for the following 3 years, including the contribution rates.

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# 4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Conclusions

Governance arrangements are appropriate and operate effectively, although members training was not in line with the training policy during 2022/23.

An independent review of governance was completed during 2022/23 with recommendations to be actioned going forward.

The Fund was accepted as a signatory to the UK Stewardship Code during 2022/23.

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## Governance arrangements are generally appropriate and operate effectively.

**59.** Scottish Borders Council is the administering body for Scottish Borders Council Pension Fund. The Council has delegated responsibility for governance to the Pension Fund Committee. This committee, supported by the Board (made up of four scheme employer representatives and four trade union representatives), is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

**60.** Following the local government elections in May 2022, a new Pension Fund Committee was appointed. This included 5 councillors who served on the Committee during 2021/22 and 2 councillors who were newly appointed to the committee in 2022/23. All councillor members met the requirements of attending at least two meetings during the financial year.

**61.** Due to the specialised nature of the Fund, it is vital that members have appropriate knowledge and understanding to provide appropriate challenge and scrutiny. The Fund prepares an annual training programme which covers training, including The Pensions Regulator Trustee Toolkit training, and other essential training that will assist members in discharging their fiduciary duty. It

was noted that the training records did not show evidence that all members had completed this toolkit training and not all members attended any training during the financial year, with the training policy identifying the need to attend a minimum of two sessions a year.

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### Recommendation 3

All members of the Pension Fund Committee should ensure that the required pension toolkit training and other annual essential training requirements are completed to assist in discharging their fiduciary duties.

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**62.** We noted that after audit outputs are provided to the Pension Fund Committee, they are also shared for noting with Audit Committee, and our annual report is also shared with the Council. The Committee agrees the annual report and accounts before they are submitted for officer signature and Council approval. This is line with the Council's scheme of administration.

**63.** We consider that governance arrangements are generally appropriate and support effective scrutiny, challenge and decision making.

### An independent review of governance arrangements was completed during 2022/23 with recommendations to be taken forward.

**64.** A review of the governance of the Fund was completed by an independent adviser, Clare Scott. It noted good practices including that duties of the Pension Fund Committee are solely focused on pension matters and there has been stability in membership, a significant amount of time is spent on dealing with pension matters and there is regular review of the risk register.

**65.** The report identified the complexity of investment arrangements for a relatively small fund, with current arrangements having 17 mandates listed in the quarterly performance reports by investment consultants, Isio, and a further 18 mandates in the Lothian infrastructure Fund. A recommendation made was to consolidate some of these mandates to a smaller number of asset classes for the purpose of setting strategy and reporting would simplify reports and aid understanding of the key issues.

**66.** Further areas of recommendations included participating in benchmarking of both administration and investment performance on a regular basis, and developing a policy and procedure for the reporting of breaches to include responsibilities, internal reporting and consideration of reporting to The Pensions Regulator.

### The Fund was accepted as signatory to the Stewardship Code during 2022/23.

**67.** During 2023 the Fund was accepted as a signatory to the UK Stewardship Code. The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that

support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

**68.** The Code applies to asset owners (the Fund), asset managers and service providers. Organisations listed are required to report every year to the FRC (Financial Reporting Council) on their application of the Code. Reports are assessed by the FRC and organisations that meet the reporting expectations are accepted as signatories. The application to the Code identified a number of future actions which will be expected to be addressed as part of annual reporting to the FRC.

**69.** We note that actions from the Stewardship Code and the independent review are ongoing and papers addressing some of these points, including the risk register are being shared as Committee papers in autumn. Consolidating all recommendations from these reviews and other Fund business will help support oversight and scrutiny of activities.

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## Recommendation 4

Recommendations/actions from the independent review and from the Stewardship Code application and other Fund business should be consolidated in a tracker, and progress towards meeting them, including expected timescale and action owners, should be reported periodically to the Pension Fund Committee.

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

**70.** The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

**71.** There were no breaches reported to the regulator in 2022/23. The annual benefits statements were published in time, contributions were received as expected, and no specific issues identified.

**72.** The Pension Regulator had consulted during 2021 on consolidating ten of its codes, including the Code of Practice 14 for public sector pensions, into one single code. This is due to be issued in the near future and it is expected that there will be increased requirements for pension funds to comply with.

## Performance reporting and other information in the accounts provide details of the Fund over the year.

**73.** The Management Commentary included in the annual accounts/financial statements should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements. All areas were covered in the report directly, or via



links to other areas of the accounts. It complied with the requirements in place and provided sufficient detail for understanding the Fund's performance.

**74.** There was some duplication in the reporting in other information, particularly investments. Going forward there is scope to look to enhance these disclosures and it is expected that the work for the next triennial valuation will allow this to be enhanced.

### **The Fund does not yet have to comply with the Taskforce for Climate Related Financial Disclosures (TCFD), but information has been shared with the Pension Fund Committee and Board.**

**75.** The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 introduced new requirements for certain trustees. From 1 October 2022, the rules will apply to trustees of pension schemes with net relevant assets of £1 billion or more. Climate reporting rules require relevant trustees to measure, as far as they are able, and report on their investment portfolios' Paris alignment. These disclosures are commonly referred to as the Taskforce for Climate Related Financial Disclosures (TCFD). The Fund has publicly signed up as a supporter of the TCFD.

**76.** The [Scottish Local Government Pension Scheme \(LGPS\) Advisory Board's Working Group](#) discussed TCFD in February 2022. The working group noted that all of the eleven Scottish LGPS funds had been contacted in late 2021 and asked to provide their views on TCFD and what they were doing to address TCFD. Ten funds provided feedback and demonstrated good awareness of climate-related reporting and climate-related risks and opportunities. Whilst the Fund does not yet meet the £1 billion threshold whereby TCFD reporting would be required, preparatory work has been undertaken with the expectation that the Fund will have to report this in the future.

**77.** Whilst the Fund has to work in the best interest of scheme beneficiaries (pensioners), the Fund has considered its approach to environmental, social and governance (ESG) issues, and reported in the annual accounts that it believes that a positive ESG issues can positively affects the financial performance of investments. The Responsible Investment Policy in March 2022 identified six responsible investment objectives, and these have remained the same in 2022/23. The Fund as a signatory supports the work undertaken by Climate Action 100+ which works with investors and fund managers to reduce carbon emissions and ensure the Paris Agreement targets are met. Investments are held with LGIM in its Global ESG Passive Equity Fund and with Baillie Gifford in its Global Paris Aligned Fund.

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# 5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusions

2022/23 was a challenging year for Scottish Local Government Pension Schemes. Only two of the eleven funds reported positive movements in net assets during the year and only three funds, not including Scottish Borders Council Pension Fund Council, reported above benchmark returns. This was the poorest return in the last five years for the Fund.

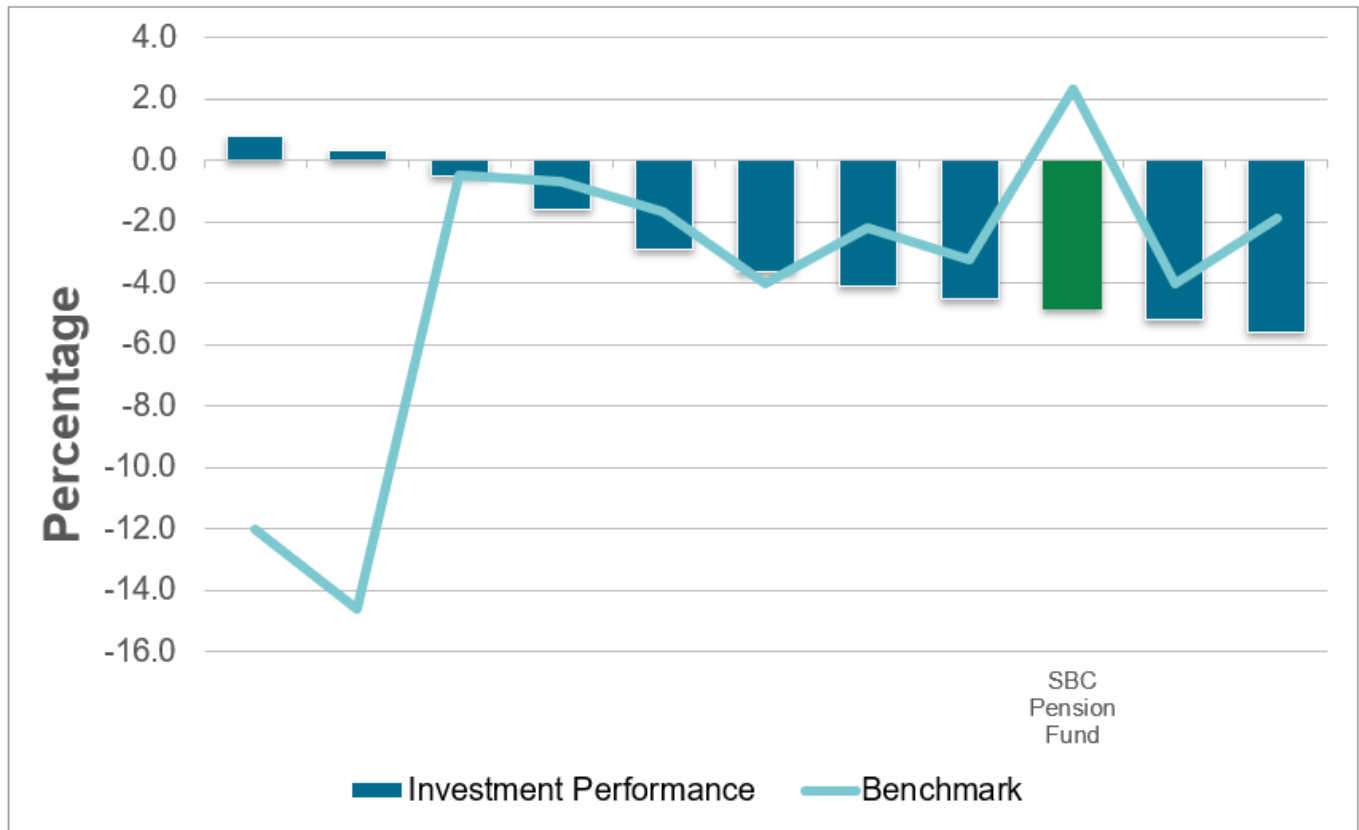
Fund administration performance levels in 2022/23 were in line with agreed targets in most areas.

The Fund has an appropriate best value framework in place which includes effective arrangements for monitoring investment performance and scrutinising investment management.

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### **2022/23 was a challenging year for Scottish Local Government Pension Schemes. Only two of the eleven funds reported positive movements in net assets during the year and only three funds reported above benchmark returns.**

**78.** 2022/23 was a challenging year for Scottish Local Government Pension Schemes due to the impact of world events on financial markets and investments, as discussed in Section 2 of this report. As shown in [Exhibit 7](#), only two of the eleven funds reported positive movements in net assets during the year and only three funds reported above benchmark returns, with investment performance ranging from -6 per cent to 1 per cent (compared to returns ranging from -2 per cent to 13 per cent in 2021/22). The Fund's decrease of 4.8% (against a benchmark of +2.3%) placed it the bottom of this range and reflected the greater impact of the wider market conditions on the value of equity markets over the last 12 months.

**Exhibit 7****LGPS pension funds 2022/23 – Net return on investment and benchmark return**

Source: 2022/23 LGPS pension fund unaudited annual accounts

**The continuing impact of Covid-19 and the conflict in Ukraine on global markets reduced annual returns significantly with the annualised return below benchmarks for the last two years.**

**79.** The Fund has appointed eleven external investment managers with 17 associated funds, and in addition has a further portfolio of investments in collaboration with Lothian Pension Fund. Individual investment manager performance is reviewed regularly by the Pension Fund Committee via quarterly reports. In addition, the Investment and Performance Sub-Committee regularly meets with representatives from the various investments managers to support scrutiny of performance.

**80.** Financial markets have been exceptionally volatile in recent years due to the ongoing Covid-19 pandemic and more recently as result of the conflict in Ukraine. Returns against most asset classes, especially equities reduced significantly. Over the last 12 months, eight funds had a positive absolute return. The majority of funds underperformed in relative terms, which means that they have been below the benchmark set for that investment fund. Returns from property investments showed significant underperformance. This year's relative return has been the poorest over the last five years.

## **The focus of the fund is to seek income generating assets.**

**81.** The Statement of Investment Principles for 2023, approved in March 2023, restates the funding objective to build up the required assets in a way that produces employer contributions, which are as stable as possible. The Fund has reduced 'growth' assets in favour of moving towards income generating and indexed linked assets thereby reducing the volatility of asset returns and allowing a better match to the liabilities of the maturing Fund.

**82.** It is expected that the asset allocation will be reviewed in 2024 as part of the Fund's response to the triennial valuation results due in late 2023.

## **The pension administration function has performed well against targets.**

**83.** The Pension Fund Committee receives annual reports on Fund administration performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

**84.** The service standards across performance measures were generally met in year. All annual benefits statements were issued before the deadline of 31 August, and those for employer performance measures including new starts notification, change notification and retirement information were all within the target working days. Standards for estimates of transfers in and out were below the 20 working days targets. Reporting could be enhanced going forward to show year on year trends.

## **The Fund scrutinises investment management expenses appropriately.**

**85.** There are three main categories of management expense, with the largest being investment management expenses. Other expenses are the cost of the administration services provided by the Council and oversight and governance costs. A budget is set at the start of the year and quarterly reporting is provided to the Committee.

**86.** Investment management expenses have fallen from £5.67 million in 2021/22 to £5.21 million in 2022/23. The main reason for the fall in expenses is due to the lower than estimated market valuations of investments which form the basis of the fee charges.

**87.** The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

## **A pensions dashboard will be required in the future to support the public in accessing pension information in one place.**

**88.** Following the introduction of automatic enrolment, and a significant increase in the number of people saving for retirement has meant it may be difficult for people to keep track of their pensions. As a result, the UK Government is introducing pensions dashboards to improve the way people can see and

interact with their pensions, through the Pensions Dashboards Regulations 2022. Pensions dashboards are an electronic communications service intended to be used by individuals to access information about their pensions online, securely, and all in one place.

**89.** As a pension provider, the Fund is will be legally required to participate in pensions dashboards. It was originally expected to take place during 2023/24 but the Department for Work and Pensions (DWP) recently announced a delay to pensions dashboard implementation. The impact of the delay on the LGPS is as yet unknown and the advice from the DWP is to continue to be ready for onboarding when required.

**90.** To be prepared, the Fund's data quality is regularly tested and working methods updated to ensure data is consistently of high quality. Future development of systems will include the procurement of a member tracing service and a pensions dashboard compatible Internet Service Provider (ISP). The Fund has signed up for the data cleansing and enrichment service provided by Heywood Technologies to further improve the quality of the data ahead of the dashboard implementation date and to continue to improve data quality.

### **The administering authority has appropriate arrangements in place for securing Best Value at the Fund.**

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

**92.** The outcome of audit work on the administering authority's Best Value arrangements is reported in the Council annual audit report. There are no findings directly applicable to the Fund.

# Appendix 1: Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Working papers/reconciliations</b></p> <p>Management should ensure that working papers accurately reflect the records held by the Fund.</p> <p><b>Risk</b> – without accurate working papers there is an increased risk of errors in the accounts.</p>	<p>Management should review working papers to ensure they are reconciled with the accounts. In addition, a wider reconciliation between the ledger, the custodian and investment/fund managers records held by the Fund should be reconciled.</p> <p><a href="#">Paragraph 28.</a></p>	<p>Officers are committed to working with Audit Scotland on lessons learned from this year's audit, to ensure that working papers meet audit requirements.</p> <p><b>Responsible officer</b> Suzy Douglas &amp; Ian Angus</p> <p><b>Agreed date</b> 31<sup>st</sup> March 2024</p>
<p><b>2. Due diligence governance questionnaires</b></p> <p>Each year all investment managers are written to requesting they complete a due diligence questionnaire. This is to support oversight of investment managers. In year, one did not respond and there was no evidence on an overall review by the Fund.</p> <p><b>Risk</b> – without this scrutiny and review, investments held by managers may be exposed to unnecessary risks.</p>	<p>Due diligence questionnaires shared with investment managers should be subject to review to ensure that management are aware of any issues arising which could impact the investments held by the Fund.</p> <p><a href="#">Paragraph 29.</a></p>	<p>Officers will undertake a review of due diligence reports from investment managers to ensure proper consideration of any issues arising.</p> <p><b>Responsible officer</b> Suzy Douglas</p> <p><b>Agreed date</b> 31<sup>st</sup> March 2024</p>
<p><b>3. Member training</b></p> <p>Given the Fund complexities, all members of the Board and Committee are expected to undergo regular training. Not all members attended training during 2022/23 nor</p>	<p>All members of the Pension Fund Committee should ensure that the required pension toolkit training and other annual essential training requirements are completed to assist in</p>	<p>A comprehensive Committee and Board training session was delivered on 17<sup>th</sup> May 2023 which covered the structure and governance of the fund along with specific updates from the Council's</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>completed the toolkit which is expected to be completed within 6 months of joining the committee.</p> <p><b>Risk</b> – without training, members may not be able to fully discharge their fiduciary duties.</p>	<p>discharging their fiduciary duties.</p> <p><a href="#">Paragraph 61.</a></p>	<p>actuary, investments and pensions administration. There will be a focus during the remainder of 2023/24 to ensure all members have completed required training.</p> <p><b>Responsible officer</b> Suzy Douglas</p> <p><b>Agreed date</b> 31<sup>st</sup> March 2024</p>
<p><b>4. Recommendations from independent reviews</b></p> <p>There have been independent reviews and normal Fund business which has resulted in a number of actions to be taken forward.</p> <p><b>Risk</b> – without a consolidated tracker with action owners and timescales, there is a risk that matters may not be progressed effectively.</p>	<p>Recommendations/actions from the independent review and from the Stewardship Code application and other Fund business should be consolidated in a tracker, and progress towards meeting them, including expected timescale and action owners, should be reported periodically to the Pension Fund Committee.</p> <p><a href="#">Paragraph 69.</a></p>	<p>An update has been provided to the Pension Fund Committee &amp; Board meeting of the 22<sup>nd</sup> September 2023 confirming that an action plan will be developed ahead of the Committee meeting on the 12<sup>th</sup> December 2023. This action plan will pull together all improvement actions from the independent review and Stewardship code application.</p> <p><b>Responsible officer</b> Suzy Douglas &amp; Ian Angus</p> <p><b>Agreed date</b> 31<sup>st</sup> December 2023</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>b/f 1. Pension Overpayment 2021/22 AAR</b></p> <p>Through our audit work we identified one case where the council made an error in the calculation of a benefit. As it was an error made by the council, and not the individual, no recovery of</p>	<p>Whilst a scheme of delegation is in place for the council there is a need to consider an appropriate scheme of delegation for decisions that impact on the pension fund. This should include guidance on what circumstances would give rise to not seek recovery of</p>	<p>A formal pension overpayment policy was approved by the Pension Fund Committee in December 2022.</p> <p><b>Complete</b></p>

Issue/risk	Recommendation	Agreed management action/timing
<p>overpayment was sought. The cost has been borne by the pension fund and not the council.</p> <p><b>Risk</b> - That governance arrangements are not sufficient to support decision making for pension fund matters.</p>	<p>overpayment, and what entity should bear the cost of that overpayment.</p>	
<p><b>b/f 2. Investment management expenses 2021/22 AAR</b></p> <p>Around £0.128m of investment management expenses were not notified by the investment manager in time for closedown of the accounts and were not therefore included within the accounts.</p> <p><b>Risk</b> - The transparency of costs related to investment management expenses is not properly reflected in the accounts</p>	<p>As part of the accounts preparation process, management should ensure that investment managers provide information to the fund on a timely basis.</p>	<p><b>In progress</b> – delays in information were also noted in 2022/23.</p> <p><b>Management response:</b></p> <p>Officers will work with investment managers ahead of the 31<sup>st</sup> March 2024 to put all reasonable measures in place to ensure information is provided in a timely way.</p> <p><b>Responsible officer</b></p> <p>Suzy Douglas</p> <p><b>Revised date</b></p> <p>31<sup>st</sup> March 2024</p>
<p><b>b/f 3. Member attendance 2021/22 AAR</b></p> <p>Pension Committee and Pension Board members are required to attend at least two meetings of the Pension Fund Committee and Board per year. For 2021/22 a member of the committee and a member of the pension board only attended one meeting.</p> <p><b>Risk</b> - Members are not present to monitor and scrutinise Pension Fund performance effectively.</p>	<p>Management should work with the Pension Board and Pension Committee to ensure members are aware of their attendance requirements.</p>	<p>No issues were identified with member attendance at Pension Fund Committee and Pension Board meetings during 2022/23.</p> <p><b>Complete</b></p>



Issue/risk	Recommendation	Agreed management action/timing
<p><b>b/f 4. Annual due diligence review of investment managers</b></p> <p>Annually, the fund issues governance questionnaires to fund managers requesting specific information such as internal controls reports. These should be reviewed to check for any concerns which may impact the fund. For 2021/22 whilst the questionnaires were issued, it was evident these had not been subject to review by management.</p> <p><b>Risk</b> - That investments held by managers are exposed to unnecessary risks</p>	<p>Management should ensure that governance questionnaires and supporting information received by each fund manager are reviewed to ensure they are aware of any issues arising which could impact the investments they hold.</p>	<p>Superseded by recommendation 2.</p> <p><b>Closed</b></p>
<p><b>b/f 5. Pension Recalculation</b></p> <p>Audit testing identified one error included within a member's lump sum pension calculation. The options presented to the member were not based on accurate information. This is considered to be an isolated error. Management relied on a model used by other LGPS Funds to calculate the pension due; this model had not however been updated to reflect the specific circumstances of the member. This error was also missed on independent review of the pension calculation.</p> <p><b>Risk</b> - There is a risk that calculations are not accurate, and members are not presented with the correct pension options.</p>	<p><b>Recommendation 2020/21</b></p> <p>For unusual or exceptional pension benefits, management should ensure that there are additional quality assurance arrangements in place for the review of calculations.</p> <p><b>Update for 2021/22</b></p> <p>We reviewed the recalculated options presented to the member. We identified a further error within the calculation and alerted management. Additional audit testing was not required as we could readily conclude that this was an isolated case.</p>	<p>No issues identified from 2022/23 testing.</p> <p><b>Complete</b></p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>b/f 6. Administrative Procedures</b></p> <p>Audit testing identified administrative procedures in paper format have not been updated nor completed with the move to home working. This includes the completion of checklists for specific tasks such as procedures following retiral of an employee and leavers checklists. We also identified there is no documented checks on pension calculation figures.</p> <p><b>Risk</b> - There is a risk all required tasks are not completed and errors not identified in a timely manner.</p>	<p><b>Recommendation 2020/21</b></p> <p>Management should review administrative procedures in place and update these to reflect the move to home working. Management should also ensure that officers are familiar with their responsibilities for the completion of supporting paperwork to evidence processes have been completed and reviewed in a timely manner.</p> <p><b>Update for 2021/22</b></p> <p>Whilst we noted improvements in some areas, such as documented checks on calculation figures, we found not all areas had been actioned/replaced with the move to home working. For example, documented checklists of completion of specific tasks.</p>	<p>No issues identified from 2022/23 testing.</p> <p><b>Complete</b></p>

# Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [paragraph 24](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
		Dr	Cr	Dr	Cr
<b>Accounting Misstatements</b>		<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
1. Investment assets – late information	Investment assets			1,647	
	Net fund assets				1,647
2. Investment income due	Investments				320
	Investment income	320			

# Scottish Borders Council Pension Fund

## 2022/23 Annual Audit Report

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