

Dumfries and Galloway Council Pension Fund

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

September 2023

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Key messages

2022/23 annual accounts

- 1 Audit opinions on the annual accounts are unmodified.
- 2 The annual accounts of Dumfries and Galloway Council Pension 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 has effective financial management arrangements in place. This includes comprehensive reporting of investment performance.
- 4 The Fund pays out more than it collects annually from fund members, with investment returns making up the difference. The value of the Fund decreased by 8.5 per cent to £1.004 billion during 2022/23 and investment performance was below the benchmark return set for the year.
- 5 The ongoing conflict in Ukraine and inflationary pressures have significantly increased market volatility, and there is a risk that there will be further fluctuations in the Fund value in future years, as the long-term impact of these events becomes clearer.

Financial sustainability

- 6 The actuary's interim valuation at 31 March 2023 concluded that the funding level of the Fund is likely to be higher than the 92 per cent reported in the 31 March 2020 triennial funding valuation due to significant rises in interest rates which reduce the value placed on the Fund's liabilities.
- 7 We currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.
- 8 The regular triennial pension valuation process will take place in 2023/24, this may impact the funding strategy and pension contribution rates.

Vision, leadership and governance

- 9** The Fund has adequate arrangements in place to support good governance and accountability, and scrutiny of decision-making. However, a model constitution should be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined.
- 10** The administering authority has an annual member training plan to assist members of the sub-committee in discharging their fiduciary duty.
- 11** 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.
- 12** There is no 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

- 13** 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 Dumfries and Galloway Council, reported above benchmark returns.
- 14** Although the total Fund performance over the last 12 months was worse than targeted, only three of nine investment portfolios managed for the whole of 2022/23 performed below benchmark. Investment performance shows above benchmark returns for the Fund over the last three years but performance over the last five years and the last 12 months has been below benchmark.
- 15** Fund administration performance in 2022/23 is above or on target for key performance indicators.
- 16** 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. The Fund has engaged an external provider to gather the information required for implementing the remedy.
- 17** The roll-out of the i-Connect system has the potential to deliver even greater efficiencies in the future. A pensions dashboard for members will be developed going forward.
- 18** 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 2022/23 audit of Dumfries and Galloway Council Pension Fund (the Fund). The scope of the audit was set out in our Annual Audit Plan issued to members of the Pensions Sub-Committee on 30 March 2023. 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. There were no recommendations made by the previous external auditor (Grant Thornton) that required our follow up.

3. We took a hybrid approach to the 2022/23 audit, with a blend of onsite and remote working.

4. 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.

Audit appointment from 2022/23

5. I, Fiona Mitchell-Knight, have been appointed by the Auditor General as auditor of Dumfries and Galloway Council Pension 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.

6. My team and I 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 in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

7. 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.

8. The Head of Finance and Procurement, as Section 95 Officer, is responsible for the administration of financial affairs.

9. 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.

10. 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.

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

Auditor independence

12. 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 £30,330, 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.

13. 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 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.

Main judgements

Audit opinions on the annual accounts are unmodified.

The annual accounts of Dumfries and Galloway Council Pension 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.

Audit opinions on the annual accounts are unmodified

14. The annual accounts for the year ended 31 March 2023 were approved by the Pension Fund Sub-Committee on 21 September 2023, and certified by the appointed auditor on 21 September 2023. 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 2023 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 not received in line with the agreed audit timetable

15. We received the unaudited annual accounts and initial working papers on 5 July 2023. The unaudited accounts presented for audit were complete and of a good standard. Some follow up working papers were required. We have agreed improvements to the process for next year with officers, including linking working papers to external reports and secondary officers checks of reconciliations. We completed our audit in line with the original timetable.

Our audit testing reflected the calculated materiality levels

16. 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.

17. 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 2022/23 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.	£21.928 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 65% of overall materiality.	£14.253 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 £250,000 as this is the maximum amount allowable under Audit Scotland's audit approach guidance.	£250 thousand

Source: Audit Scotland

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 financial statements.

20. We have no issues to report from the audit.

There were a limited number of non-material misstatements identified which were 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 corrected non-material misstatements in the audited accounts above the reporting threshold with a total value of £1.927 million. This primarily related to the Blackrock SAIF investment as the valuation figure at 31 March 2023 which was received after the unaudited accounts had been presented for audit. These corrections had the impact of increasing net assets of the fund available to fund benefits at 31 March 2023 by £1.653 million.

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 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.

Exhibit 2

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> <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 journal entries, with a focus on significant risk areas, including year-end and post-close down entries. • 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>Satisfactory</p> <p>The completion of the assurance procedures did not identify any evidence of 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</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. 	<p>Satisfactory</p> <p>The completion of the assurance procedures did not identify a material misstatement in relation to the estimation applied to Level 3 investments.</p>

Significant risk of material misstatement	Assurance procedure	Results and conclusions
<p>could affect the net book value of the investments and valuations and involve the application of considerable judgement in determining appropriate amounts. The 2021/22 annual accounts of the Fund show that, as at 31 March 2022, the value of Level 3 investments is £62.4 million (5.7 per cent of the total fund value) based on the valuations provided by investment managers.</p>	<ul style="list-style-type: none"> • 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. 	

Source: Audit Scotland

23. In addition, we identified two “areas of audit focus” in our 2022/23 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 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 assets values are correctly reflected within the annual report accounts, confirmed valuations to valuation reports or other supporting documentation, and reviewed the work of the valuers, including focused substantive testing of the valuation of material assets.

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 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.

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 decreased by 8.5 per cent to £1.004 billion during 2022/23 and investment performance was below the benchmark return set for the year.

The ongoing conflict in Ukraine and inflationary pressures have significantly increased market volatility, and there is a risk that there will be further fluctuations in the Fund value in future years, as the long-term impact of these events becomes clearer.

The Fund has effective financial management arrangements in place. This includes comprehensive reporting of investment performance

27. The Head of Finance and Procurement 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. Overall, we have concluded that the Fund has effective financial management arrangements in place and that these operated as expected during 2022/23.

Financial systems of internal control operated effectively during 2022/23

30. 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.

31. 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, 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.

32. 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 2022/23.

The value of the Fund decreased by 9 per cent to £1 billion during 2022/23 and investment performance was below the benchmark return set for the year

33. The Fund's performance in 2022/23 is summarised in [Exhibit 3](#) overleaf. This shows that the net assets of the Fund decreased from £1.098 billion at 31 March 2022 to £1.004 billion at 31 March 2023. This £0.094 billion decrease in net assets was mainly attributable to a reduction in the value of pooled investments (£0.086 billion) and pooled property investments (£0.018 billion) during the year. These market value changes contributed to a negative annual fund investment return for the year of -5.2 per cent, which was below the benchmark return set for the year of -4 per cent.

34. In relation to the funding levels shown in [Exhibit 3](#) overleaf, the promised retirement benefits at 31 March 2023 have been estimated at £0.968 billion (31 March 2022 – £1.408 billion), being a 31 per cent decrease. These estimates use assumptions in line with Internal Accounting Standards (IAS) 19 requirements, for the purposes of the Fund's financial statements. They are not directly comparable to the liability measures on a funding basis.

Exhibit 3

Assets, funding level and investment performance

Decrease in net assets	Funding level	Investment performance
<p>£1.004 billion</p> <p>Closing net assets at 31 March 2023 (-8.5%)</p>	<p>104%</p> <p>Net assets vs promised retirement benefits 31 March 2023</p>	<p>-5.2%</p> <p>Return on investments 2022/23</p>
<p>£1.098 billion</p> <p>Opening net assets at 1 April 2022</p>	<p>78%</p> <p>Opening net assets as a proportion of promised retirement benefits</p>	<p>3.9%</p> <p>Return on investments over 5 years</p>

Source: Dumfries and Galloway Council Pension Fund 2022/23 Annual Accounts

The ongoing conflict in Ukraine and inflationary pressures have significantly increased market volatility, and there is a risk that there will be further fluctuations in the Fund value in future years, as the long-term impact of these events becomes clearer

35. When considering the investment performance of the Fund during 2022/23, in [Exhibit 3](#), it is important to recognise the impact of world events on financial markets and investments. The global impact of the ongoing conflict in Ukraine and high levels of inflation have significantly increased market volatility.

36. There is a risk that there will be further market volatility and fluctuations in the value of investments in future years as the long-term impact high inflation on economies and recent world events becomes clearer.

The Fund reported a deficit from dealings with members of £42.7 million for 2022/23

37. As has been the case in recent years, the Fund reported a deficit from dealings with members of £42.7 million in 2022/23 (£5.8 million in 2021/22 and £9.3 million in 2020/21). This means that pension payments exceeded member contributions and investment income was used to ensure pensions were paid. 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 being £37.9 million. This was paid in two instalments, the initial payment in December 2022 and the final payment in March 2023.

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 actuary's interim valuation at 31 March 2023 concluded that the funding level of the Fund is likely to be higher than the 92 per cent reported in the 31 March 2020 triennial funding valuation due to significant rises in interest rates which reduce the value placed on the Fund's liabilities.

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

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

The actuary's interim valuation at 31 March 2023 concluded that the funding level of the Fund is likely to be higher than the 92 per cent reported in the 31 March 2020 triennial funding valuation due to significant rises in interest rates which reduce the value placed on the Fund's liabilities

38. A full triennial valuation of Dumfries and Galloway Council Pension Fund was carried out at 31 March 2020 and the draft results were reported to the Pensions Sub-Committee in December 2020. The main purpose of the valuation was to review the financial position of the Fund and to set appropriate contribution rates for each employer for the upcoming three-year period.

39. The results of the valuation showed the Fund to be 92 per cent funded, meaning that the Fund had 92 per cent of the assets required to meet the cost of all future benefits. This resulted in the Fund setting employers' contribution rates ranging from 22 per cent to 36 per cent of pensionable pay for the period 2021-2024.

40. The interim valuation by the Fund's actuary for 2022/23, highlights that markets were severely disrupted by Covid-19 at the 31 March 2020 triennial funding valuation date, resulting in depressed asset values, but recovered strongly in 2020 and 2021. The actuary also notes that more recently, markets have continued to be disrupted by the ongoing conflict in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience) have resulted in a higher than expected LGPS benefit increase of 10.1 per cent in

April 2023. Despite this, the actuary concludes that the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation due to significant rises in interest rates which reduce the value placed on the Fund's liabilities.

The Fund reviewed its investment strategy after the triennial review and approved changes to further diversify the existing asset portfolio

41. 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.

42. Following each triennial valuation, the Fund is required to review its investment strategy. This review was undertaken by Hymans Robertson LLP, investment advisors to the Fund, during 2021.

43. The first stage of this review was presented to the Pensions Sub-Committee in December 2021 and members agreed the high-level change in the investment strategy. This change will result in a 10 per cent reduction in growth seeking assets to fund a corresponding increase in income generating assets. Since then, work was undertaken to review the detailed asset allocation required to support this updated high-level allocation. The review also considered how the investment strategy could be used to support the Responsible Investment Beliefs Statement that was agreed in March 2022 as well as maximising diversification.

44. The Pensions Sub-Committee agreed in September 2022 the following actions in relation to the investment strategy:

- remove the UK equity allocation
- increase the alternative income allocation by 4 per cent
- remove the emerging market debt allocation and consider a new allocation of 9 per cent to a Multi Asset Credit Fund
- consider responsible investment tilted passive funds for global equity and UK Corporate Bond fund
- monitor for cost effective opportunities to allocate to residential property
- monitor for opportunities to switch into alternative protection assets.

45. In addition to agreeing new asset allocations targets in September 2022, the Pensions Sub-Committee also considered the initial options available to support the implementation of the investment strategy and the following actions were agreed:

- switch the current Legal and General Global Equity Fund to the Legal and General Future World Global Equity Fund

- to switch the current Legal and General Corporate Bond Fund to the Legal and General Future World Corporate Bond Fund
- a further £75 Million commitment to BlackRock's Strategic Alternative Income Fund (SAIF).

46. A special meeting of the Pensions Sub-Committee was held in March 2023 to consider the appointment of a Multi Asset Credit Fund Manager. Following selection interviews, the Barings Global High Yield Credit Strategies Fund was selected as the most suitable. Initial onboarding for this investment has been completed and the initial subscription of £90 million started trading in April 2023.

47. The main action still outstanding from the review of the investment strategy is completing the transfer of the Fund's commitment to BlackRock's SAIF. The allocation agreed as part of the 2020 valuation review has only recently been completed and it is anticipated that the further £75 million commitment referred to above will take around 2 years to complete. Monitoring of opportunities to invest in residential property and alternative protection assets is ongoing.

In March 2022 the Pensions Sub-Committee approved a Responsible Investment Beliefs Statement that is consistent with the Fund's fiduciary duty to act in the best interest of the scheme's members

48. In December 2020, the Pensions Sub-Committee agreed that the Fund should sign up as a supporter of Climate Action 100+, an initiative which supports companies that are systematically important to the global transition to net-zero emissions, in their efforts to align their business strategies with the goals of the Paris Agreement. This decision was taken to demonstrate the Fund's commitment to responsible investment, and also aligning to Dumfries and Galloway Council's Climate Emergency Declaration.

49. In addition, in March 2022, the Pension Sub Committee agreed a Responsible Investment Beliefs Statement that further clarifies the Fund's position on responsible investment. Some of the key principles include:

- Any environmental, social and governance (ESG) integration into the Fund should be focussed on areas where it is expected to at least not reduce financial returns
- The Fund aims to integrate responsible investments into the investment managers' processes
- The Fund will actively seek to invest in and support opportunities arising from climate change if the returns offered as attractive
- The Fund believes that engagement is preferred to divestment, and divestment should only be considered for unresponsive companies.

50. The Fund encourages the investment managers to consider the financial impact of good and poor socially responsible activities of companies as part of their due diligence. If their assessment of companies for investment indicates

that a corporate governance, social, environmental or ethical factor could have an impact on that company's financial performance (positively or negatively) then the Pensions Sub-Committee believe the investment managers should take account of it.

51. The Fund investment managers have their own policy on corporate governance and socially responsible investment and the Fund has delegated responsibility to the investment managers to consider socially responsible investment issues in accordance with their policies. In general investment managers do not intervene in companies' activities except where these are in unusual circumstances. The Pensions Sub-Committee accepts that it is not in the economic interest of the Fund for its investment managers to intervene more generally.

52. We reviewed the Responsible Investment Beliefs Statement and are satisfied that it is consistent with the Fund's fiduciary duty to act in the best interest of the scheme's members.

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

53. 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).

54. 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. 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.

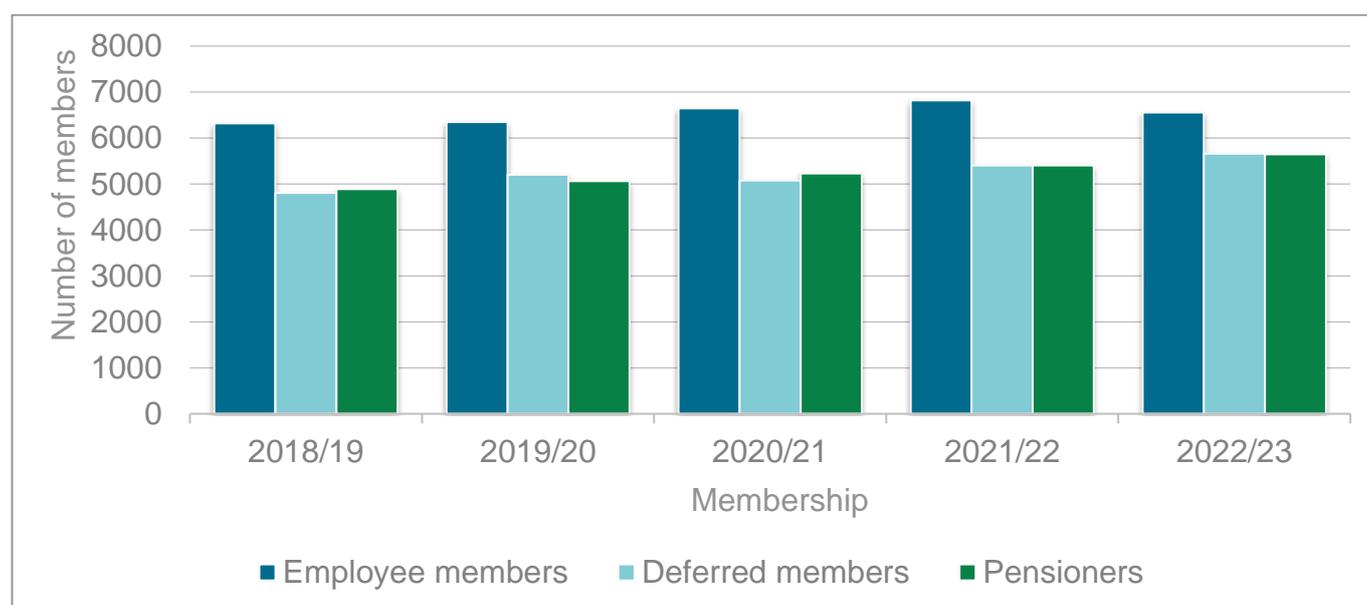
Recommendation 1

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.

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

55. The Fund is a multi-employer fund with active 10 employers at 31 March 2023, 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 4](#).

Exhibit 4 Dumfries and Galloway Council Pension Fund membership



Source: Dumfries and Galloway Council Pension Fund Annual Accounts 2022/23

56. 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.

57. Overall membership of the fund decreased by 267 (3.9 per cent) to 6,555 active members during 2022/23 and has increased by 238 (3.8 per cent) since 2018/19. 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 1.29:1 in 2018/19 to 1.16:1 in 2022/23. 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

58. The Fund reported a deficit from dealings with members of £42.7 million in 2022/23, [Exhibit 5](#). 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 being £37.9 million. This was paid in two instalments, the initial payment in December 2022 and true up payment in March 2023. The Fund actively monitors its cash-flow position and indications are that negative cash flows will be an ongoing trend in future years.

Exhibit 5

Member transactions 2022/23

	2020/21 £m	2021/22 £m	2022/23 £m
Employer contributions	(24.493)	(26.194)	(27.448)
Employee contributions	(6.492)	(7.050)	(7.468)
Transfer in	(0.277)	(306)	(1.077)
Lump sums paid	6.292	7.086	6.789
Pension paid	27.504	28.116	28.598
Transfer out	4.111	1.319	39.756
Management expenses	2.690	2.872	3.557
Net withdrawals	9.335	5.843	42.707

Source: Dumfries and Galloway Council Pension Fund 2012/22 to 2022/23 Annual Accounts

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

59. As noted in paragraph 40, the actuary's interim valuation at 31 March 2023 highlighted that the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation (92 per cent) due to significant rises in interest rates which reduce the value placed on the Fund's liabilities. Given this, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

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

60. 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.

61. The outcome of the triennial valuation will include setting the funding strategy for the following 3 years, including the contribution rates for the period 2024-2027.

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. However, a model constitution should 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.

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.

There is no 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 model constitution should be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined

62. 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.

63. 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 2022/23 Annual Accounts.

64. 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.

65. Although the Pension Board has a model constitution which sets out its role, remit and governance arrangements, no such document is in place for the Pensions Sub-Committee. The Dumfries and Galloway Council standing orders provides details of the remit and meeting arrangements for the Pensions Sub-Committee. However, given the role of the Pensions Sub-Committee as the decision making body, a model constitution should be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined.

Recommendation 2

A model constitution should be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined.

The role and responsibilities of the custodian need to be formally documented

66. 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.

67. The custodian role for the Fund is undertaken internally by an officer within the Fund. Currently, the Fund does not have a formal document which sets out the role of the custodian and their responsibilities. The creation of this document would reduce the current risk of key person dependency and will assist in future succession planning to ensure adequate procedures are in place to ensure adequate staff expertise, knowledge and skills are maintained.

Recommendation 3

A formal document should be developed setting out the role and responsibilities of the Fund's custodian.

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

68. 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. As part of the overall assurance process, we feel that officers should review these controls reports each year to identify if there are any issues that would require consideration.

Recommendation 4

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.

The administering authority has an annual member training plan to assist members of the sub-committee in discharging their fiduciary duty

69. 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.

70. 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.

71. 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.

72. 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.

The Fund conducts its business in an open and transparent manner

73. 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.

74. 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.

75. 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 2022/23 Annual Accounts provided a fair, balanced and reasonable analysis of the organisation's financial performance for the year

76. 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 2022/23 Annual Accounts satisfied these requirements.

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

77. 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.

78. We assessed the Fund's arrangements for the prevention and detection of fraud as part of our 2022/23 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.

79. 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 2022/23 that we require to bring to your attention.

There are effective arrangements in place for complying with the Pensions Regulator Public Service Code

80. 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.

81. 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 Head of Finance and Procurement to establish if they are material breaches that require to be reported to the regulator.

82. Management have confirmed that there were no reportable breaches during 2022/23.

There is no separate risk register which sets out the risks which may directly impact upon the Fund and mitigating actions to address them

83. In relation to risk management, the Fund relies on the arrangements in place within Dumfries and Galloway Council. However, our review of the council's risk register noted that it did not refer to the Fund or include specific risks related to it and is not presented to the Pensions Sub-Committee for consideration. Although appendix C of the Funding Strategy Statement included in the 2022/23 Annual Accounts highlights the key risks and controls related to the Fund, this is an annual process undertaken as part of the production of the annual accounts. Therefore, risk management arrangements could 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.

Recommendation 5

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.

Internal audit work which is relevant to the Fund is not presented to the Pensions Sub-Committee

84. From our review of papers that have been reported to the Pensions Sub-Committee, it does not appear that any Internal Audit papers that are relevant to the Fund have been presented. We noted that Internal Audit presented a report to the council's Audit, Risk and Scrutiny Committee in February 2023 following a review of the control arrangements for the administration of pensions. However, this report was not presented subsequently to the Pensions Sub-Committee. Although there were no significant issues identified from the Internal Audit review of the control arrangements for the administration of pensions, it is 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.

Recommendation 6

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.

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

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 Dumfries and Galloway Council, reported above benchmark returns.

Although the total Fund performance over the last 12 months was worse than targeted, only three of nine investment portfolios managed for the whole of 2022/23 performed below benchmark. Investment performance shows above benchmark returns for the Fund over the last three years but performance over the last five years and the last 12 months has been below benchmark.

Fund administration performance in 2022/23 is above or on target for key performance indicators.

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. The Fund has engaged an external provider to gather the information required for implementing the remedy.

The roll-out of the i-Connect system has the potential to deliver even greater efficiencies in the future. 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.

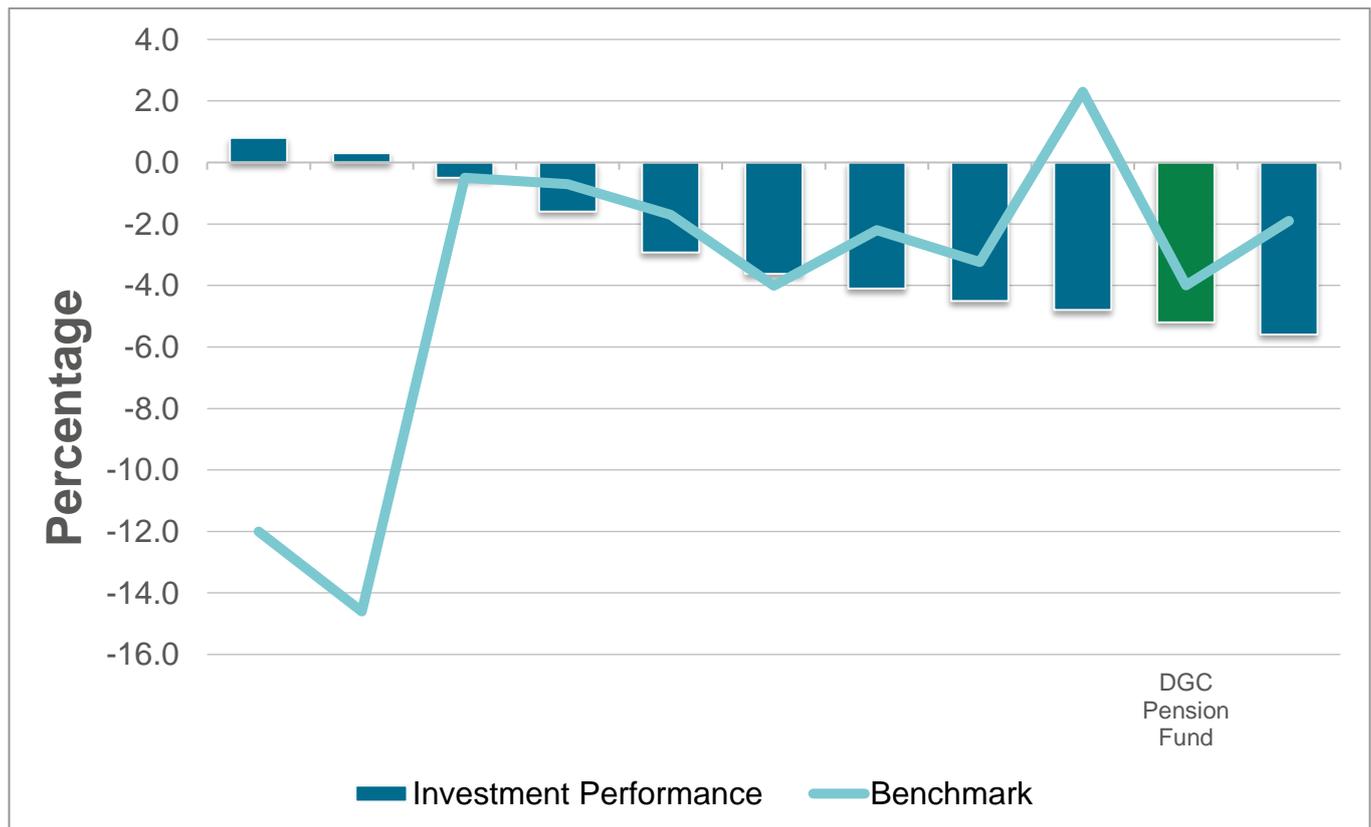
2022/23 was a challenging year for Scottish Local Government Pension Schemes. Only two of the eleven funds reported positive movements in net assets during the year and only three funds reported above benchmark returns

85. 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 at Part 2 of this report. As shown in [Exhibit 6](#) overleaf, 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). Dumfries and Galloway Council Pension Fund's decrease of 5.2 per cent (against a benchmark return of -4 per cent) placed it near 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 6

Scottish LGPS pension funds 2022/23 – Net return on investment and benchmark return



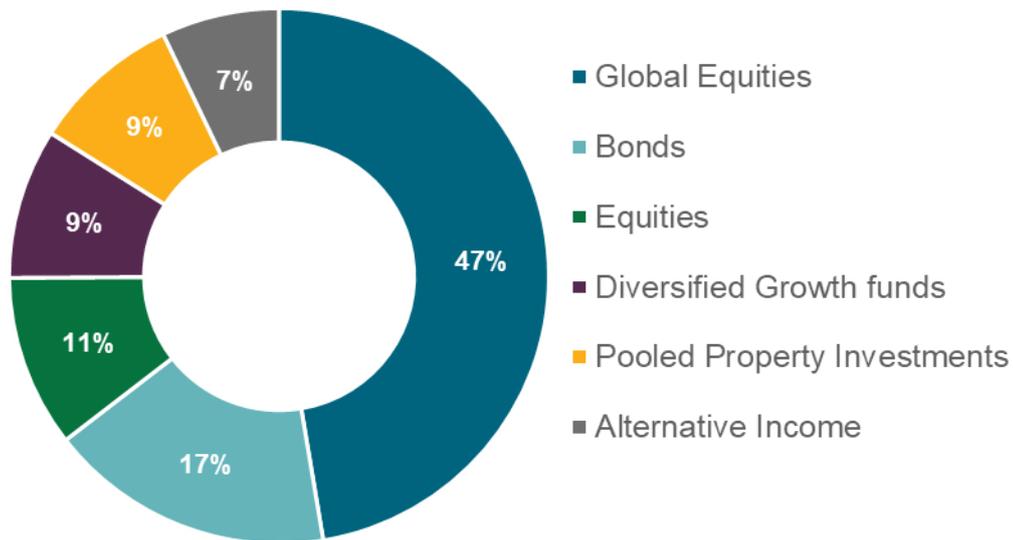
Source: 2022/23 Scottish LGPS pension funds unaudited annual accounts

At 31 March 2023, 56 per cent of the value of the Fund's investment assets was held in pooled investments

86. As shown in [Exhibit 7](#) overleaf, £0.465 billion (47 per cent) of the Fund's total investment assets at 31 March 2023 were held in global equities. A further £0.172 billion (17 per cent) of the Fund's investment assets were held in bonds and £0.102 billion (10 per cent) were held in equities at 31 March 2023.

Exhibit 7

Split of investment assets at 31 March 2023



Source: Dumfries and Galloway Council Pension Fund 2022/23 Annual Accounts

87. The Fund also continues to invest in long term enhanced yield assets, such as UK property. At 31 March 2023, the Fund held direct property assets with a value of £0.088 billion, 9 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.

88. As detailed at paragraphs 43 to 47, the Fund reviewed its investment strategy in 2021 and 2022 and approved changes that would result in a 10 per cent reduction in growth seeking assets to fund a corresponding increase in income generating assets in order to best improve the risk/return profile of the Fund. This option will optimise the chances of the Fund being fully funded in 20 years' time, whilst minimising the potential risk to the funding level.

Although the total Fund performance over the last 12 months was worse than targeted, only three of nine investment portfolios managed for the whole of 2022/23 performed below benchmark

89. The Fund used five 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 2022/23. Two of these mandates were not in place for the whole of 2022/23. 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.

90. 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.

91. During 2022/23 the overall performance of investment managers was worse than targeted with a Fund investment return of -5.2 per cent which was below the benchmark of -4 per cent (see [Exhibit 6](#)). Three of the nine investment portfolios being managed for the whole of 2022/23 performed below the benchmark, with the remainder performing either above or in line with benchmark. This was largely attributable to the impact world events on global markets over the last 12 months, with two of the three property mandates and the diversified growth fund mandate reporting returns that were below their benchmark for the year.

A new investment mandate commenced in April 2023 that focuses on investing in income generating assets in line with the revised investment strategy

92. A new mandate commenced on 17 April 2023. This is being managed by Barings and involves opening funds of £90 million being invested in its Global High Yield Credit Strategies Fund. This fund invests in a portfolio of high yield fixed and floating rate debt instruments issued by North American, European and emerging markets companies, with opportunistic allocations to structured credit assets and special situations. This fund is designed for investors seeking to benefit from a strategy that aims to produce a high current income generation and, where appropriate, capital appreciation.

93. The characteristics of this new investment mandate reflect the objective of Dumfries and Galloway Council Pension Fund's revised investment strategy to further diversify the Fund's investments and increase investing in income generating assets, paragraphs 43 to 47.

Although investment performance shows above benchmark returns for the Fund over the last three years, performance over the last five years and the last 12 months has been below benchmark

94. 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.

95. [Exhibit 8](#) overleaf shows that the Fund performed well below the benchmark over the last 12 months, generating a rate of return of -5.2 per cent against the benchmark of -4 per cent. Although the Fund performed above benchmark in the last three years (8.6 per cent against the benchmark of 8 per cent), the Fund

performed below benchmark over the last five years (3.9 per cent against the benchmark of 4.4 per cent).

Exhibit 8 Longer-term Fund investment performance



Source: Dumfries and Galloway Council Pension Fund 2022/23 Annual Report and Accounts

Fund administration performance in 2022/23 is above or on target for key performance indicators

96. The Fund administration performance indicators are shown in [Exhibit 9](#) and is reported in the Fund's 2022/23 Annual Accounts. This shows that the Fund administration performance in 2022/23 is above or on target for key performance indicators. The annual accounts highlight that the annual member administration cost in 2021/22 was above target due to the additional system cost in relation to the i-Connect system is a cloud based system that manages the flow of employee information from payroll system to the fund's pension administration system. The detailed 2022/23 pension administration performance report was presented to the Pensions Sub-Committee in September 2023.

Exhibit 9 Administration performance indicators

Key performance indicator	Target	2021/22	2022/23
Annual member administration cost	Under £30	£35.05	£28.17
Number of complaints		4	1
Annual pension forecast issued by 31 August	100%	100%	100%
Payment of lump sum on death (15 days of information received)	90%	95%	97%
Payment of retirement pension (10 days of information received)	90%	96%	98%
Early leaver payment of refund (30 days)	90%	87%	93%

Source: Dumfries and Galloway Council Pension Fund 2022/23 Annual Accounts

97. Officers have advised that the current Pension Administration Strategy, which covers the period 2012-2015, will be reviewed and a new strategy will be introduced during 2023/24.

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. The Fund has engaged an external provider to gather the information required for implementing the remedy

98. 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 and Sargeant) 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.

99. 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.

100. 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.

101. The 2022/23 Annual Accounts highlight that a data collection exercise will be undertaken during 2023/24 to ensure the Fund holds the data required to calculate the underpin protection. Heywood Pension Technologies have been engaged to gather the necessary information from employers and update member records when rectification is laid in law.

The roll-out of the i-Connect system has the potential to deliver even greater efficiencies in the future. A pensions dashboard for members will be developed going forward

102. 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.

103. 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 with the estimated date for onboarding September 2023 with transition to business-as-usual in 2024. The Department for Work and Pensions (DWP) recently announced a delay to pensions dashboard implementation, although 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.

104. 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 a member online portal, the procurement of a member tracing service and a pensions dashboard compatible Internet Service Provider (ISP).

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

105. 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.

106. 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 2022/23 annual audit report of the council.

Appendix 1. Action Plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>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>Paragraph 54</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>2. Pensions Sub-Committee Constitution</p> <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>A model constitution should be developed for the Pensions Sub-Committee to ensure its role, remit and governance arrangements are clearly outlined.</p> <p>Paragraph 65</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>

Issue/risk	Recommendation	Agreed management action/timing
<p>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>Paragraph 67</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>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 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>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>Paragraph 68</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>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>Paragraph 83</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>

Issue/risk	Recommendation	Agreed management action/timing
<p>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 which affect the Fund's arrangements.</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>Paragraph 84</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>

Dumfries and Galloway Council Pension Fund

2022/23 Annual Audit Report

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