

Shetland Islands Council Pension Fund

2024/25 Annual Audit Report



Prepared for Shetland Islands Council Pension Fund and the Controller of Audit
September 2025

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Key messages

Audit of the annual accounts

- 1** All audit opinions stated that the annual report and accounts were free from material misstatement.
- 2** The 2024/25 annual report and accounts were certified on 22 September 2025, in line with the agreed audit timetable.

Wider scope and Best Value audit

- 3** The Fund has effective and appropriate arrangements in place for Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
 - 4** The Fund's administering authority Shetland Islands Council is responsible for having effective and appropriate arrangements in place at the Fund to secure Best Value. The council has made good progress in implementing previous Best Value audit recommendations. It continues to face significant recruitment challenges to fill vacant positions and is exploring different initiatives to address these. It also needs to increase the pace of transformation work and enhance its reporting on Change Programme projects.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Shetland Islands Council Pension Fund annual accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to Shetland Islands Council Pension Fund, hereafter referred to as 'the Fund', and the Controller of Audit and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Rachel Browne, of Audit Scotland, has been appointed as external auditor of the Fund for the period from 2023/24 until 2026/27. As reported in the Annual Audit Plan, Rachel Browne as engagement lead and the audit team are independent of the Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the Fund, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the Fund and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement including Governance Compliance Statement.
- Conclusions on the Fund's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the Fund's arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the Fund and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on the Fund's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the Fund from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The Fund's responsibilities

10. The Fund has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements for the Fund that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the Fund and Shetland Islands Council Pension Fund Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

The 2024/25 annual report and accounts were certified on 22 September 2025, in line with the agreed audit timetable.

One uncorrected misstatement of £0.9 million was identified within the financial statements. This was lower than our performance materiality and we did not need to revise our audit approach.

Audit opinions on the annual accounts

12. The Fund's annual report and accounts were approved by Shetland Islands Council Pension Fund Committee on 22 September 2025 and certified by the appointed auditor on the same date. The Independent Auditor's Report is included in the Fund's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

13. The unaudited annual report and accounts and all working papers were received on 26 June 2025 in accordance with the agreed audit timetable. The accounts and working papers presented for audit were of a good standard and officers provided excellent support to the team during the audit process. This helped us to complete the audit in line with the audit timetable.

Audit Fee

14. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £37,990. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

15. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

16. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of the Fund were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual accounts. Materiality levels were updated, and these can be seen in [Exhibit 1](#).

Exhibit 1 2024/25 Materiality levels for the Fund

Materiality	Pension Fund
Materiality – set at 2% of Gross Investment Assets	£15.6 million
Performance materiality – set at 65% of overall materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£10.1 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.3 million

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the Fund is Shetland Islands Council Pension Fund Committee.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the

auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

21. [Exhibit 2](#) and paragraphs 24 to 26 below report on the identified areas of significant or higher risk which we consider to be key audit matters.

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the Fund's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by the Fund was assessed as part of the audit. These were considered to be appropriate to the circumstances of the Fund, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in number of areas in the Fund's financial statements, including the valuation of investment assets and the actuarial present value of promised future benefits. Audit work considered the process that management of the Fund has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in [Exhibit 2](#).

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity such as the valuation of Level 3 investments and the actuarial present value of promised future benefits.

Significant matters discussed with management

27. All significant matters identified during the audit and discussed with the body's management have been reported in the Annual Audit Report.

Audit adjustments

28. Our audit also identified a number of narrative presentation and disclosure changes within the annual report. These were discussed and agreed with management, and all adjustments were incorporated into the final audited annual report and accounts. None of the changes were significant enough to require separate reporting under ISA 260.

29. Our audit identified one misstatement above the reporting threshold. This was not corrected by management in the audited annual report and accounts.

30. The unaudited accounts were prepared based on investment fund manager reports as at 31 March 2025, except for Permira, where the most recent available report (as at 31 December 2024) was used by the Fund. During the audit, the 31 March 2025 Permira report was received and a difference of £0.898 million was identified between the values in this report and those disclosed in the unaudited accounts. Investments were overstated by £0.265 million and cash understated by £1.163 million, resulting in a net understatement of investment assets in the Net Assets Statement of £0.898 million.

31. We have reviewed the value, nature, and circumstances of this uncorrected misstatement and concluded that it arose due to the timing of the receipt of year end reports from the investment fund manager. The issue is isolated and identified in its entirety and does not indicate further systemic error. We did not need to revise our audit approach.

32. This misstatement is below our performance materiality of £10.1 million and therefore we are satisfied that this error does not have a material impact on the financial statements. As a result, there is no impact on the audit opinion outlined in the Independent Auditor's Report.

33. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material. Management of the Fund has not processed the audit adjustments to correct the misstatement detailed in [paragraph 30](#).

Significant risks of material misstatement identified in the Annual Audit Plan

34. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 2](#).

Exhibit 2**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. Conclusion: no evidence of fraud caused by management override of controls.

Risk of material misstatement	Planned audit response	Outcome of audit work
Level 3 investment assets valuation These investments represented 20.9% of the Fund's investments at 31 March 2024 and are not based on observable market data but rely on investment manager valuations involving significant application of judgement which might be impacted by delays in valuation data and reaction to environmental factors. The subjectivity involved represents increased risk of material misstatement in the financial statements.	The audit team will: • Assess the competence, capabilities, and objectivity of the fund managers in line with ISA 500. • Critically assess the Pension Fund's arrangements for arriving at the valuation of level 3 investments, including the use of experts in undertaking the valuation. • Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Review the relevant investment managers' controls reports for qualifications or exceptions that may affect the audit risk. • Review the arrangements in place at the Pension Fund to assess investment managers' governance arrangements. • Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.	Audit work performed found: • No issues were identified in our assessment of the investment fund managers as management's experts. • We identified one area where the Fund's arrangements for arriving at the valuation of Level 3 investments could be improved (see paragraph 35) but sufficient assurances were obtained to support the valuation. • Investment valuations were agreed to independently sourced investment fund manager reports. • A review of investment fund managers' controls reports was completed, and no exceptions noted. • No issues were identified in our review of the arrangements in place at the Fund for assessing investment fund managers' governance arrangements. • Disclosures in the accounts were reviewed and considered to be adequate. Conclusion: Satisfactory, no issues identified with Level 3 investment asset valuations.

Source: Audit Scotland

35. We identified an area for improvement in management assurances over investment fund managers. As part of current arrangements for gaining assurance over the value of Level 3 investments, the Fund relies on its investment consultant to raise concerns about a fund manager's performance or management. However, the Fund does not currently seek

positive confirmation when no issues are reported. Introducing routine confirmations from the investment consultant that no concerns have been identified would strengthen assurance over fund manager performance and governance.

Recommendation 1

The Fund should enhance its assurance arrangements over Level 3 investments by formally documenting management's considerations in arriving at the valuation of Level 3 investments. Arrangements should include introducing a formal process for obtaining written confirmation from its investment consultants at year-end to confirm that the consultant has reviewed the performance, governance, and operational integrity of all investment fund managers and has no concerns to report.

Prior year recommendations

36. The Fund has made substantial progress in addressing the audit recommendations from the prior year. All three recommendations have now been implemented as set out in [Appendix 1](#).

Wider scope and Best Value audit

Conclusion

The Fund has effective and appropriate arrangements in place for Financial Management; Financial Sustainability, Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.

The Fund has effective and appropriate arrangements in place for securing Best Value through the administering authority.

Audit approach to wider scope and Best Value

Wider scope

37. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

38. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the Fund has in place for each of these is reported in this chapter.

Best Value

39. The Fund is a pension fund that is administered by Shetland Islands Council. As pension funds are not local authorities or separate bodies that fall within section 106 of the Local Government (Scotland) Act 1973, the statutory responsibility for securing Best Value for pension funds lies with the administering local authority, Shetland Islands Council.

40. Therefore, consideration of the arrangements the Fund has in place to secure Best Value has been carried out as part of the Shetland Islands Council audit, and a conclusion on the arrangements and any matters relating to the Fund are reported in this chapter.

Conclusions on wider scope audit

Financial Management

41. The audit work performed on the arrangements the Fund has in place for securing sound financial management found that these were effective and appropriate. This judgement is evidenced by the Fund:

- having effective arrangements in place, which includes comprehensive reporting on investment performance, that support sound financial management, and effective scrutiny and challenge provided by Shetland Islands Council Pension Fund Committee.
- having a system of internal control in place that is operating effectively and has no significant weaknesses or deficiencies.
- having adequate arrangements in place to prevent and detect fraud, error and irregularities, bribery, and corruption.

The value of the Pension Fund increased by 2 per cent to £782 million during 2024/25 but overall investment returns underperformed against the 4.6 per cent benchmark return set for the year

42. The Pension Fund saw growth in investment assets in year of £16 million to £782 million. In 2024/25, the Pension Fund has seen an absolute return on investments of 2%, against a benchmark of 4.6%, resulting in a - 2.6% relative return. The fund performance is outlined below:

Exhibit 3

Fund Performance

Net Assets	Funding Level	Investment Performance
£784 million	143%	10.8%
Net assets as at 31 March 2025	Net assets of the scheme vs promised retirement benefits as at 31 March 2025	Average annual return on investments over 5 years (Benchmark: 11.3%)
£768 million	120%	2%
Net assets as at 31 March 2024	As at last formal funding valuation (31 March 2023)	Investment return in 24/25 (Benchmark: 4.6%)

Source: 2024/25 Shetland Islands Council Pension Fund Annual Report and Accounts

43. When considering the overall investment performance of the Fund during 2024/25, it is important to recognise the impact of world events on financial markets and investments. There continues to be a challenging global backdrop, with world events having an impact on financial markets

and investments. Trade policy tensions and geopolitical tensions in the second half of the year has tempered growth and is likely to continue to impact financial markets during 2025/26.

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

44. The Executive Manager (Finance) for Shetland Islands Council is the Proper Officer responsible for the Fund. The financial regulations of Shetland Islands Council, as administering authority, apply to the Fund. We consider these to be comprehensive and support good financial management.

45. The Shetland Islands Council Pension Fund Committee receives administration and performance reports at its quarterly meetings. From attendance at committee meetings, we concluded that reports presented to members are comprehensive and are subject to appropriate review and scrutiny.

46. Performance reporting in the annual accounts for 2024/25 includes enhanced narrative on investment performance and data on individual investment fund manager performance against annual benchmarks.

Financial systems of internal control operated effectively during 2024/25

47. 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 the Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

48. Our work in 2024/25 covered the key controls over the systems used for pension administration activity and the pension fund's investments. The Fund uses the financial systems of the administering authority, Shetland Islands Council. The main council systems used by the Fund are the general ledger system and the payroll system.

49. Our review of the controls in operation within these systems was conducted as part of our audit of Shetland Islands Council. 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 record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit has given a satisfactory opinion on the Fund's governance, risk management and control framework for 2024/25

50. The Fund's internal audit function is carried out by Audit Glasgow as part of their contract with Shetland Islands Council. Audit Glasgow presented their Annual Audit Report to the Shetland Islands Council's June

2025 Audit Committee meeting. Their overall opinion was that reasonable assurance could be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2024/25.

51. However, Internal Audit noted there were 47 internal audit recommendations outstanding as of June 2025, with some of these being significantly overdue from the originally planned implementation date. A number of these recommendations related specifically to the Pension Fund across three previous audits, where there has been limited progress in implementation.

The Fund has adequate arrangements in place to prevent and detect fraud, error and irregularities, bribery, and corruption.

52. 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, Whistleblowing Policy and an Anti-Fraud Strategy. Our overall conclusion is that the administering authority has adequate arrangements in place to prevent and detect fraud, error and irregularities, bribery, and corruption.

Financial Sustainability

53. The audit work performed on the arrangements the Fund has in place for securing financial sustainability found that these were effective and appropriate. This judgement is evidenced by the Fund:

- having a current funding level of 120% based on the 2023 triennial valuation. Following the triennial valuation, the Fund reduced the employers' common contribution rate to 19.6 per cent for the period 2024/25-2026/27.
- having appropriate and effective medium to long term financial planning arrangements including review of the Fund's Investment Strategy every five years as a long-term view is taken
- having nine admitted and scheduled bodies with overall fund membership levels continuing to increase in 2024/25. Pension Fund membership has increased by 1.1% in 2024/25 to 8930.

The 2023 triennial valuation reported a funding level of 120 per cent

54. The most recent triennial funding valuation took place across Local Government Pension Schemes in 2023/24 based on data as at 31 March 2023. The results were reported to the Pension Fund Committee in March 2024. The 2023 triennial valuation reported a funding level of 120 per cent funded. This meant that overall, the Fund had a surplus of assets over liabilities and that the fund assets were sufficient to meet 120% of its liabilities. Following the triennial valuation in 2023, the Fund reduced the employers' common contribution rate to 19.6 per cent for the period 2024/25-2026/27. While this reduced contribution rate will decrease the amount paid in to the Fund through employer contributions over the three-

year period, we do not believe this presents any risk to the long-term financial sustainability of the Fund.

Medium to long term financial planning arrangements are appropriate and effective

55. Pension funding is subject to considerable volatility, and the triennial valuation offers a snapshot of the Fund's position as at 31 March 2023. The Fund's investment strategy is reviewed every five years. Results of actuarial valuations which are every three years are used as a check that the Pension Fund is in a healthy position. Following the 2023 valuation, the Fund's Investment Advisors carried out a review, and a revised strategy was approved by the Pension Fund Committee in June 2024.

56. The new investment strategy is not a significant change to the existing investment strategy. It still maintains a growth strategy while reducing the level of equity risk and using the benefit of investing in illiquid assets to achieve more stable high returns, supporting financial sustainability in the medium to long term.

Overall fund membership levels continue to increase but the ratio of active members to pensioners continues to reduce.

57. The Fund is a multi-employer fund with Shetland Islands Council and eight other admitted and scheduled bodies. Membership of the Fund increased by 100 (1.1 per cent) to 8930 members as at 31 March 2025.

58. In 2024/25 the number of pensioners receiving a pension from Shetland Islands Council Pension Fund increased by 124 and the number of pensioner members continues to increase steadily each year. The number of active members outweighs the number of pensioners but the ratio of active members to pensioners has reduced over the past five years.

59. Cash flows from dealings with members were negative in 2024/25. However, at present the employer and employee contributions received in a year is still greater in value than the pension payments paid. The surplus was not large enough in 2024/25 to cover all of the other cost associated with operating the Pension Fund. This situation resulted in £3 million being recalled from the investments back into the Pension Fund's bank account ensure sufficient cash flows to manage required payments.

Vision, Leadership and Governance

60. The audit work performed on the arrangements the Fund has in place around its Vision, Leadership and Governance found that these were effective and appropriate. This judgement is evidenced by the Fund:

- having effective and appropriate governance arrangements in place, as reflected in the Governance Statement included in the accounts

- taking appropriate action to review governance arrangements against compliance with the Pension Regulator's new General Code of Practice.
- having clear financial and performance reporting in place, both internally and externally, that is linked to its Investment Strategy, and effective scrutiny and challenge of performance provided by Shetland Islands Council Pension Fund Committee.

Governance arrangements are appropriate and operate effectively

61. Shetland Islands Council as the administering body of the pension fund has delegated responsibility for governance of the Fund to the Shetland Islands Council Pension Fund Committee. The Committee is supported by the Pension Board, which comprises trade union representatives and employer representatives. These groups work within the overarching governance framework of Shetland Islands Council.

62. The Fund's governance arrangements have been set out in the Annual Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that governance arrangements are appropriate and support effective scrutiny, challenge and decision making.

The arrangements for ensuring compliance with the General Code of Practice from the Pensions Regulator are effective

63. The Pensions Regulator (TPR) issued a new General Code of Practice in March 2024 which sets out the expectations of conduct and practice that funds should meet to comply with their duties in pensions legislation.

64. The Fund undertook a checklist-based assessment to identify any gaps in compliance with The Pensions Regulator's (TPR) new General Code of Practice. In support of this, members of the Pension Fund Committee and Pension Board participated in a Knowledge Assessment exercise facilitated by Hymans Robertson. The assessment covered the eight core areas of the CIPFA Knowledge and Skills Framework, providing a structured evaluation of current competencies

65. In May 2025, Hymans Robertson delivered a training session to Committee and Board members focused on the new Code of Practice. Following this session and the outcomes of the knowledge assessment, the Fund is using the Hymans Robertson's Toolkit Checker to support its ongoing self-assessment against the Code. This tool outlines the specific requirements applicable to LGPS Funds.

66. This proactive approach to skills development and governance is considered good practice. We have concluded that the Pension Fund is working well towards full compliance with TPR's expectations and best practice. Management have developed a detailed action plan to address the requirements of the Pensions Regulator's new General Code of Practice. This was presented for initial review and awareness raising of the

Pension Fund Committee in August 2025. Further reports will be presented throughout 2025/26.

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

67. The Management Commentary included in the annual report and accounts should provide information on a Fund, its main objectives and the principal risks faced. It must provide a fair, balanced and understandable analysis of a Fund's performance and is essential in helping stakeholders understand the financial statements.

68. All required disclosures were covered in the Management Commentary or via links to other areas of the annual report and accounts. We recommended several narrative improvements to management to provide additional context or increase transparency of the Management Commentary. These were accepted and amended in the audited annual report and accounts.

Use of Resources to Improve Outcomes

69. The audit work performed on the arrangements the Fund has in place around its use of resources to improve outcomes found that these were effective and appropriate. This judgement is evidenced by the Fund:

- being able to demonstrate a clear link between the use of resources and delivery of its priorities.
- having comprehensive reporting of the Fund's administration and investment performance
- having arrangements in place to benchmark its performance to identify areas of improvement.

The pension fund administration performance against key targets improved from the previous year

70. The Shetland Islands Council Pension Fund Committee meets on a regular basis and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

71. Performance against pension administration targets has been reported in the Management Commentary of the 2024/25 Annual Report and Accounts. Performance has improved in 2024/25. In 2024/25, six of the nine key performance indicators were achieved (2023/24: four achieved), with the remaining three indicators within five per cent of the overall target.

Investment performance over the last 12 months was varied, with two portfolios exceeding their benchmarks during 2024/25

72. Investment fund managers' performance is reported on a quarterly basis to the Pension Fund Committee and Pension Board. These reviews

include details of investment performance for each portfolio, the physical movement of funds and any changes from the investment strategy. This allows members of the Pension Fund Committee and Pension Board to effectively scrutinise investment performance of each investment fund manager.

73. In addition to the quarterly reviews, the Executive Manager (Finance) produces an Annual Investment Review, which includes a comprehensive breakdown of performance for each of the six investment fund managers. Performance is measured against a specific fund benchmark, one year and 5-year benchmarks.

74. Two of the six investment fund manager mandates reported above benchmark returns, and three reported below benchmark returns, for the year. The sixth fund manager, Permira, to date has only received around 57% of its mandate, and due to the nature of the investments, performance figures were not yet available.

There is scope to improve reporting on climate change arrangements

75. The Scottish Parliament has set a target of becoming net zero by 2045. For the pension fund, the responsibility for meeting this target lies with the administering authority. Shetland Islands Council approved a Climate Change Strategy and Action Plan in December 2023.

76. While the administering authority is responsible for meeting the net zero target, the Fund should be working towards monitoring and reporting on climate-related disclosures. During the year, investment fund managers were surveyed on their organisation's strategic climate change plans, their practical approach to assessing and targeting change, and their future plans. Their responses were collated and included in the annual report and accounts. There is scope to build on this further and improve disclosures around climate change and responsible investing.

Conclusions on Best Value

77. The Fund's administering authority Shetland Islands Council has the statutory responsibility for having effective and appropriate arrangements in place for securing Best Value. We concluded that the Fund has effective and appropriate arrangements in place for securing Best Value through the administering authority. As the 2024/25 council audit is ongoing, our conclusions are based on prior year work and thematic Best Value review activity.

78. We reported last year that the council has made good progress on implementing previous Best Value improvement actions, with most complete or mainstreamed into council improvement activity. Last year's Best Value thematic review focused on workforce innovation and how councils are responding to workforce challenges through building capacity, increasing productivity and innovation. This work identified that the council continues to face significant recruitment challenges to fill vacant positions

and is exploring different initiatives to address these. The key findings are set out in the 2023/24 Annual Audit Report for Shetland Islands Council, along with audit recommendations and management responses. There were no findings or recommendations from this thematic review that are directly applicable to the Fund.

79. In 2024/25 the Accounts Commission directed auditors to conduct a Best Value thematic review of transformation and how councils are redesigning and delivering more efficient services to achieve planned outcomes. The work identified that the council's Change Programme is aligned with its strategic plan, but progress has been slow, with most projects still lacking detailed plans and success measures. While the council holds significant reserves, current levels of use are unsustainable, and limited staffing capacity is affecting transformation efforts. Enhanced reporting and increased pace of change are needed to realise long-term financial and community benefits. The key findings are set out in the 2024/25 Best Value Thematic Report, along with audit recommendations and management responses. There were no findings or recommendations from this review that are directly applicable to the Fund.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Management assurances over Level 3 investment valuations. As part of management's current arrangements for gaining assurance over Level 3 investments valuations, the Fund relies on its investment consultant to raise concerns about a fund manager's performance or management. However, the Fund does not currently seek positive confirmation when no issues are reported. Risk- potential issues with investment fund managers may go unnoticed or unreported.	The Fund should enhance its assurance arrangements over Level 3 investments by formally document management's considerations in arriving at the valuation of Level 3 investments. Arrangements should include introducing a formal process for obtaining written confirmation from its investment consultants at year-end to confirm that the consultant has reviewed the performance, governance, and operational integrity of all investment fund managers and has no concerns to report. Paragraph 35	Accepted This is accepted. As part of draft audit submission, officers will undertake and document further checking and analysis of Level 3 investments, including discussion with investment advisors to ensure additional external scrutiny. Responsible officer: Executive Manager - Finance Agreed date: June 2026

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
1. Annual review of bank account user access A prior year recommendation was made for the Fund to implement an annual review of bank account user access to confirm system access permissions are appropriate. This was implemented during 2023/24. However, this was not adequately documented and evidenced by the Fund. Risk – without a clearly documented audit trail, the Fund cannot demonstrate that its internal controls are operating effectively, and there may be a risk of inappropriate access to the system.	Recommendation - The Fund should undertake an annual review of user access to banking system, including specific detail on the appropriateness of users and their roles and ensure a clear audit trail through the documentation of the review. Agreed action - An agreed procedure note for this will be developed and a clearly documented audit trail will be kept of the user checks carried out. Responsible officer: Executive Manager - Finance Agreed date: March 2025	Implemented An annual review of bank account user access is completed, detailing each user and assessing the appropriateness of their access in relation to their role. A procedure note has been developed to support this process, and a clearly documented audit trail is maintained through the documented review.
2. Management assurances over Permira. Kroll Advisory Ltd, a third-party valuation expert, review the Permira valuations on a quarterly basis and concluded there were no material issues with Permira investment valuations at 31 March 2024, however their findings are not routinely communicated to the Fund. Risk – issues with Permira investment valuations may not be identified in a timely manner.	Recommendation - As part of their year-end representations from fund managers the Fund should seek confirmation from Permira of the outcome of the Kroll Advisory Ltd review of valuations. Agreed action - Management will seek confirmation from Permira of the outcome of third-party reviews conducted on the valuation of Permira's investments. Responsible officer: Executive Manager - Finance Agreed date: March 2025	Implemented Management obtained confirmation from Permira of the outcome of Kroll Advisory Ltd's review of Permira's investments. Kroll provided assurance that Permira valuations were reasonable for 2024/25.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
3. Pensions Regulator General Code of Practice The Pensions Regulator's new General Code of Practice sets out the standards and expectations for the governance and management of occupational pension schemes in the UK. The code, which came into force on 28 March 2024, consolidated and replaced 10 previous codes of practice. This comprehensive code aims to ensure that pension schemes are managed effectively and in the best interests of their members. Risk: The Fund's existing governance arrangements, structure and operating model do not meet the requirements of the new Code.	Recommendation - Management needs to identify the changes required to ensure the Fund's compliance with the Pensions Regulator's new General Code of Practice and develop an action plan to deliver these. Agreed action - Management will develop an action plan to address the requirements of the Pensions Regulator's new General Code of Practice. This will also be presented for review to the Pension Board/Committee for their input and oversight. Responsible officer: Executive Manager – Governance & Law, and Executive Manager - Finance Agreed date: March 2025	Implemented Management developed a detailed action plan to address the requirements of the Pensions Regulator's new General Code of Practice. This was presented for initial review and awareness raising of the Pension Fund Committee in August 2025. Further reports will be presented throughout 2025/26.

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practice: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

Shetland Islands Council Pension Fund

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