

Dumfries and Galloway Council Pension Fund

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the members of Dumfries and Galloway Council Pensions Sub-Committee and the Controller of Audit

September 2024

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Key messages

2023/24 annual accounts

- 1 Audit opinions on the annual accounts are unmodified. The financial statements and related reports are free from material misstatement and have been properly prepared in accordance with the financial reporting framework.

Financial management

- 2 The Fund has effective financial management arrangements in place. This includes comprehensive reporting of investment performance. However, the Fund does not prepare an annual budget in relation to the administration costs of the Fund.
- 3 The Fund pays out more than it collects annually from fund members, with investment returns making up the difference. The value of the Fund increased by 10 per cent to £1.1 billion during 2023/24 and investment performance was broadly in line with the benchmark return set for the year.

Financial sustainability

- 4 The results of the 2023 triennial valuation showed an improved position with the Fund 122 per cent funded. This enabled the Fund to marginally reduce all employers' contributions. The Council Pool employers' contribution rate was reduced by 1 per cent each year over the period 2024-2027.
- 5 Given the funding position at 31 March 2023, and the healthy net asset position at 31 March 2024, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

Vision, leadership and governance

- 6 The Fund has adequate arrangements in place to support good governance and accountability, and scrutiny of decision-making. A fund governance document continues to be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined.
- 7 The administering authority has an annual member training plan to assist members of the sub-committee in discharging their fiduciary duty. However, some members have yet to complete their required training.

- 8** The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to prevent and detect fraud and corruption, and to ensure compliance with the Pensions Regulator Public Service Code. However, administration policies required by the Regulator need to be formally introduced.
- 9** During 2023/24 the Fund introduced a separate risk register which sets out the risks which may directly impact upon the Fund and mitigating actions to address them.

Use of resources to improve outcomes

- 10** 2023/24 was a less challenging year for Scottish Local Government Pension Schemes than in recent years. All eleven funds reported positive movements in net assets during the year, although only one fund reported an above benchmark return.
- 11** The total Fund performance over the last 12 months was broadly in line with the benchmark return. However, only three of nine investment portfolios managed for the whole of 2023/24 performed above benchmark. Investment performance shows above benchmark returns for the Fund over the last three years and five years, with performance in the last 12 months just below benchmark.
- 12** Fund administration performance in 2023/24 is mixed against target across the key performance indicators. In addition, performance has declined across some performance indicators from 2022/23.
- 13** Implementing the remedy to fix unlawful discrimination in public service pension schemes will place a significant additional administrative burden on all Scottish Local Government Pension Schemes. In order to ensure that the Fund is able to comply with and fulfil these obligations, a joint resources review will be undertaken by officers and presented to members during 2024/25.
- 14** The roll-out of the i-Connect system has the potential to deliver even greater efficiencies in the future. The Fund launched its online member pension portal in February 2024. A pensions dashboard for members will be developed going forward.
- 15** The administering authority has appropriate arrangements in place for securing Best Value at the Fund.

Introduction

Scope of our audit

1. This report summarises the findings from the 2023/24 audit of Dumfries and Galloway Council Pension Fund (the Fund). The scope of the audit was set out in our Annual Audit Plan presented to members of the Pensions Sub-Committee on 7 March 2024. 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 the Pensions Sub-Committee of Dumfries and Galloway Council and the Controller of Audit and will be published on Audit Scotland's website <https://www.audit-scotland.gov.uk> in due course.

3. We took a hybrid approach to the 2023/24 audit, with a blend of onsite and remote working.

4. We would like to thank Pensions Sub-Committee members, senior management, and other staff of the administering authority, particularly those in finance, for their cooperation and assistance this year.

Responsibilities and reporting

5. The administering authority (Dumfries and Galloway Council) for the Fund has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts for the Fund that are in accordance with proper accounting practices. The administering authority is also responsible for compliance with legislation and establishing arrangements for governance and propriety that enable it to successfully deliver its objectives.

6. The Chief Financial Officer, as Section 95 Officer, is responsible for the administration of financial affairs.

7. 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.

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

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

Auditor independence

10. 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 2023/24 audit fee of £32,150, as set out in our 2023/24 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. 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.

1. Audit of 2023/24 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.

Main judgements

Audit opinions on the annual accounts are unmodified. The financial statements and related reports are free from material misstatement and have been properly prepared in accordance with the financial reporting framework.

Audit opinions on the annual accounts are unmodified

12. The annual accounts for the year ended 31 March 2024 were approved by the Pensions Sub-Committee on 19 September 2024, and certified by the appointed auditor on 19 September 2024. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024 and of the amount and disposition at that date of its assets and liabilities
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with relevant guidance.

The unaudited annual accounts were received in line with the agreed audit timetable

13. The administrative burden on local government pension funds has increased significantly in recent years due to increasing complexity and the growth in employer numbers in some pension funds. Within the Fund, council officers are responsible for the administration of the Fund, production of the annual accounts and reports to members throughout the year, but also have responsibilities in the council's finance function, a challenging workload.

14. We received the unaudited annual accounts and initial working papers on 1 July 2024. The unaudited accounts presented for audit were complete and of a good standard. A number of follow up working papers were then required. In 2022/23 we had agreed improvements to the process for 2023/24 with officers, including linking working papers to external reports and secondary officer checks of reconciliations. We provided officers with an audit working paper checklist in May to assist with this. However, we experienced delays in receiving some working papers needed for our audit. This suggests there is a capacity issue in relation to the council officers responsible for the administration of the Fund, production of the Fund's annual accounts and reports. We have now received all

the information we required and have completed our audit in line with the original timetable.

Recommendation 1

The Fund needs to ensure appropriate processes and procedures are in place to support the administration of the Fund, including the delivery of the annual accounts and audit process, ensuring the teams have appropriate capacity to meet these responsibilities throughout the year.

Our audit testing reflected the calculated materiality levels

15. 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.

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

Exhibit 1

Materiality levels for the 2023/24 audit

Materiality	Amount
Overall materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross investment assets.	£22.203 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of overall materiality.	£16.652 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been capped at 5% of planning materiality, the maximum amount allowable under Audit Scotland's audit approach.	£1 million

Source: Audit Scotland

17. ISA 320 states that in certain circumstances it is appropriate to set a separate materiality level (or levels) for classes of transaction, account balances or disclosures. This is a matter where auditors need to apply their judgement. As contributions received and benefits paid are considered to be of public interest

and applying the above materiality figures would dwarf these figures, a separate lower materiality level has been set for contributions received and benefits paid. For these two account areas materiality levels have been set as follows:

- Planning materiality – based on a threshold of 10% of benefits paid, overall planning materiality has been calculated as £3,977,500.
- Performance materiality – based on the same 75% threshold used above, performance materiality has been calculated as £2,983,125.
- Reporting threshold – capped at 5% of planning materiality, clearly trivial has been calculated as £198,875.

Significant findings and key audit matters

18. 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.

19. 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 annual accounts.

20. The significant findings including key audit matters, are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Level 1 Investments</p> <p>In the unaudited accounts, the Fund has total Legal & General Investment Management (LGIM) Level 1 investments recognised at 31 March 2024 of £158.874 million. A Level 1 investment is where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted bonds and unit trusts. However, the LGIM Fund Manager advised us that "<i>as LGIM pooled funds are structured as unit-linked life assurance vehicles the prices for these funds are not readily available on an exchange... LGIM has therefore deemed its pooled funds as being most suitably classified as Level 2</i>". This will also impact prior year valuations.</p>	<p>Officers have updated the accounts accordingly.</p>
<p>2. Level 2 and 3 Investments</p>	<p>Officers have updated the accounts accordingly and have also amended</p>

Issue	Resolution
<p>The following differences in investment level categorisation were identified within Level 2 and 3 investments in the accounts:</p> <ul style="list-style-type: none"> • BlackRock property investment of £26.314 million was classified as Level 2, but the Fund Manager has stated this investment is Level 3 • M&G Property investment of £29.067 million was classified as Level 2, but the Fund Manager has stated this investment is Level 3 • Barings Multi Asset Credit investment of £123.534 million was classified as Level 3, but the Fund Manager has stated this investment is Level 2. 	<p>Lothbury and Columbia Threadneedle property level classifications to Level 3.</p>

Source: Audit Scotland

There were a limited number of misstatements identified below our reporting threshold which were not corrected in the audited accounts

21. It is our responsibility to request that all misstatements above the reporting threshold are corrected. There were a small number of uncorrected misstatements in the unaudited accounts below the reporting threshold which we do not expect to be corrected. There were no uncorrected misstatements above our reporting threshold.

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

22. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit](#) overleaf sets out the significant risks of material misstatement to the financial statements we identified in our 2023/24 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.

Exhibit 3

Identified significant risk of material misstatement in the financial statements

Significant risk of material misstatement	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries, with a focus on significant risk areas, including year-end and post-close down entries. 	<p>Satisfactory</p> <p>The completion of the assurance procedures did not identify any evidence of</p>

Significant risk of material misstatement	Assurance procedure	Results and conclusions
<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"> • Detailed testing of accounting estimates, assessing any changes to the methods and underlying assumptions used to prepare these compared to the prior year. • Evaluation of significant transactions that are outside the normal course of business, identified through detailed testing of income and expenditure, accruals and cut off transactions. 	<p>management override of controls.</p>
<p>2. Estimation applied to Level 3 investments</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments. Level 3 investments have at least one input that could have a significant effect on the instrument's valuation that is not based on observable market data. Changes in the valuation assumptions used could affect the net book value of the investments and valuations and involve the application of considerable judgement in determining appropriate amounts. The 2022/23 annual accounts of the Fund show that, as at 31 March 2023, the value of Level 3 investments is approximately £74 million (7.4% of the total fund value) based on the valuations provided by investment managers.</p>	<ul style="list-style-type: none"> • Confirmation of year-end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk. • Reviewed the arrangements in place at the Fund to assess investment managers' governance arrangements. • Reviewed the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to acknowledge areas with significant judgement and estimation uncertainty. • Assessed the expertise and competency of investment managers. 	<p>Satisfactory</p> <p>Following audit adjustments agreed in Exhibit 2, no material misstatements in relation to the estimation applied to Level 3 investments were identified.</p>

Source: Audit Scotland

23. In addition, we identified two “areas of audit focus” in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The valuation of Level 2 investment assets and the actuarial valuation of future retirement benefits, including the impact of the updated triennial valuation at 31 March 2023, both involve a significant degree of estimation and judgment. We assessed that this subjectivity represented an increased risk of misstatement for the financial statements. While these areas required audit focus, based on our assessment of the likelihood and magnitude of the risk, we did not consider they represented significant risks of material misstatement. We designed audit procedures to address these risks.

24. We confirmed that the Level 2 investment asset values are now correctly reflected within the annual accounts and confirmed valuations to fund manager. See [Exhibit 2](#), some changes were made to investment categorisation in the accounts to ensure correct valuation of the Level 2 investments.

25. We confirmed that valuation data in the actuarial report is correctly reflected within the annual accounts, and reviewed the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used, with reference to the report produced by the consulting actuary to Audit Scotland.

26. Based on the findings of the audit procedures performed, there are no further matters which we need to bring to your attention.

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.

Main judgements

The Fund has effective financial management arrangements in place. This includes comprehensive reporting of investment performance. However, the Fund does not prepare an annual budget in relation to the administration costs of the Fund.

The Fund pays out more than it collects annually from fund members, investment returns are used to make up the difference. The value of the Fund increased by 10 per cent to £1.1 billion during 2023/24 and investment performance was broadly in line with the benchmark return set for the year.

The Fund has effective financial management arrangements in place. This includes comprehensive reporting of investment performance. However, the Fund does not prepare an annual budget in relation to the administration costs of the Fund

27. The Chief Financial Officer for Dumfries and Galloway Council is the Proper Officer responsible for Dumfries and Galloway Council Pension Fund. The financial regulations of Dumfries and Galloway Council, as administering authority, apply to the Fund. We consider these to be comprehensive, and current, and promote good financial management.

28. Investment performance reports are submitted to the Pensions Sub-Committee on a quarterly basis. Reports are comprehensive, detailing the performance of fund managers and comparing their performance against specific benchmarks. The reports also include commentaries on each fund manager.

29. The administrative burden on local government pension funds has increased significantly in recent years due to increasing complexity and the growth in employer numbers in some pension funds. At the same time, there is increased scrutiny from the Pensions Regulator and risk of fines and other regulator interventions. Therefore, it is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems. This aim must be supported by transparent processes for setting appropriate pension administration budgets. Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff.

30. With this in mind, we noted that the Fund does not prepare an annual budget in relation to the administration costs of the Fund to allow budget monitoring

reports to be prepared and presented to members throughout the year. At present, the majority of the costs are budgeted through the council and transferred to the Fund at year end through central support recharges. We have identified that a number of other Scottish local government pension funds prepare annual budgets which include details of funding provided, increases in relation to McCloud, pension dashboard compliance, environmental, social and governance (ESG) objectives and TCFD reporting requirements which are monitored throughout the year. The introduction of a budgeting process for pension administration by the Fund would demonstrate good governance and provide assurance that the Fund has sufficient resources (quantity and competency) to meet regulatory requirements.

31. Overall, we have concluded that the Fund has effective financial management arrangements in place and that these operated as expected during 2023/24. However, we would recommend that the Fund introduce an annual pension administration budget, including regular budget monitoring.

Recommendation 2

The Fund should introduce an annual pension administration budget and budget monitoring process to demonstrate good governance and provide assurance that the Fund has sufficient resources to meet regulatory requirements.

Financial systems of internal control operated effectively during 2023/24

32. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Dumfries and Galloway Council Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

33. Our work in 2023/24 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, Dumfries and Galloway Council. The main council systems used by the Fund are the general ledger system and the payroll system. Our review of the controls in operation within these systems was conducted as part of our audit of Dumfries and Galloway Council.

34. Our review of the systems used by the Fund and the administering authority 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 2023/24.

The value of the Fund increased by 10 per cent to £1.1 billion during 2023/24 but investment performance was slightly below the benchmark return set for the year

35. The Fund's performance in 2023/24 is summarised in [Exhibit 4](#) overleaf. This shows that the net assets of the Fund increased from £1.004 billion at 31 March 2023 to £1.108 billion at 31 March 2024. This £0.104 billion increase in net assets was mainly attributable to an increase in the value of pooled investments (£0.074 billion) and pooled property investments (£0.025 billion) during the year. These market value changes contributed to a positive annual fund investment return for the year of 10.3 per cent, which was slightly below the benchmark return set for the year of 10.5 per cent.

Exhibit 4 Assets, funding level and investment performance

Net assets	Funding level	Investment performance
<p>£1.108 billion</p> <p>Closing net assets at 31 March 2024 (10.4%)</p>	<p>122%</p> <p>As at 31 March 2024 (based on results of 2023 triennial valuation)</p>	<p>10.3%</p> <p>Return on investments 2023/24</p>
<p>£1.004 billion</p> <p>Opening net assets at 1 April 2023</p>	<p>104%</p> <p>Net assets vs promised retirement benefits 31 March 2023</p>	<p>4.9%</p> <p>Return on investments over 5 years</p>

Source: Dumfries and Galloway Council Pension Fund 2023/24 Annual Accounts

The Fund reported a deficit from dealings with members of £4.9 million for 2023/24

36. As has been the case in recent years, the Fund reported a deficit from dealings with members of £4.9 million in 2023/24, as detailed in [Exhibit 6](#) (£42.7 million in 2022/23 and £5.8 million in 2021/22). This means that pension payments exceeded member contributions and investment income was used to ensure pensions were paid. The main reason for the significant decrease in the deficit from 2022/23 to 2023/24 was due to the transfer of Dumfries and Galloway Housing Partnership employees to the Strathclyde Pension Fund in February 2022, with the final agreed transfer value of £37.9 million paid in 2022/23.

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.

Main judgements

The results of the 2023 triennial valuation showed an improved position with the Fund 122 per cent funded. This enabled the Fund to marginally reduce all employers' contributions. The Council Pool employers' contribution rate was reduced by 1 per cent each year over the period 2024-2027.

Given the funding position at 31 March 2023, and the healthy net asset position at 31 March 2024, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

The results of the 2023 triennial valuation showed an improved position with the Fund 122 per cent funded. This enabled the Fund to reduce the Council Pool employers' contribution rate by 1 per cent each year over the period 2024-2027

37. 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.

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

39. The results of the 2023 full triennial valuation of Dumfries and Galloway Council Pension Fund were reported to the Pensions Sub-Committee in March 2024. The results showed the Fund to be 122 per cent funded, meaning that, overall, the Fund has a surplus of assets over liabilities. This enabled the Fund to reduce the Council Pool (covering approximately 92 per cent of the Fund) employers' contribution rate by 1 per cent each year over the period 2024-2027 (21 per cent in 2024/25, 20 per cent in 2025/26 and 19 per cent in 2026/27).

The Fund reviewed its funding strategy statement after the triennial review

40. The investment strategy is set for the long-term but is monitored continually and reviewed every three years using asset-liability modelling to ensure that it remains appropriate to the profile of the Fund's liabilities. The funding strategy

statement is a summary of the Fund's approach to funding liabilities and sets out the level of employer and employee contribution rates required to ensure sufficient resources are available to provide for members' pensions and lump sum benefits. The statement requires to be reviewed annually, unless circumstances dictate earlier amendment.

41. The annual review of the funding strategy statement was undertaken following the 2023 triennial valuation and the updated statement is included within the Fund's 2023/24 Annual Accounts. This review was undertaken by Hymans Robertson LLP, investment advisors to the Fund, during 2023/24 and the findings reported to the Pensions Sub-Committee in March 2024.

42. During 2023/24, the Fund has completed the implementation of the final actions arising from the review of the investment strategy that was agreed in September 2022. Onboarding for the Barings Global High Yield Credit Strategies Fund investment, following their appointment in March 2023 was completed and the initial subscription of £90 million was traded in April 2023. The Pensions Sub-Committee also conducted a manager selection exercise in November 2023 and appointed M&G as a new Residential Property Fund Manager. The onboarding of this investment was completed and the subscription of £30 million was traded in December 2023.

43. During the year the Pensions Sub-Committee also took the decision to fully disinvest from two funds (Lothbury Property Trust in June 2023 and Baillie Gifford Diversified Growth Fund in March 2024), primarily due to concerns over recent performance and the ongoing management/resourcing arrangements of the funds.

Climate related financial disclosures will need to be included in the Fund's Annual Accounts in future

44. 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 private occupational pension schemes with net relevant assets of £1 billion or more. Legislation has not yet been passed for the Local Government Pension Scheme (LGPS) in Scotland to comply with this regulation, however, some of the larger funds are complying as it is seen as best practice. The legislation requires 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).

45. 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. In 2022/23 it was highlighted that four funds already report in line with TCFD recommendations and a further five funds were preparing to do so over the next one or two years. In

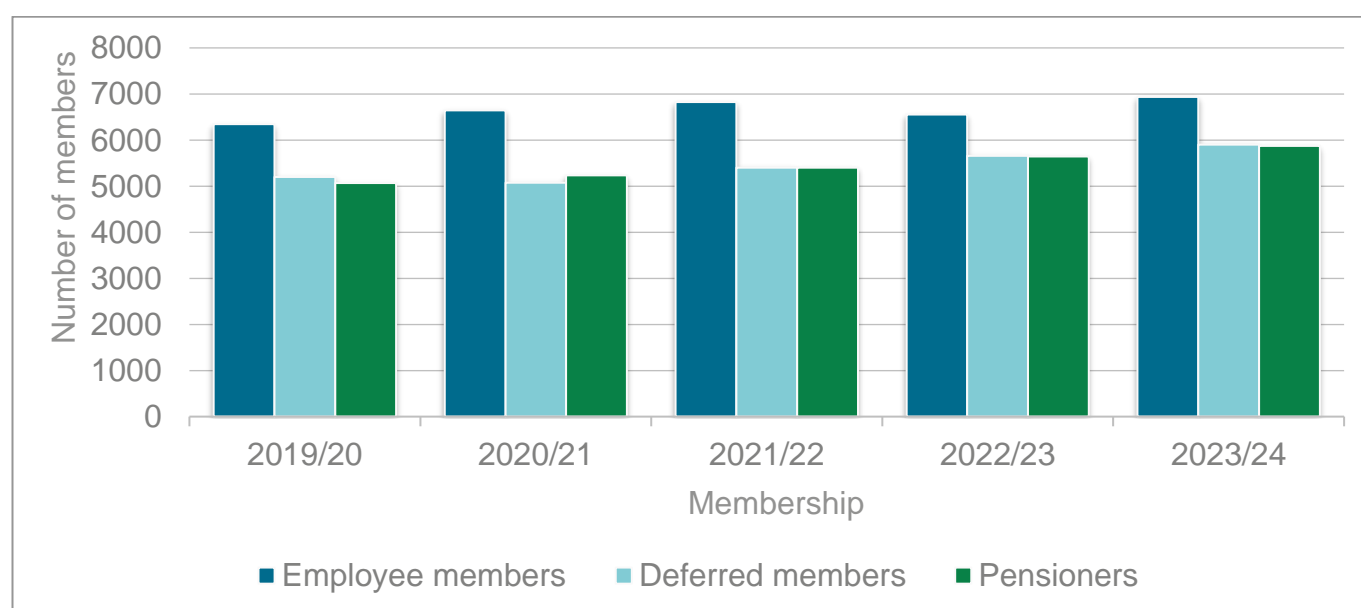
2022/23 it was highlighted that four funds already report in line with TCFD recommendations and a further five funds were preparing to do so over the next one or two years. The working group concluded that all funds are fully aware of the evolving landscape and the vast majority are already preparing to report in line with TCFD recommendations voluntarily.

46. In our 2022/23 Annual Audit Report we recommended that the Fund should familiarise itself with the TCFD requirements and work with fund managers to ensure relevant information is made available. We also recommended that the Fund should also consider early adoption of disclosures in line with best practice. The management commentary in the Fund's 2023/24 Annual Accounts contains a statement that *"In England and Wales, the first TCFD reporting year for local government pension schemes (LGPS) was planned for 2023/24 but the Department for Levelling Up, Housing and Communities confirmed this would be delayed for 2023/24. The implementation date for Scottish LGPS funds has not yet been set. The Fund continues to monitor this and keep up to date with requirements."*

Overall membership levels have increased over the past five years but the ratio of active members to pensioners has steadily reduced over the same period

47. The Fund is a multi-employer fund with active 10 employers at 31 March 2024, comprising 4 scheduled bodies (including Dumfries and Galloway Council, Scottish Police Authority and Scottish Fire and Rescue) and 6 admitted bodies. The current membership profile is shown at [Exhibit 5](#).

Exhibit 5 Dumfries and Galloway Council Pension Fund membership



Source: Dumfries and Galloway Council Pension Fund Annual Accounts 2023/24

48. The Fund gives its members a guarantee that in exchange for contributions during their employment, the Fund will pay a pension until the end of each

member's life. It is important that the fund maintains the capacity to meet the current and future needs of its members.

49. Overall membership of the fund increased by 380 (5.8 per cent) to 6,935 active members during 2023/24 and has increased by 586 (9.2 per cent) since 2019/20. However, although the number of active members continues to exceed the number of pensioners, the ratio of active members to pensioners has steadily reduced in recent years from 1.25:1 in 2019/20 to 1.18:1 in 2023/24. This, combined with increasing life expectancy over this period, continues to place additional pressure on the Fund. However, this does not present any immediate risk to the financial sustainability of the Fund.

There have been negative cash flows from member activity in recent years and this trend is expected to continue

50. The Fund reported a deficit from dealings with members of £4.9 million in 2023/24, [Exhibit 6](#). This reflects the trend of negative cash flows from member activity over recent years. As noted earlier, the main reason for the significant increase in the deficit from 2021/22 to 2022/23 was due to the transfer of Dumfries and Galloway Housing Partnership employees to the Strathclyde Pension Fund in February 2022, with the final agreed transfer value of £37.9 million paid in 2022/23. The Fund actively monitors its cash-flow position and indications are that negative cash flows will be an ongoing trend in future years. The Fund's investment strategy aims to increase income generating investments to assist the Fund in addressing this cash flow challenge.

Exhibit 6

Member transactions 2023/24

	2021/22	2022/23	2023/24
	£m	£m	£m
Employer contributions	(26.194)	(27.448)	(30.060)
Employee contributions	(7.050)	(7.468)	(8.093)
Transfer in	(306)	(1.077)	(2.322)
Lump sums paid	7.086	6.789	8.032
Pension paid	28.116	28.598	31.743
Transfer out	1.319	39.756	1.430
Management expenses	2.872	3.557	4.168
Net withdrawals	5.843	42.707	4.898

Source: Dumfries and Galloway Council Pension Fund 2021/22 to 2023/24 Annual Accounts

We currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy

51. Given the triennial valuation showed that the Fund was 122 per cent funded at 31 March 2023 (paragraph 39.) and the healthy net asset position at 31 March 2024 (paragraph 35. and [Exhibit 3](#)), we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

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.

Main judgements

The Fund has adequate arrangements in place to support good governance and accountability, and scrutiny of decision-making. A fund governance document continues to be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined.

The administering authority has an annual member training plan to assist members of the sub-committee in discharging their fiduciary duty. However, some members have yet to complete their required training.

The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to prevent and detect fraud and corruption, and to ensure compliance with the Pensions Regulator Public Service Code. However, administration policies required by the Regulator need to be formally introduced.

During 2023/24 the Fund introduced a separate risk register which sets out the risks which may directly impact upon the Fund and mitigating actions to address them.

The Fund has adequate arrangements in place to support good governance and accountability, and scrutiny of decision-making. However, a fund governance document should be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined

52. Dumfries and Galloway Council is the administering authority for Dumfries and Galloway Council Pension Fund. The Council has delegated the responsibility for governance to the Pensions Sub-Committee. This Sub-Committee, supported by the Pension Board, is responsible for establishing arrangements that ensure the proper conduct of the affairs of Dumfries and Galloway Council Pension Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

53. The responsibilities of the Pensions Sub-Committee and the Pension Board are set out in the Statement of Investment Principles which is included within the Fund's 2023/24 Annual Accounts.

54. The main functions of the fund are the management of investments and the administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) regulations which are statutory instruments made under the Superannuation Act 1972 and Public Service Pensions Act 2013.

55. In our 2022/23 Annual Audit Report we recommended that, given the role of the Pensions Sub-Committee as the decision making body for the Fund, a model constitution should be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined. We were advised that a short life working group, comprising of officers and members of the Pensions Sub-Committee and Pensions Board, met during 2023/24 to draft a fund governance document but that it has been agreed that an internal audit review of the document is required to take this recommendation forward during 2024/25.

The role and responsibilities of the custodian have been set out within an internal document

56. Unlike other Local Government Pension Funds, the Fund does not make use of an external custodian due to the fact that all investments are held in pooled funds. A pension fund custodian is responsible for:

- safekeeping of assets
- servicing of assets including income collection
- execution of transactions, corporate actions and proxy voting
- record keeping and primary accounting
- securities lending
- cash management
- performance measurement.

57. In our 2022/23 Annual Audit Report we highlighted that the custodian role for the Fund is undertaken internally by an officer within the Fund but there was no formal document which sets out the role of the custodian and their responsibilities. As a result, we recommended that a formal document should be developed setting out the role and responsibilities of the Fund's custodian. During 2023/24 officers set out the role and responsibilities of the Fund's custodian within an internal document.

Officers should review the annual internal controls reports prepared in relation to each fund manager as part of their governance responsibilities

58. Annual internal controls reports are prepared in relation to each fund manager detailing the auditor's review of the suitability and design and operating effectiveness of key controls. However, these controls reports are not formally

reviewed by officers or Hymans, as the advisors to the Fund, to identify if there are any significant issues. We recommended in our 2022/23 Annual Audit Report that, as part of the overall assurance process, officers should review these controls reports each year to identify if there are any issues that would require consideration. We confirmed with officers that although these controls reports were received and considered during 2023/24 and significant findings were noted, there was no formal documentation of this process. In addition, we have reviewed these reports as part of our audit work and we did not identify any significant issues. Nevertheless, we recommend that officers introduce a formal process for reviewing these controls reports and documenting the results of this review.

The administering authority has an annual member training plan to assist members of the sub-committee in discharging their fiduciary duty. However, some members have yet to complete their required training

59. The Pensions Sub-Committee comprises 10 elected members from the administering authority, Dumfries and Galloway Council, and meets quarterly to oversee the supervision and administration of the fund's investments, set the investment strategy, and oversee pension administration activity.

60. Members of the Pensions Sub-Committee are required to perform an independent fiduciary duty on behalf of the members and employer bodies in the Fund. Therefore, they are required to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

61. Market in Financial Instruments Directive (MiFID II) came into effect from 3 January 2018 and the FCA policy reduced the classification of LGPS from "professional" to "retail" (which significantly reduced the investment opportunities for funds) unless they pass the qualitative and quantitative tests required to achieve professional status. The size of the Fund meant it met the quantitative test to achieve professional status. The Fund was able to demonstrate that it had an appropriate training package to ensure that Pensions Sub-Committee members have the knowledge and understanding required to meet their obligations and therefore able to opt up to professional status successfully.

62. An annual training plan and record of training updates is a standing item at each meeting of the Pensions Sub-Committee. This details a list of all members, training required and training undertaken to date.

63. From our review of the 2023/24 training plan, there are two mandatory training requirements for Pensions Sub-Committee and Pension Board members - the Pensions Regulator Toolkit and Hymans Robertson LGPS Guide. The Pensions Regulator Toolkit requires completion within 3 months of becoming a member. Throughout the year, one member of the Pensions Sub-Committee and one member of the Pension Board have shown as "In Progress" for Pensions Regulator Toolkit training. As at March 2024, two Pensions Sub-Committee members and two Pension Board members had not completed the Hymans Robertson Mandatory LGPS Guide. The majority of recommended, but

not mandatory training, remained uncompleted by Pensions Sub-Committee or Pension Board members.

64. The 2024/25 training programme has been updated and members of the Pensions Sub-Committee and Pension Board were sent a knowledge and skills questionnaire based on the current CIPFA Code of Practice and supporting framework. Members were asked to rate their own knowledge on various aspects of the Fund to help identify priority areas for the 2024/25 training plan. As at June 2024, the Pensions Regulator Toolkit still remains in progress for the Pensions Sub-Committee and Pension Board members noted above.

65. Confirming and evidencing training is an important part of maintaining the Fund's Professional Status requirements of MiFiD II and it is therefore recommended that Pensions Sub-Committee and Pension Board members ensure mandatory training is completed within required timescales and recommended training is completed as identified by areas of priority per member questionnaire responses.

Recommendation 3

Pensions Sub-Committee and Pension Board members should ensure mandatory training is completed within required timescales and recommended training is completed as identified by areas of priority per member questionnaire responses.

The Fund conducts its business in an open and transparent manner

66. Openness and transparency means that the public, in particular members of the pension fund, have access to understandable, relevant and timely information about how the fund is taking decisions and how it is using resources.

67. Public sector governance guidance indicates that an organisation that is transparent shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

68. There is evidence from several sources which demonstrate the Fund's commitment to transparency. For example, the Pensions Sub-Committee and Pensions Board meetings are held in public and the minutes of all meetings are available on the administering authority's website. The Fund's Annual Accounts are also available on the administering authority's website, along with investment and administration performance information, and key governance documents.

The management commentary in the 2023/24 Annual Accounts provided a fair, balanced and reasonable analysis of the organisation's financial performance for the year

69. In addition to the consistency opinion on the management commentary covered in Part 1 of this report, we also consider the qualitative aspects of the management commentary included in the annual accounts. The purpose of the management commentary is to provide information on the Fund, its main

objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and reasonable analysis of a body's performance and is essential in helping stakeholders understand the financial statements. We concluded that the management commentary in the 2023/24 Annual Accounts satisfied these requirements.

The Fund has appropriate arrangements in place to prevent and detect fraud and corruption

70. The 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.

71. We assessed the Fund's arrangements for the prevention and detection of fraud as part of our 2023/24 audit. The Fund relies on the administering authority's arrangements for the prevention and detection of fraud and corruption. These include a Code of Conduct for members and officers, Raising Concerns Policy and an Anti-Fraud and Anti-Corruption Statement and Strategy.

72. In June 2024, the Internal Audit Manager presented a report to the Pensions Sub-Committee in relation to Internal Audit assurances in support of disclosures within in the Annual Governance Statement included in the Fund's 2023/24 Annual Accounts and an update on planned Internal Audit work in relation to the Fund in 2024/25. The report also provided members with an update on the work undertaken by Internal Audit in relation to the National Fraud Initiative (NFI) matches in respect of payments to pensioners and the outcomes identified.

73. We concluded that the Fund has appropriate arrangements in place to prevent and detect fraud and corruption. We are also not aware of any specific issues during 2023/24 that we require to bring to your attention.

The process for reviewing members registers of interests to identify related parties for annual accounts disclosures needs to be documented

74. As part of the production of the Fund's annual accounts officers review the registers of interest for each elected member involved in the Pensions Sub-Committee and Pension Board to identify potential related party transactions for disclosure in the annual accounts. However, where registers of interest are not up to date, no further check is performed to identify whether any changes have been made and the process is not formally documented. In addition, we are of the view that the related parties disclosures in the annual accounts could be enhanced going forward to include more detail in respect of Pensions Sub-Committee members and employer body transactions and balances, as recommended in Audit Scotland's [good practice note on the disclosure of related parties](#).

Recommendation 4

Officers should introduce a formal process to demonstrate that up to date registers of interest have been reviewed to ensure that potential related party

transactions have been identified for inclusion in the Fund's annual accounts. In addition, the related parties disclosures in the annual accounts could be enhanced to include more detail in respect of Pensions Sub-Committee members and employer body transactions and balances.

There are effective arrangements in place for complying with the Pensions Regulator Public Service Code. However, administration policies required by the Regulator need to be formally introduced

75. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a new General Code of Practice on 28 March 2024 which sets out the expectations of conduct and practice that funds should meet to comply with their duties in pensions legislation.

76. The Treasury and Capital Manager, Financial Officer (Treasury and Pensions) and Team Leader (Pensions) monitor any potential breaches of the Pensions Regulator Public Service Code regulations. If any such incidents occur, they are discussed with the Chief Financial Officer to establish if they are material breaches that require to be reported to the regulator.

77. Management have confirmed that there were no reportable breaches during 2023/24.

78. Per the General Code in terms of documented administration policies, the following are considered examples of administration policies which the regulator considers to be particularly pertinent and would expect to be documented where relevant to a pension scheme, and with which pension board members must therefore be conversant where applicable:

- conflicts of interest and the register of interests
- record-keeping
- internal dispute resolution
- reporting breaches and maintaining contributions to the scheme.

79. Currently, there are no formal documents setting out these policies for the Fund. Given the potential for issues to arise in relation to the review of members registers of interest not being formally recorded and late contributions not being received within timescales or reported as breaches of law, implementation of formal policies and monitoring is recommended when considering requirements of the future general Code.

Recommendation 5

Administration policies required by the new General Code of Practice need to be formally introduced.

During 2023/24 the Fund introduced a separate risk register which sets out the risks which may directly impact upon the Fund and mitigating actions to address them

80. In relation to risk management, the Fund relies on the arrangements in place within Dumfries and Galloway Council. In our 2022/23 Annual Audit Report we recommended that risk management arrangements would be improved by the implementation and regular review of a separate risk register which is specific to the Fund, with updates being reported to the Pensions Sub-Committee. During 2023/24 officers developed a risk register for the Fund which was presented to the Pensions Sub-Committee in December 2023, where it was agreed that the risk register will be reviewed quarterly by officers and on an annual basis by the Pensions Sub-Committee and Board. The risk register will be updated during 2024/25 to include specific risks in relation to the pension administration service.

Internal audit work which is relevant to the Fund is presented to the Pensions Sub-Committee

81. In our 2022/23 Annual Audit Report that Internal Audit papers that are relevant to the Fund had not been presented to the Pensions Sub-Committee and recommended that Internal Audit work that is relevant to the Fund should be presented to the Pensions Sub-Committee as a separate paper or as appendices where appropriate. In response to our recommendation, in June 2024, the Internal Audit Manager presented a report to the Pensions Sub-Committee in relation to Internal Audit assurances in support of disclosures within in the Annual Governance Statement included in the Fund's 2023/24 Annual Accounts and an update on planned Internal Audit work in relation to the Fund in 2024/25, including the outcome of NFI.

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.

Main judgements

2023/24 was a less challenging year for Scottish Local Government Pension Schemes than previous years. All eleven funds reported positive movements in net assets during the year, although only one fund reported an above benchmark return.

The total Fund performance over the last 12 months was broadly in line with the benchmark return. However, only three of nine investment portfolios managed for the whole of 2023/24 performed above benchmark. Investment performance shows above benchmark returns for the Fund over the last three years and five years, with performance in the last 12 months just below benchmark.

Fund administration performance in 2023/24 is mixed against target across the key performance indicators. In addition, performance has declined across some performance indicators from 2022/23.

Implementing the remedy to fix unlawful discrimination in public service pension schemes will place a significant additional administrative burden on all Scottish Local Government Pension Schemes. In order to ensure that the Fund is able to comply with and fulfil these obligations, a joint resources review will be undertaken by officers and presented to members during 2024/25.

The roll-out of the i-Connect system has the potential to deliver even greater efficiencies in the future. The Fund launched its online member pension portal in February 2024. A pensions dashboard for members will be developed going forward.

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

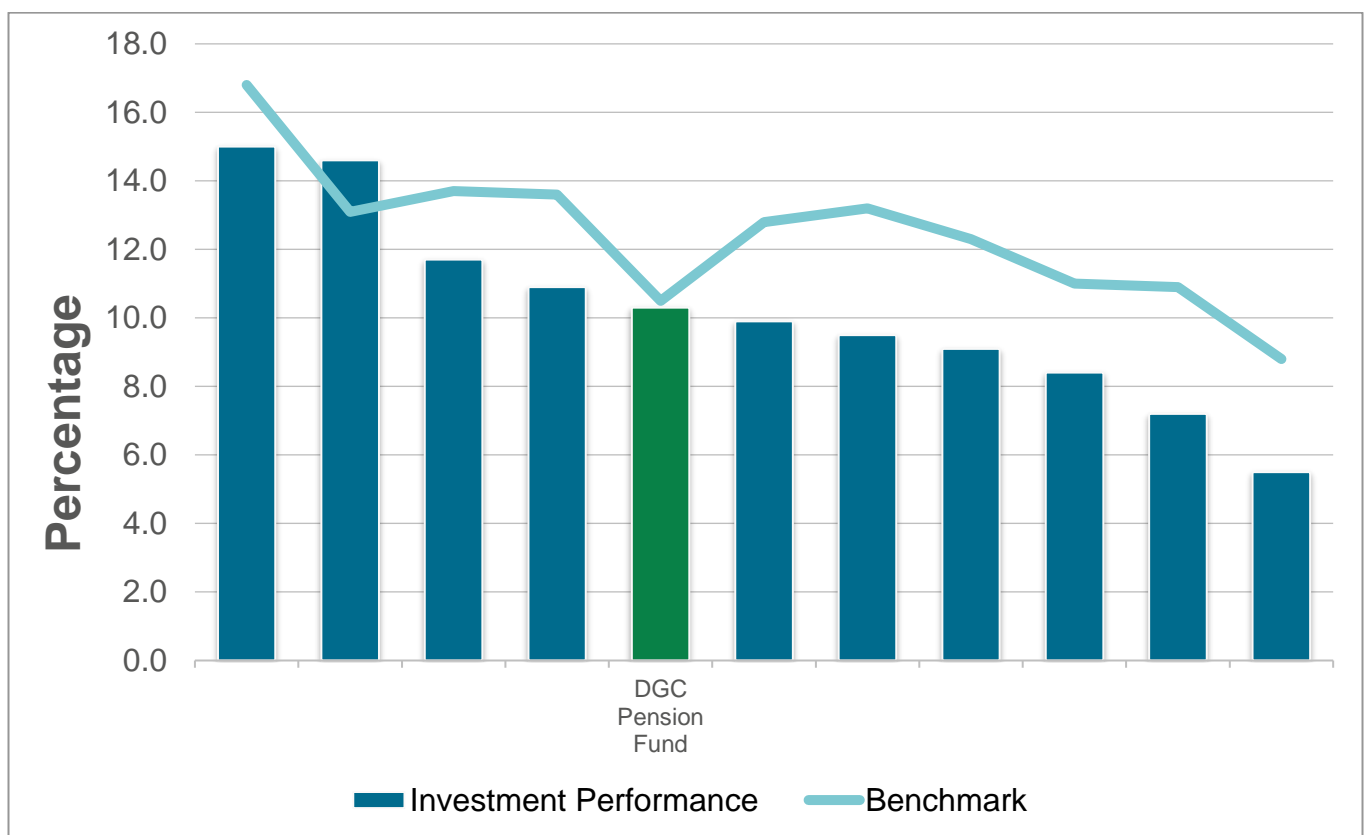
2023/24 was a less challenging year for Scottish Local Government Pension Schemes than previous years. All eleven funds reported positive movements in net assets during the

year, although only one fund reported an above benchmark return

82. 2023/24 was a less challenging year for Scottish Local Government Pension Schemes than previous years. As shown in [Exhibit 7](#) all eleven funds reported positive movements in net assets during the year, although only one fund reported an above benchmark return, with investment performance ranging from 5.5 per cent to 15 per cent (compared to returns ranging from -6 per cent to 1 per cent in 2022/23). Dumfries and Galloway Council Pension Fund's net return of 10.3 per cent (against a benchmark return of 10.5 per cent) placed it in the top half of this range.

Exhibit 7

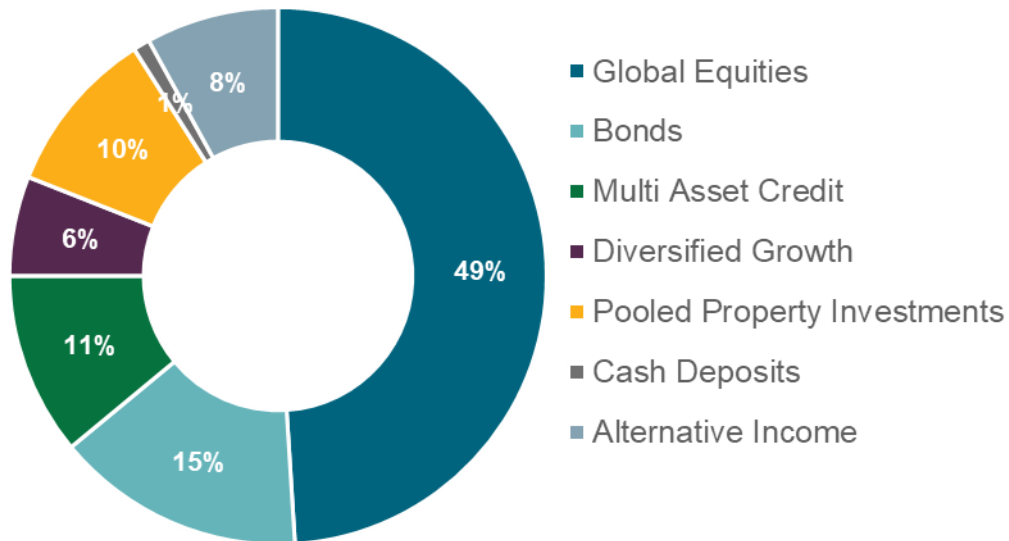
Scottish LGPS pension funds 2023/24 – Net return on investment and benchmark return



Source: 2023/24 Scottish LGPS pension funds unaudited annual accounts

At 31 March 2024, the majority of the value of the Fund's investment assets was held in pooled investments

83. As shown in [Exhibit 8](#) overleaf, £0.545 billion (49 per cent) of the Fund's total investment assets at 31 March 2024 were held in global equities. A further £0.159 billion (15 per cent) of the Fund's investment assets were held in bonds and £0.124 billion (11 per cent) were held in multi asset credit at 31 March 2024.

Exhibit 8**Split of investment assets at 31 March 2024**

Source: Dumfries and Galloway Council Pension Fund 2023/24 Annual Accounts

84. The Fund also continues to invest in long term enhanced yield assets, such as UK property. At 31 March 2024, the Fund held direct property assets with a value of £0.113 billion, 10 per cent of the Fund's investment assets. The objective of holding such investments is to provide a long-term income stream and a degree of inflation protection. Maintaining long term investment income is important to ensuring the Fund has available funding to meet any deficit resulting from dealings with members.

The total Fund performance over the last 12 months was broadly in line with the benchmark return. However, only three of nine investment portfolios managed for the whole of 2023/24 performed above benchmark

85. The Fund used seven external investment managers managing eleven distinct mandates (a set of instructions laying out how a pool of assets should be invested) during the course of 2023/24. The Fund's external investment advisor (Hymans Robertson) provides a quarterly report to the Pensions Sub-Committee covering the performance of each investment manager and the full fund. The Fund's external investment advisor attends the meetings in an advisory capacity, when required.

86. The performance summaries presented to each meeting of the Sub-Committee include details of performance of individual portfolios against benchmark for each quarter of the current year, and over the last three and five years. This allows members of the Sub-Committee to scrutinise investment performance and to question officers on the reasons for any under-performance.

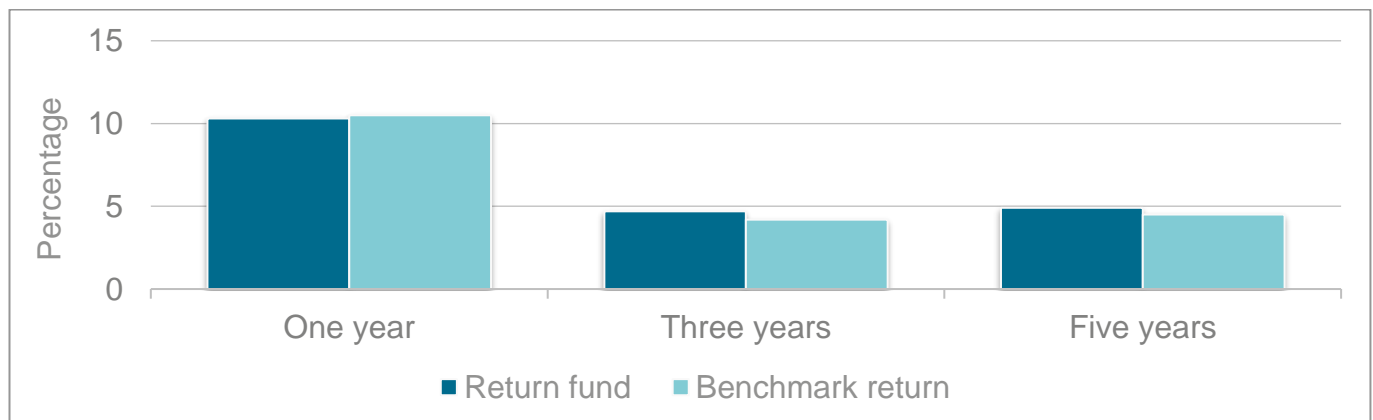
87. During 2023/24 the overall performance of investment managers was broadly in line with the target with a Fund investment return of 10.3 per cent which was slightly below the benchmark of 10.5 per cent (see [Exhibit 6](#)). Three of the nine investment portfolios being managed for the whole of 2023/24 performed above the benchmark, with the remainder performing either below or in line with benchmark. This was largely attributable to the decreases in capital asset values across property investments, with two of the three property mandates and the diversified growth fund mandate reporting returns that were below their benchmark for the year.

Investment performance shows above benchmark returns for the Fund over the last three years and five years, with performance in the last 12 months just below benchmark

88. The Pensions Sub-Committee meets on a quarterly basis. A review of fund managers' performance by the Fund's external investment advisor is a standing item on the Sub-Committee's agenda. At each meeting, Sub-Committee members receive a report outlining overall fund performance including an analysis of risks and returns.

89. [Exhibit 9](#) shows that the Fund performed slightly below the benchmark over the last 12 months, generating a rate of return of 10.3 per cent against the benchmark of 10.5 per cent. The Fund performed above benchmark over both the last three years (4.7 per cent against the benchmark of 4.2 per cent) and the last five years (4.9 per cent against the benchmark of 4.5 per cent).

Exhibit 9 Longer-term Fund investment performance



Source: Dumfries and Galloway Council Pension Fund 2023/24 Annual Report and Accounts

Fund administration performance in 2023/24 is mixed against target across the key performance indicators. In addition, performance has declined across some performance indicators from 2022/23

90. The Fund administration performance indicators are shown in [Exhibit 10](#) and is reported in the Fund's 2023/24 Annual Accounts. Although this shows that the Fund administration performance in 2023/24 is mixed against target across the

key performance indicators, performance has declined across some performance indicators from 2022/23. Notably, the statutory requirement to issue annual pension forecasts by 31 August fell slightly to 97 per cent from the previous year against a target of 100 per cent. The payment of lump sum on death within 15 days fell from 97 per cent in 2022/23 to 86 per cent in 2023/24, against a target of 90 per cent. Early leaver payment of refund within 30 days fell from 93 per cent to 80 per cent against a target of 90 per cent. The detailed 2023/24 pension administration performance report was presented to the Pensions Sub-Committee in September 2024.

Exhibit 10

Administration performance indicators

Key performance indicator	Target	2022/23	2023/24
Key statutory deadlines met (including payment deadlines)	100%	98%	97%
Annual member administration cost	Under £30	£28.17	£28.13
Staff/member ratio	N/A	1:3,226	1:3,324
Number of complaints	0	1	0
Annual pension forecasts issued by 31 August	100%	100%	97%
Payment of lump sum on death (15 days of information received)	90%	97%	86%
Payment of retirement pension (10 days of information received)	90%	98%	96%
Early leaver payment of refund (30 days)	90%	93%	80%

Source: Dumfries and Galloway Council Pension Fund 2023/24 Annual Accounts

91. The Pensions Administration Strategy, which covers the period 2024-2028 was presented to and agreed by the Pensions Sub-Committee on 25 June 2024.

Implementing the remedy to fix unlawful discrimination in public service pension schemes will place a significant additional administrative burden on all Scottish Local Government Pension Schemes. In order to ensure that the Fund is able to comply with and fulfil these obligations, a joint resources review will be undertaken by officers and presented to members during 2024/25

92. On 19 July 2021, a bill was put before Parliament amending the Public Service Pensions Act 2013 to fix unlawful discrimination in public service pension schemes. Measures that have been identified as being required by pension funds to address and rectify have since been described as the “remedy”. The appeal

case (known as McCloud) identified that unlawful discrimination existed between 2 categories of LGPS members:

- Those who were in service on 31 March 2012 and were within 10 years of their Normal Pension Age (NPA) on 1 April 2012 and as such benefited from the underpin protection provided in the 2015 Scheme Regulations.
- Those who were in service on 31 March 2012 and were more than 10 years from their Normal Pension Age (NPA) and as such did not benefit from the underpin protection provided in the 2015 Scheme Regulations.

93. The remedy will remove the unlawful discrimination by providing underpin protection to the second group noted above, and as such will treat both categories of scheme members equally. The remedy will also ensure that there will be automatic retrospective adjustment of benefits for applicable scheme members who have ceased scheme membership. This is a significant body of work and administratively complex.

94. The related legislation passed in early 2022 and requires funds to implement the 'remedy' to age discrimination within the Local Government Pension Scheme. Compliance with this legislation will involve a significant and administratively complex body of work for the Fund.

95. The 2023/24 Annual Accounts highlight that 16,071 records processed between 01 April 2015 and 30 September 2023 require retrospective calculations, with a further 9,987 records needing additional information to establish if they are in scope for McCloud assessment. Work is ongoing in relation to this.

96. The Pension Fund Update and Emerging Issues Report presented to the Pensions Sub-Committee on 25 June 2024 noted that members had previously received updates on the McCloud remedy, changes to pension regulations, updates to the Pensions Regulator code of practice and the implementation of pension dashboards. The report also highlighted that, in order to ensure that the Fund is able to comply with and fulfil these obligations a joint resources review will be undertaken by officers including the Administration and Investment Teams. A report on the findings will be brought to a future meeting of the Pensions Sub-Committee and Pensions Board once this review has been carried out.

The roll-out of the i-Connect system has the potential to deliver even greater efficiencies in the future. The Fund launched its online member pension portal in February 2024. A pensions dashboard for members will be developed going forward

97. I-Connect is a cloud based system that manages the flow of employee information from payroll system to the fund's pension administration system. The software enables employers to provide employee information in a secure method. The monthly data uploads inform the Fund of any changes to members details, new joiners and leaver forms, removing the burden of cumbersome employer

year end reporting. This system was rolled out to all scheme employers during 2021/22.

98. Following the introduction of automatic enrolment, 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. 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. As a pension provider, the Fund is will be legally required to participate in pensions dashboards by 31 October 2025.

99. In order to be prepared, the Fund's data quality is continually 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 Information Service Provider (ISP).

100. The online member pension portal was launched for active scheme members in February 2024. This allows members to securely access their pension record at any time, perform retirement calculations, update their personal details and death benefit nominations. The portal will be extended to deferred members in 2024 and additional functionality will be made available as it is developed by Heywood Pension Technologies.

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

101. The administering authority (Dumfries and Galloway 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.

102. The outcome of audit work on the administering authority's Best Value arrangements is reported in the Dumfries and Galloway Council annual audit report. No findings directly applicable to the Fund have been communicated to us by the auditor of Dumfries and Galloway Council that will be reported in the 2023/24 annual audit report of the council.

Appendix 1. Action Plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Pension finance capacity</p> <p>During the audit there were some delays experienced in receiving responses to audit queries. It is clear that officers are dealing with a number of competing priorities which suggests that there are resource capacity issues.</p> <p>It is important that resourcing of the Fund is fully considered and addressed to ensure that there is capacity to review and implement regulatory requirements such as Pension Dashboards and TPR Codes, as well as supporting future audits.</p> <p>There is a risk that the Fund's annual accounts in future years are not signed by the agreed deadline.</p>	<p>The Fund needs to ensure appropriate processes and procedures are in place to support the administration of the Fund, including the delivery of the annual accounts and audit process, ensuring the teams have appropriate capacity to meet these responsibilities throughout the year.</p> <p>Paragraph 13.</p>	<p>Accepted</p> <p>It is fully recognised that the demands on the council as administering authority continue to increase. The implementation of complex regulations such as McCloud and dashboards, the requirements from The Pensions Regulator and wider governance requirements continue to evolve and require significant resource.</p> <p>The Pensions Sub-Committee and Board are aware of the planned resourcing review and proposals will be brought to the Pensions Sub-Committee and Board on completion of this work.</p> <p>Treasury and Capital Manager/HR Manager</p> <p>March 2025</p>
<p>2. Pension administration budget</p> <p>The Fund does not prepare an annual budget in relation to the administration costs of the Fund to allow budget monitoring reports to be prepared and presented to members throughout the year.</p> <p>There is a risk that the Fund does not demonstrate good governance and cannot provide assurance that the</p>	<p>The Fund should consider the introduction of an annual pension administration budget and budget monitoring process to demonstrate good governance and provide assurance that the Fund has sufficient resources to meet regulatory requirements.</p> <p>Paragraph 31</p>	<p>Accepted</p> <p>Work on developing a budget for the Pension Fund is currently in progress. At present, the majority of expenditure is budgeted in the Council and transferred to the Pension Fund through central support recharges. The work being progressed will ensure costs are charged directly to the Pension Fund.</p> <p>Treasury and Capital Manager</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Fund has sufficient resources (quantity and competency) to meet regulatory requirements.</p>		<p>March 2025</p>
<p>3. Member training</p> <p>Some members have yet to complete their mandatory training which is required to ensure they have the requisite knowledge and understanding to properly perform their role.</p> <p>There is a risk that the Fund cannot demonstrate that it meets the requirements of the Market in Financial Instruments Directive (MiFID II) which are necessary to achieve professional status.</p>	<p>Pensions Sub-Committee and Pension Board members should ensure mandatory training is completed within required timescales and recommended training is completed as identified by areas of priority per member questionnaire responses.</p> <p>Paragraph 65.</p>	<p>Accepted</p> <p>Training is a high priority for the Pension Fund and is reported quarterly to the Pensions Sub-Committee and Board.</p> <p>Work will be undertaken with Members to ensure that they are supported to complete the required training.</p> <p>Treasury and Capital Manager</p> <p>December 2024</p>
<p>4. Related party transactions</p> <p>As part of the production of the Fund's annual accounts officers review the registers of interest for each elected member involved in the Pensions Sub-Committee and Pension Board to identify potential related party transactions for disclosure in the annual accounts. However, where registers of interest are not up to date, no further check is performed to identify whether any changes have been made and the process is not formally documented.</p> <p>There is a risk that significant related party transactions are not identified and disclosed appropriately in the Fund's annual accounts.</p>	<p>Officers should introduce a formal process to demonstrate that up to date registers of interest have been reviewed to ensure that potential related party transactions have been identified for inclusion in the Fund's annual accounts. In addition, the related parties disclosures in the annual accounts could be enhanced to include more detail in respect of Pensions Sub-Committee members and employer body transactions and balances.</p> <p>Paragraph 74.</p>	<p>Accepted</p> <p>Registers of Interest for elected members is available on the council website. Work will be undertaken to ensure these are up to date and a register will be expanded to include members of the Board.</p> <p>Treasury and Capital Manager/Democratic Services Manager</p> <p>March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>5. Administration policies</p> <p>The Fund does not have formal documents setting out the administration policies required by the Pensions Regulator General Code of Practice.</p> <p>There is a risk that the Fund does not comply with the requirements of the Pensions Regulator's Code of Practice.</p>	<p>Administration policies required by the new General Code of Practice need to be formally introduced.</p> <p>Paragraph 79.</p>	<p>Accepted</p> <p>A review of compliance with the Pension Regulator Code of Practice is ongoing. Any policies that require to be developed or refreshed will be actioned as soon as possible.</p> <p>HR Manager</p> <p>June 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p>b/f 1. Climate related financial disclosures</p> <p>Taskforce on Climate-Related Financial Disclosures (TCFD) is an upcoming requirement for the Fund.</p>	<p>The Fund should familiarise itself with the TCFD requirements and work with fund managers to ensure relevant information is made available. The Fund should also consider early adoption of disclosures in line with best practice.</p> <p><u>Agreed management action:</u></p> <p>Officers will continue to keep appraised of the requirements and work with Fund Managers to collate the required information in relation to climate impacts of Investments. No deadline has yet been set for the LGPS in Scotland to comply with this legislation.</p> <p>Treasury and Capital Manager</p> <p>March 2024</p>	<p>Work in progress</p> <p>The management commentary in the Fund's 2023/24 Annual Accounts contains a statement that "<i>In England and Wales, the first TCFD reporting year for local government pension schemes (LGPS) was planned for 2023/24 but the Department for Levelling Up, Housing and Communities confirmed this would be delayed for 2023/24. The implementation date for Scottish LGPS funds has not yet been set. The Fund continues to monitor this and keep up to date with requirements.</i>"</p> <p>See Paragraph 46</p>
<p>b/f 2. Pensions Sub-Committee Constitution</p>	<p>A model constitution should be developed for the Pensions Sub-Committee to</p>	<p>Work in progress</p> <p>We were advised that a short life working group, comprising</p>

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<p>Although the Pension Board has a model constitution which sets out the role, remit and governance arrangements, no such document is in place for the Pensions Sub-Committee.</p> <p>There is a risk that members the Pensions Sub-Committee as the decision making body, are not fully aware of their responsibilities as members of the committee.</p>	<p>ensure its role, remit and governance arrangements are clearly outlined.</p> <p><u>Agreed management action:</u></p> <p>The remit, membership and processes of the Pensions Sub-Committee is included as part of the Council's Standing Orders. A governance document covering all aspects of the Pension Fund is currently being developed and will be presented to a future Pensions Sub-Committee and Board meeting.</p> <p>Treasury and Capital Manager (in conjunction with Governance)</p> <p>March 2024</p>	<p>of officers and members of the Pensions Sub-Committee and Pensions Board, met during 2023/24 to draft a fund governance document but that it has been agreed that an internal audit review of the document is required to take this recommendation forward during 2024/25.</p> <p>See Paragraph 55</p>
<p>b/f 3. Custodian role</p> <p>Unlike other Local Government Pension Funds, the custodian role for the Fund is undertaken internally by an officer. However, the Fund does not have a formal document which sets out the role of the custodian and their responsibilities.</p> <p>There is an increased risk of key person dependency which may impact on succession planning.</p>	<p>A formal document should be developed setting out the role and responsibilities of the Fund's custodian.</p> <p><u>Agreed management action:</u></p> <p>The Fund does not have an external custodian as all investments are in pooled funds. We will however fully document the internal process for reconciling and validating fund valuations.</p> <p>Treasury and Capital Manager</p> <p>December 2023</p>	<p>Implemented</p> <p>During 2023/24 officers set out the role and responsibilities of the Fund's custodian within an internal document.</p> <p>See Paragraph 57</p>
<p>b/f 4. Fund manager annual internal controls reports</p> <p>The annual internal controls reports prepared in relation to each fund manager by their auditors are not formally reviewed by officers or Hymans as the advisors to</p>	<p>Officers should review the annual internal controls reports produced by each fund manager's auditor to identify if there are any significant issues that would require consideration.</p> <p><u>Agreed management action:</u></p>	<p>Work in progress</p> <p>We confirmed with officers that although these controls reports were received and considered during 2023/24 and significant findings were noted, there was no formal documentation of this</p>

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<p>the Fund to identify if there are any significant issues.</p> <p>Significant controls issues identified at fund managers are not considered and reported to members.</p>	<p>A formal review of Internal Control Reports for each Fund Manager will be undertaken as they become available from each Fund Manager.</p> <p>Treasury and Capital Manager</p> <p>March 2024</p>	<p>process. In addition, we have reviewed these reports as part of our audit work and we did not identify any significant issues. Nevertheless, we recommend that officers introduce a formal process for reviewing these controls reports and documenting the results of this review.</p> <p>See Paragraph 58</p>
<p>b/f 5. Risk register</p> <p>Although the Fund relies on the risk management arrangements in place within Dumfries and Galloway Council, the council's risk register does not include risks related to the Fund and is not presented to the Pensions Sub-Committee for consideration.</p> <p>The Fund's risk managements arrangements can be improved by the development of a risk register that includes risk that are specific to the Fund.</p>	<p>A risk register should be developed which is specific to the Fund which should be reviewed regularly and reported to the Pensions Sub-Committee throughout the year.</p> <p><u>Agreed management action:</u></p> <p>A formal risk register for the Pension Fund will be prepared to incorporate all the risks currently monitored through the Council and Team Risk Registers. This will be presented to the Pensions Sub-Committee and Board for review at least annually.</p> <p>Treasury and Capital Manager/Team Leader Pensions</p> <p>March 2024</p>	<p>Implemented</p> <p>During 2023/24 officers developed a risk register for the Fund which was presented to the Pensions Sub-Committee in December 2023, where it was agreed that the risk register will be reviewed quarterly by officers and on an annual basis by the Pensions Sub-Committee and Board. The risk register will be updated during 2024/25 to include specific risks in relation to the pension administration service.</p> <p>See Paragraph 80</p>
<p>b/f 6. Internal audit work</p> <p>Internal audit work which is relevant to the Fund is not presented to the Pensions Sub-Committee.</p> <p>Pensions Sub-Committee members may be aware of significant audit findings</p>	<p>Internal Audit work that is relevant to the Fund should be presented to the Pensions Sub-Committee as a separate paper or as appendices where appropriate.</p> <p><u>Agreed management action:</u></p>	<p>Implemented</p> <p>In response to our recommendation, in June 2024, the Internal Audit Manager presented a report to the Pensions Sub-Committee in relation to Internal Audit assurances in support of disclosures within in the Annual Governance</p>

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<p>which affect the Fund's arrangements.</p>	<p>All internal audit reports in relation to the Pension Fund will be presented to Pensions Sub-Committee and Board in addition to Audit, Risk and Scrutiny Committee going forward.</p> <p>Internal Audit Manager September 2023</p>	<p>Statement included in the Fund's 2023/24 Annual Accounts and an update on planned Internal Audit work in relation to the Fund in 2024/25.</p> <p>See Paragraph 81</p>

Dumfries and Galloway Council Pension Fund

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