



**Chief Officer Audit & Risk (Chief Audit Executive for the SBC Pension Fund)**  
**Jill Stacey**

**Internal Audit Annual Assurance Report 2025/26 for the  
SBC Pension Fund**

**to**

**Pension Fund Committee and Pension Board,  
SBC Director of Finance, Pensions Investments & Accounting Manager,  
Director of People Performance & Change, and HR Shared Services Manager**



**29 May 2026**



## 1 Introduction

- 1.1 It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines, which are not fixed but evolve to reflect changes in the regulatory framework and operating environment.
- 1.2 The purpose of the SBC Internal Audit function, as the third line (*set out in the Internal Audit Charter - March 2025*) is to strengthen the SBC Pension Fund's governance, risk management and internal controls within its activities designed to achieve its principal aim and underpinning objectives, and to add value by providing those charged with governance (*Pension Fund Committee*) with independent, risk based, and objective assurance, advice, insight, and foresight.
- 1.3 The SBC Internal Audit function enhances the SBC Pension Fund's:
  - o Successful achievement of its principal aim and underpinning objectives.
  - o Governance, risk management, and internal controls by championing good practice in governance through assurance, advice and contributing to the annual governance review.
  - o Decision-making and oversight, by ensuring these are informed by the exposure to significant financial, strategic, reputational and operational risks to the achievement of its principal aim and underpinning objectives.
  - o Reputation and credibility with its stakeholders, as a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the entity in all its activities and transactions.
  - o Ability to serve the public interest, by ensuring that the entity, administrators and contracted third parties operate within the law and relevant regulations, and that pension funds are safeguarded, properly accounted for, and used economically, efficiently and effectively.
- 1.4 The Global Internal Audit Standards for the UK Public Sector (GIAS) require the chief audit executive (SBC Chief Officer Audit & Risk) to provide annual assurance and audit opinion that can be used by the organisation to inform its governance statement. The annual report must incorporate:
  - o the opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control;
  - o a summary of the work that supports the opinion; and
  - o a statement on conformance to the GIAS.
- 1.5 The GIAS are relevant to the remit of the Pension Fund Committee (as the governance body for the SBC Pension Fund), specifically Domain III: Governing the Internal Audit Function (Principle 6 Authorised by the Board; Principle 7 Positioned Independently; Principle 8 Overseen by the Board). A joint virtual Development Session was held on 26 May 2025 with members of SBC Audit Committee, IJB Audit Committee and Pension Fund Committee to outline the requirements for the governance of Internal Audit, and determine any steps required to demonstrate conformance. The functions of the Pension Fund Committee were updated in the Scheme of Administration to reflect the above which was approved by full Council on 25 September 2025.

## 2 Audit Opinion on the Governance, Risk Management and Internal Control

- 2.1 The SBC Pension Fund Chief Audit Executive's independent and objective opinion is that the systems of governance, risk management and internal control operating within the Scottish Borders Council Pension Fund during 2025/26 are appropriate and effective, with improvements demonstrated during the year.
- 2.2 The SBC Pension Fund operates under good public sector practice governance arrangements under the SBC Scheme of Administration and the SBC Pension Fund Governance Policy and Compliance Statement through the joint meetings of the Committee and Board that support scrutiny and transparency of decisions made. SBC Pension Fund demonstrates a high degree of compliance with the General Code and action is being taken to ensure full compliance.
- 2.3 Robust risk management arrangements are in place enabled by a standalone Risk Management Policy and Strategy for the SBC Pension Fund. The Pension Fund Risk Register provides clear focus on the most significant risks. There is an established quarterly cycle of risk reporting to the Committee and Board joint meetings aligned to its primary aim and underpinning objectives.
- 2.4 Comprehensive business planning arrangements are in place to demonstrate clarity of required developments and improvements. Processes have been further developed to accommodate the requirements of the Pensions Regulator's General Code of Practice. Completed improvements have been independently validated and reported to Committee and Board to ensure transparency.
- 2.5 There are effective key controls for pension financial transactions and transfer payments. Up to date SBC Financial Regulations are applied to the Pension Fund and counter fraud arrangements are appropriate. The financial planning process operates within the governance arrangements for the Local Government Pension Scheme (Scotland) Regulation 2014. Financial statements and budget monitoring processes are sound.
- 2.6 The Pension Fund Committee receives performance information in the form of quarterly reports produced by Isio. These reports also include ESG scores for investments that are applied using a clearly defined methodology to support the assessment criteria, although transparency could be enhanced.

### 3 Scope of the Internal Audit Annual Plan 2025/26

3.1 The level of Actual Audit Days (30) was slightly more than the Plan Days (25) to deliver the approved Internal Audit Annual Plan 2025/26 for the SBC Pension Fund. The range and breadth of Internal Audit work, which is listed below, is sufficient to inform the Internal Audit overall assurance opinion and conclusions on the adequacy of the SBC Pension Fund's overall control environment. There has been no impairment to the independence or objectivity of the Internal Audit function during the year.

#### 3.1.1 Internal Control, Governance and Risk Management

- Assess the Pension Fund's corporate governance arrangements in place to deliver its objectives, using the Governance Policy and Compliance Statement as an integrated toolkit to test key elements.
- Review the Pension Fund's risk management arrangements (risk review and reporting) in compliance with its own risk management framework.

#### 3.1.2 Business plan improvements and developments

- Specific review of progress with the key tasks and actions within the Business Plan that are due to be completed during 2025/26 in alignment with Pension Fund's primary aim and underpinning objectives.
- Carry out independent validation of the improvements undertaken each quarter associated with the Stewardship Code Action Plan.

#### 3.1.3 Financial Governance and Key Controls

- Assess Pensioner payroll systems and controls to ensure transactions are valid, complete and accurate. Assurance requested by Management on Transfer Payments and on Budget Plan and monitoring information to Committee and Board.

#### 3.1.4 Performance Management

- Assess the performance requirements of the Investment Managers to implement the Committee's agreed ESG Policy to drive ESG improvements and monitoring information to Committee and Board and wider stakeholders.

#### 3.1.5 Recommendations Follow Up Review

- Follow-up progress by Management with implementation of Audit Actions and areas of improvement by the agreed date recommended in 2024/25 audit assurance work and check on the adequacy of new internal controls.

#### 3.1.6 Advice and Consultancy

- As a 'critical friend' to Management, provide advice and internal challenge on projects involving major change and systems implementation.

#### 3.1.7 Attendance at Boards / Committees

- Prepare for and attend joint meetings of Pension Fund Committee and Pension Board and other relevant forums to observe planning, approval, monitoring and review activity of business and performance.

#### 3.1.8 Audit Planning for 2026/27

- Consider SBC Pension Fund risks, update SBC Pension Fund Audit Universe, develop and consult on proposed coverage within the Audit Plan 2026/27 for SBC Pension Fund.

## 4 Summary Findings and Conclusions arising from Internal Audit Annual Plan 2025/26 Delivery

### 4.1a Internal Control and Governance

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making.

The Pension Fund Committee is the main decision-making body, i.e. Scheme Manager, of the Fund and is comprised of seven SBC Elected Members.

The Pension Board assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The Pension Board consists of four employer representatives and four employee Union representatives. The Scottish Borders Council employer representative on the Board is an Elected Member who is not a member of the Pension Fund Committee.

The Investment & Performance Sub-Committee develops investment strategy and monitors investment performance and consists of the Pension Fund Committee Members, and one employer and one employee representative from the Pension Board.

The new Independent Professional Observer (IPO) Role, one of the recommendations from the good governance report (December 2022), is designed to strengthen the Fund's governance by providing independent observations to the Pension Fund Committee and Pension Board. The role also aims to enhance the scrutiny of the decision making and provide the Committee and Board with additional experience and knowledge impartial from Officers.

Joint meetings of the Pension Fund Committee and Pension Board were held on 24 June, 22 September, 7 November (Special) and 11 December 2025, and 05 March 2026. Appointment to the new IPO Role was from June 2025. Strong leadership is in place, members are working together in a constructive way, and the Minutes support the scrutiny being undertaken and transparency of the decisions made. The Investment & Performance Sub-Committee meetings were held on 23 June, 25 August and 27 October 2025, and 23 February 2026. Meetings are dovetailed to ensure that relevant information is reported on a timely basis to the Pension Fund Committee. Member training has taken place during the year 2025/26, based upon identified needs.

During the year SBC's Pension Accounting & Investment Team and Pensions Administration Team continued to provide sound and resilient services to the Pension Fund, supporting the business of the Pension Fund Committee and Pension Board, including their learning and development.

The annual Stewardship Code application renewal was submitted to the Financial Reporting Council on 31 October 2025, and the achievement of the successful application for SBC Pension Fund to renew the Stewardship Code was notified at the joint meeting on 05 March 2026.

Internal Audit have made no recommendations in respect of Internal Control and Governance arrangements in this report.

#### Conclusion

The SBC Pension Fund operates under good public sector practice governance arrangements under the SBC Scheme of Administration and the SBC Pension Fund Governance Policy and Compliance Statement through the joint meetings of the Committee and Board that support scrutiny and transparency of decisions made. SBC Pension Fund demonstrates a high degree of compliance with the General Code and action is being taken to ensure full compliance.

#### 4.1b Risk Management

Risk management is a process of identifying potential risks to the achievement of objectives, analysing them and taking steps to mitigate those risks, thus managing the effect of uncertainty on objectives. Compliance with the principles of good governance requires the Joint Pension Fund Committee and Pension Board to adopt a coherent approach to the management of risks that it faces in the achievement of its strategic objectives.

A standalone Risk Management Policy and Risk Management Strategy 2024-2026 for the SBC Pension Fund were approved by the Pension Fund Committee in March 2024. The SBC Pension Fund's Risk Management Framework is led by SBC's Chief Officer Audit & Risk and facilitated in practice by SBC's Corporate Risk Officer.

The Risk Management Policy Statement defines risk and risk management, outlines the vision, and states the roles and responsibilities in managing the risks of the SBC Pension Fund. The Senior Officers (SBC) supporting the Pension Fund have the primary responsibility to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund (Risk Owners). The Committee and Board, while the statutory roles and functions are separate, need to be assured that risks to the achievement the SBC Pension Fund's primary aim and underpinning objectives are being adequately managed, and be content that risk-based information is sufficient to support sound decision-making (Governance body in Management of Risk).

The 3-year Risk Management Strategy 2024-2026 outlines the approach that will be adopted to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund, in support of the Risk Management Policy Statement. The Risk Management Policy and Strategy will ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration.

The Pension Fund Risk Register clearly focuses on the most significant risks with updates provided to the Pension Fund Committee and Pension Board on a quarterly basis by SBC's Chief Officer Audit & Risk and Corporate Risk Officer, based on review activity by SBC Officers as risk owners. The quarterly risk review cycle by risk category and the associated Pension Fund Risk Register Update reports are designed to enable the Members of the Committee/Board to focus on specific risks at each meeting which are broadly aligned to the established business reporting cycle i.e. June 2025 ('Administration' risk category), September 2025 ('Governance and National Policy'/'Regulations' risk category), December 2025 ('Funding' risk category) and March 2026 ('Investments' risk category), noting that the Cyber Security risk received additional reviews outwith its 'Administration' cycle due to its red-risk rating. The latter demonstrates a flexible and proportionate approach to the management of risks. All other risks are assessed as either Amber or Green-rated. Internal Audit have made no recommendations in respect of Risk Management arrangements in this report.

#### Conclusion

Robust risk management arrangements are in place enabled by a standalone Risk Management Policy and Strategy for the SBC Pension Fund. The Pension Fund Risk Register provides clear focus on the most significant risks. There is an established quarterly cycle of risk reporting to the Committee and Board joint meetings aligned to its primary aim and underpinning objectives.

## 4.2 Business Plan improvements and developments

Business Planning is about the alignment to Pension Fund priorities and objectives, and ensuring that key tasks and actions identified within the plan are undertaken. Having a Business Plan for the Pension Fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making.

Independent validation of all aspects in Governance Policy and Compliance Statement was undertaken, to make sure that assertions are supported by evidence, in advance of its approval by Pension Fund Committee on 24 June 2025, a joint meeting with Pension Board.

The Pension Fund Business Plan 2025/26-2027/28 has an updated format and has been developed by SBC officers in SBC’s Human Resources and Finance Services and structured to meet the specific needs of the Pension Fund, following the introduction of the General Code and the new General Code Compliance Tracker. The Business Plan 2025/26 – 2027/28 was approved by Pension Fund Committee on 06 March 2025, a joint meeting with Pension Board, alongside the new General Code of Practice Compliance Tracker (updates were endorsed on 24 June 2025).

The SBC Internal Audit function accessed records on a quarterly basis to independently substantiate the evidence of improvements as recorded on the Business Plan, relating to 2025/26, and the new General Code of Practice Compliance Tracker. This audit activity was referenced in relevant Committee reports during the year for assurance and transparency. Furthermore, quarterly updates were presented at the joint meetings of the Pension Fund Committee and the Pension Board to outline progress with improvements within the General Code of Practice Compliance Tracker.

Internal Audit have made no recommendations in respect of Business Planning arrangements in this report.

### Conclusion

Comprehensive business planning arrangements are in place to demonstrate clarity of required developments and improvements. Processes have been further developed to accommodate the requirements of the Pensions Regulator’s General Code of Practice. Completed improvements have been independently validated and reported to Committee and Board to ensure transparency.

### 4.3 Financial Governance and Key Controls

Financial management is concerned with the transparent reporting of financial and performance information. A strong system of financial management is essential for the successful implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

#### *Financial Transactions*

The key controls for Pension pay transactions were assessed during the SBC Payroll Key Controls audit engagement: Substantial assurance on the embedded system-based controls that are in place ensuring that separation of duties and approval procedures are applied consistently. The controls are designed to detect errors, non-compliance with corporate policy requirements and potential fraud.

The internal controls set out in the Administration category risks demonstrate independent checking being completed at key stages, ensuring appropriate segregation of duties for the Management of Transfer Payments.

#### *Financial Regulation*

The Scottish Borders Council Financial Regulations were updated and approved in November 2024. The application of these regulations, including the Pension Fund, promotes financial controls, management, and reporting as part of good financial governance. Z

Counter fraud systems and procedures are consistent with Scottish Borders Council's counter fraud policy and strategy, which are based on the national counter fraud standard CIPFA's Code of Practice on 'Managing the Risk of Fraud and Corruption'. In terms of internal controls operation, these are subject to review and evaluation through risk review processes covering funding, governance, and administration. Fraud detection activities including the National Fraud Initiative (NFI) also enable the detection and prevention of fraud (e.g. notification of deaths). Internal Audit intend to perform a more in-depth piece of work in 2026/27 on Investment Practices, as indicated in the Internal Audit Annual Plan. The existing counter-fraud framework is consistent with meeting the Pension Fund's legal obligations under the Economic Crime and Corporate Transparency Act 2023 (ECCTA), which makes failure to prevent fraud an offence where an organisation can be liable if an associated person commits fraud to benefit the organisation with effect from 1 September 2025.

#### *Financial Planning*

A Budget 2025/26 was approved by the Pension Fund Committee on 6 March 2025 at the joint meeting with the Pension Board. The budget is aligned to the strong governance arrangements required by the Local Government Pension Scheme (Scotland) Regulation 2014 and the standards set out for Administering Authorities.

### *Financial Monitoring*

The Pension Fund budget monitoring reports are presented to Pension Fund Committee by SBC Director of Finance on a quarterly basis. At the March cycle of meeting this would include the proposed budget for the forthcoming year.

Internal Audit have made no recommendations in respect of Financial Governance and Key Controls in this report.

#### Conclusion

There are effective key controls for pension financial transactions and transfer payments. Up to date SBC Financial Regulations are applied to the Pension Fund and counter fraud arrangements are appropriate. The financial planning process operates within the governance arrangements for the Local Government Pension Scheme (Scotland) Regulation 2014. Financial statements and budget monitoring processes are sound.

#### 4.4 Performance Management

Performance management is concerned with developing and maintaining a strategic and integrated approach to improving the effectiveness of the organisation in delivering a high quality of service for users that represents value for money.

The SBC Pension Fund is responsible for ensuring that it has an effective performance management system that facilitates effective and efficient delivery of planned services within the principal aim and underpinning objectives.

The SBC Pension Fund has a clear principal aim with underpinning objectives and outcomes. Each quarter, the external Investment Consultant (ISIO) reports on the Fund's quarterly performance by individual investment manager and mandate to the joint meeting of the Pension Fund Committee and Pension Board (24 June 2025, 22 September 2025, 11 December 2025, 5 March 2026). Performance reports include ESG scores for investments and a clearly defined methodology to support the assessment criteria. However, the performance reports are not accessible to the public, as these are deemed to contain sensitive information, as these are considered in the private sessions of the meeting. A low rated recommendation has been made to enhance transparency to demonstrate responsible investments and ESG evaluations within investment performance reporting i.e. an executive summary of quarterly performance presented in the public session of joint meetings for stakeholders and interested parties to view.

The Annual Report and Accounts outline information concerning the administration and performance of the Fund. The latest published Annual Report and Accounts for 2024/25 strikes a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous for users to understand.

##### Conclusion

The Pension Fund Committee receives performance information in the form of quarterly reports produced by Isio. These reports also include ESG scores for investments that are applied using a clearly defined methodology to support the assessment criteria, although transparency could be enhanced.

#### ***4.5 Follow up of Internal Audit Recommendations***

There were no formal recommendations made in the Internal Audit Annual Assurance Report 2024/25 for the SBC Pension Fund that required follow-up. Improvements in governance and internal controls can be demonstrated through progress with implementation of improvements in the Compliance Action Tracker.

#### ***4.6 Advice and Consultancy***

Officers did walk-through with the Internal Audit team of the testing carried out on pensions dashboard prior to 'go-live' as a 'critical friend' to Management; no concerns were raised. Activity was referenced in "Information Update" within agenda of Joint Meeting of Pension Fund Committee and Pension Board on 22 September 2025.

#### ***4.7 Committee / Board Meetings***

Chief Officer Audit & Risk (chief audit executive) joined the June, September and December 2025 and March 2026 Joint Meetings of Pension Fund Committee and Pension Board to observe planning, approval, monitoring and review activity of business and performance. Cycle of Internal Audit reports to fulfil professional internal audit standards were presented to Pension Fund Committee.

#### ***4.8 Audit Planning for 2026/27***

SBC Internal Audit function considered SBC Pension Fund risks, updated the SBC Pension Fund Audit Universe, developed and consulted on proposed coverage within the Audit Plan 2026/27 for the SBC Pension Fund. The Internal Audit Annual Plan 2026/27 for the SBC Pension Fund was approved by the Pension Fund Committee on 05 March 2026 at its joint meeting with the Pension Board.

## 5 Action Plan

There was one new Internal Audit recommendation made during 2025/26 which is designed to improve the governance, risk management and internal controls of the SBC Pension Fund:

Recommendation	Management Response, Action Owner and Timescale
<b>1 (2025/26) Performance Management (ESG)</b>	<b>Low</b>
An executive summary of quarterly performance should be presented in the public session of joint meeting of the Pension Fund Committee and Pension Board for stakeholders and interested parties to view, to enhance transparency to demonstrate responsible investments and ESG evaluations within investment performance reporting.	Management Response: Small overview of responsible investments and ESG evaluations to be included within the Information Update. Responsible Owner: Jill Murray, Pensions Investments and Accounting Manager Completion Date: June 2026

## 6 Global Internal Audit Standards (GIAS)

- 6.1 The new CIIA 'Global Internal Audit Standards' (GIAS) came into effect 1 January 2025 for all other sectors. The GIAS, the associated IASAB 'Application Note: Global Internal Audit Standards in the UK Public Sector' and the CIPFA 'Code of Practice for the Governance of Internal Audit in UK Local Government' (which combined are known as the GIAS in the UK Public Sector) came into effect for the UK Public Sector on 1 April 2025. The GIAS are principle-based and serve as a basis of elevating, and evaluating the quality of, internal audit functions worldwide.
- 6.2 At the centre of the GIAS are 15 guiding principles. These principles are supported by standards that contain requirements, considerations for implementation and examples of evidence to demonstrate conformance. The Domains and Principles within the GIAS containing the standards are referenced below for information:
- Domain I Purpose of Internal Auditing.
  - Domain II Ethics and Professionalism (Principle 1 Demonstrate Integrity; Principle 2 Maintain Objectivity; Principle 3 Demonstrate Competency; Principle 4 Exercise Due Professional Care; Principle 5: Maintain Confidentiality).
  - Domain III: Governing the Internal Audit Function (Principle 6 Authorised by the Board; Principle 7 Positioned Independently; Principle 8 Overseen by the Board).
  - Domain IV: Managing the Internal Audit Function (Principle 9 Plan Strategically; Principle 10 Manage Resources; Principle 11: Communicate Effectively; Principle 12: Enhance Quality).
  - Domain V: Performing Internal Audit Services (Principle 13 Plan Engagements Effectively; Principle 14: Conduct Engagement Work; Principle 15: Communicate Engagement Results & Monitor Action Plans).
- 6.3 Domain III: Governing the Internal Audit Function and the public sector specific guidance CIPFA 'Code of Practice for the Governance of Internal Audit in UK Local Government' both contain processes and practices in which the Pension Fund Committee plays a key role, as the relevant governance body in respect of the assurance service provision by the SBC Internal Audit function to the SBC Pension Fund. To support members' learning and development, the primary focus of a Development Session on 19 May 2025 was the Overview of the Global Internal Audit Standards in the UK Public Sector (GIAS). This was delivered by SBC Chief Officer Audit & Risk as a joint virtual session with members of SBC Audit Committee, IJB Audit Committee and Pension Fund Committee. Broadly the same content was delivered at the Pension Fund Training Day on 05 November 2025 to members of the Pension Fund Committee and Pension Board to ensure clarity of their roles in respect of provision of Internal Audit services.
- 6.4 An annual internal self-assessment against the GIAS of the SBC Internal Audit function was undertaken in Q4 2025/26 by the new Senior Internal Auditor to provide independent evaluation of conformance. The results confirmed conformance with the GIAS, as applicable to a small Internal Audit function, the consistency in the quality management systems that underpin the provision of Internal Audit assurance services, and highlighted some minor refinements for the Quality Assurance and Improvement Programme (QAIP). The next External Quality Assessment (EQA) each five years was due in late 2025 though, taking account of the transition to the GIAS, the next EQA will be deferred until 2026/27.