

The Highland Council Pension Fund

Annual report on the 2011/12 audit



Prepared for The Highland Council as administering body for the Highland Council Pension Fund
and the Controller of Audit

November 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2011/12 audit findings

During 2011/12 we looked at the key strategic and financial risks faced by the Highland Council Pension Fund (the Fund). We audited the financial statements and looked at aspects of governance, use of resources and performance. This report sets out our main findings, summarising key outcomes from the 2011/12 audit and the outlook for the period ahead.

We have given an unqualified opinion that the financial statements of the Highland Council Pension Fund for 2011/12 give a true and fair view of the financial transactions during the year ended 31 March 2012 and of the amount and disposition of its assets and liabilities as at that date.

One material weakness in the accounting and internal control systems was identified during the audit. Although the Council set up bank accounts for the Fund in compliance with regulations, not all of their processes were amended to ensure that all of the Fund's income and expenditure transactions were banked / paid through the Fund's bank account. Amendments were required to the unaudited accounts to correct the errors identified but these did not impact on the net assets of the scheme available to fund benefits at the year end. Procedures have now been amended to ensure transactions are recorded in the correct bank accounts in future years.

A triennial funding valuation was undertaken by the scheme actuary as at 31 March 2011. The valuation established the extent to which the scheme's assets met its liabilities and concluded that the scheme was 97% funded, a slight decline from the 2008 valuation. This is mainly due to lower than expected investment returns. The results of the triennial valuation determine the employer contribution rates required over the next three years to attain the objective of a fully funded scheme at a set future date. As a consequence of the reduced funding level, the common contribution rate was increased from 250% to 280% of employee contributions with effect from 2012/13.

As the administering body, The Highland Council has statutory responsibility for the administration of the Fund. From October 2011 responsibility for the overall strategic direction of the Fund has been delegated to the Pensions Committee. In our Review of Internal Controls 2011/12 report we noted that the establishment of the Pensions Committee provided a good opportunity to review existing governance arrangements to ensure that they are applicable to the needs of a local government pension scheme. We identified a number of areas where existing arrangements could be improved and management agreed an action plan to address these. We will review progress made in implementing this action plan as part of our 2012/13 audit.

During 2011/12, the Fund achieved an annual return on investments of +4.07% against its customised benchmark of +3.72%. This out-performance of the benchmark mainly resulted from the performance of the UK equity portfolio held by one investment manager. It is recognised that the current financial climate impacts on fund managers' abilities to meet performance targets against benchmarks. Nevertheless, fund managers' performance is kept under regular review and following a sustained period of underperformance, the Fund has decided to replace one of its fund managers. Transition to the new manager will take place during the 2012/13 financial year.

The Fund did not fully comply with the Scottish Government Guidance in 2011/12 due to a delay in finalising its administration strategy and associated performance monitoring measures. Following consultation with employers, the pension administration strategy was implemented in July 2012 and performance against this will be reported in the Fund's 2012/13 annual report.

Outlook

These are challenging times for pension fund management. The global economic outlook and increased levels of volatility in the financial markets present particular problems for investment management and strategy. As investment performance is key to the funding position of the Local Government Pension Scheme (LGPS), this may impact on employer contributions in the medium term.

It is against this backdrop, and at a time of continued austerity in the public sector, that the new Public Service Pensions Bill has been published. The Bill signals more changes ahead for the LGPS, with some changes aimed at reducing costs, and others at setting a common legislative framework and improving governance arrangements.

Proposed changes to the LGPS will impact on administrative workloads going forward as will any further severance activity and restructuring by employers. Additionally auto enrolment begins for some employers in 2012/13 and this will also affect information requirements and administration arrangements.

There are a number of developments emerging in the public sector pension environment which will have an impact on the LGPS and public sector pension schemes in general. For example, police and fire service reform will have implications for the employment of relevant staff and, therefore, their pension arrangements. The effect of the proposed changes and the potential impact on the Fund is largely unclear at this time.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of The Highland Council Pension Fund (the Fund). The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. Appendix A provides details of our reports issued during 2011/12. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the Fund.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that those charged with governance understand the risks and have arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the Highland Council, as administering body for the Highland Council Pension Fund, and the Controller of Audit. It should be made available to the public and other stakeholders. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by those charged with governance.
5. Management of an audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
6. The co-operation and assistance given to us by officers and staff within finance with responsibility for the Fund is gratefully acknowledged.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements and give an opinion on:
 - whether they give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2012 and of the amount and disposition at that date of its assets and liabilities
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Foreword by the Director of Finance, Governance Compliance Statement and Statement on the System of Internal Financial Control. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of The Highland Council Pension Fund for 2011/12 give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2012 and of the amount and disposition at that date of its assets and liabilities.

Legality

11. Through our planned audit work we consider the legality of the Fund's financial transactions. In addition, the Director of Finance has confirmed that, to the best of his knowledge and belief, the financial transactions of the Fund were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to the attention of those charged with governance.

Governance compliance statement

12. We are satisfied that this Statement covers the areas and levels of compliance required by the Scottish Government's guidance.

Statement on the system of internal financial control

13. We are satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the Fund to obtain assurances on the system of internal control.

Annual Report

14. The Scottish Government Guidance requires that the annual report for the Fund incorporates the following:
- the financial statements
 - a report about the management and financial performance of the Fund during the year, a report explaining the authority's investment policy and reviewing the performance during the year of the investments of the Fund, and a report of the arrangements made during the year for the administration of the funds
 - a statement by the actuary of the level of funding disclosed by their valuation
 - the governance compliance statement, funding strategy statement, and statement of investment principles (or details of where these statements may be obtained)
 - the extent to which levels of performance set out in the pension administration strategy have been achieved
 - any other material which the authority considers appropriate.
15. The annual report omits a statement on performance against the pension administration strategy. Following consultation with employers, a pension administration strategy was implemented in July 2012 and performance against this will be reported in the Fund's 2012/13 annual report. We are satisfied that the annual report incorporates the other areas required by Scottish Government Guidance and that these are consistent with the audited accounts.

Accounting issues

16. Local authority bodies in Scotland are required to follow the 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom (the 2011 Code). Overall, we are satisfied that the Fund prepared its 2011/12 financial statements in accordance with the 2011 Code.

Accounts submission

17. The Fund's unaudited financial statements and annual report were submitted to the Controller of Audit by the deadline of 30 June 2012. This enabled us to conclude the audit and certify the financial statements by 30 September 2012. This was a faster closing than in 2010/11, when transition arrangements were in place in recognition of it being the first year of separate pension fund accounts.

Presentational and monetary adjustments to the unaudited accounts

18. In accordance with International Standards on Auditing 260 'Communication of audit matters to those charged with governance', we reported the conclusions of our audit to the Pension Committee on 13 September 2012. Two financial misstatements were corrected as a result of our audit findings. These did not impact on the net assets of the scheme available to fund benefit liabilities. A number of presentational changes were also identified and were corrected resulting in the amendment of notes to the accounts.

Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
21. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

22. The Fund does not prepare a separate annual budget for its administration and external investment costs. These are instead subsumed within the Finance Department's revenue budget and monitored as part of the overall Finance budget. In 2011/12, the Fund incurred £0.682 million of administrative expenses, including £0.641 million of apportioned Central Support Services costs. The current budget setting and monitoring arrangements do not enable comparison of these costs against budget within the Fund itself.
23. Cashflow monitoring reports are prepared by the Fund on an ongoing basis to ensure that sufficient cash balances are held to meet ongoing pension commitments, and that any excess balances are passed periodically to the Fund's investment portfolios. The Fund maintained a cash surplus position throughout the year, and during 2011/12 excess cash balances of more than £2.5 million were transferred to the Fund's global custodian for investment. Positive cash balances will also be used during 2012/13 to invest in the Fund's new private equity investments.

Funding position

24. The triennial valuation determines employer contribution rates required over the next three year period. The result of the triennial valuation of the Fund at 31 March 2011 was reported to the Pension Committee in February 2012. Table 1 sets out the movements since the last triennial valuation as at 31 March 2008.

Table 1: Movement between triennial valuations

Highland Pension Fund		
	2011 £'m	2008 £'m
Smoothed Asset Values	991	817
Liabilities	1,024	833
Net Liability	33	16
Funding Level	97%	98%

Source: The Highland Council Actuarial Valuation as at 31 March 2011 and as at 31 March 2008 reports

25. Investment returns for the three years to 31 March 2011 were lower than anticipated. This has been offset by the impact of the decision to use the Retail Price Index rather than the Consumer Price Index as the base for future pension increases, and increases in the state retirement age, which have limited the increase in pension liabilities. As a result, the actuary has calculated that the average employer contribution rate needs to increase from 15.7% to 17.3% of pensionable pay with effect from 2012/13 in order to restore the funding position to 100% over the next 20 years.
26. The funding level (72%) (78% in 2010/11) set out in Note 17 to the 2011/12 accounts reflects the worsening position during 2011/12 as a consequence of the impact of the recession on global markets. This interim valuation uses different actuarial assumptions to estimate the present value of the future liabilities of the Fund for accounting purposes (IAS 19 basis) and so differs from the funding level set out in Table 1. It does not impact on the contribution rates set at the triennial valuation.

Outlook

27. Currently the Fund's monthly cash inflows exceed the required outflows, resulting in a surplus cash position throughout the year. However, as the Fund matures its membership profile will contain a higher proportion of pensioner members to active contributing members. This will mean at some point in the future that the Fund's monthly income will not be sufficient to meet the Fund's monthly commitments, requiring the use of investment income to pay pension benefits. The administering authority has commissioned and considered a report from the Fund's actuary on 'maturity' to allow the position to be reviewed. The report concluded that, subject to stable membership and investment income yield assumptions, the Fund should continue to be a net investor (i.e. surplus cashflow position) for around the next 10 years. The administering authority plan to review the position over the short to medium term, should any change in circumstances alter the maturity profile.

28. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. There are a number of ongoing developments in the public sector pension environment that could have a significant impact on the operation of local government pension schemes. The current UK government has announced its intention to include a move to career average pay and an automatic link between normal retirement and state pension age. Discussions on these reforms, which are due to take effect from 2015, have already commenced to introduce changes to the Local Government Pension Scheme in England and Wales from 1 April 2014. To date, however, there has been limited discussion in respect of reforming the scheme in Scotland.
29. Given the financial restraints experienced by local government and the uncertainty associated with future grant allocations and public sector reform, there is the potential for further workforce reduction schemes and recruitment freezes to impact on the pension funds. With effect from 1 April 2013, the new police and fire authorities take responsibility for their respective single services. It is unclear at this stage, who will be responsible for pension fund assets and accrued pension liabilities in respect of police and fire staff who are currently members of different local government pension funds.

Governance and accountability

30. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
31. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
32. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
33. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

34. As the administering body, The Highland Council has statutory responsibility for the administration of the Fund. Its functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998 and Superannuation Act 1972.
35. Responsibility for the overall strategic direction of the Fund was delegated to a newly established Pensions Committee in October 2011. This Committee has overview of investments, funding and member benefit matters. An Investment Sub-Committee has also been established to take responsibility for investment matters. The Highland Council's responsibilities as an employer participating in the Fund continue to be dealt with by the Council's Finance, Housing and Resources Committee.
36. At the time of writing, the Pensions Committee has only met twice, once before the local government elections and once after, and so it is too early to conclude what impact these new arrangements will have on the governance of the Fund. We note, however, that the Pensions Committee scheduled for 8 November has been cancelled due to lack of business. The audited accounts will instead be laid before The Highland Council, as the administering authority, on 13 December.

37. In our Review of Internal Controls 2011/12 report we noted that the establishment of the Pensions Committee provided a good opportunity to review existing governance arrangements to ensure that they are applicable to the needs of a local government pension scheme. We identified a number of areas where existing arrangements could be improved and management agreed an action plan to address these.
38. The local government elections, in May 2012, resulted in changes to the membership of the Pensions Committee and the election of a new Chair. Induction training has been provided for members as part of the council's training programme. In addition, the scheme's actuary attended the first meeting of the Pensions Committee to give a presentation on the triennial actuarial valuation and Public Sector Pension Reform.
39. The Principal Accountant - Treasury Management, Leasing & Investments responsible for overseeing the performance of the Pension Fund's investment fund managers and the preparation of the annual financial statements retired in May 2012. The Council took this opportunity to restructure its Finance team and enhance the support in place for pension fund investment and treasury management functions. Recognising the synergies between Budget Strategy and Planning, and the Pension Investment and Treasury Management functions, the manager of the former Corporate Budgeting team now manages a combined Corporate, Budgeting, Taxation and Treasury section with responsibility for pension fund investment performance and accounts preparation. An Accountant has been recruited to enhance the support available for pension fund and treasury functions and an upgraded Treasury Officer post created to manage the Treasury function.

Internal control

40. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
41. The Fund's financial systems run alongside those of the administering authority and its financial ledger and payroll system are used to process transactions. There are specific systems and lines of responsibility for pension administration and for investment transactions.
42. As part of our work, we took assurance from key controls within the Fund's systems and also placed reliance on the Head of Internal Audit and Risk Management's opinion that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Pension Fund's internal control systems for the year to 31 March 2012.' The results of our review of internal controls were reported to the Pensions Committee in September 2012.
43. One material weakness in the accounting and internal control systems was identified during the audit. Regulation 6 of the investment regulations required administering authorities to set up separate bank accounts for pension fund money with effect from 1 April 2011. Although the Council set up these separate bank accounts, not all of their processes were amended to ensure that all of the pension fund income and expenditure transactions were banked / paid through the pension fund bank account.

44. As part of the accounts preparation process, Finance staff reconciled the pension fund bank accounts and identified £17.699 million which was recorded in the Council's balance sheet in error. An amendment was made to the financial statements to correct this error, and work is on-going to match £0.208 million of the creditors balance due (to The Highland Council) to individual pension fund transactions. This work is targeted for completion by 31 March 2013.
45. The Director of Finance has confirmed that all income and expenditure relating to the pension fund has been correctly recorded in the Pension Fund Account during the year. Processes are currently being revised to ensure that pension fund transactions are recorded in the correct bank accounts in future years.

Refer Action Plan no.1

46. The audit process did not identify any other material weaknesses in the accounting and internal control systems which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

Prevention and detection of fraud and irregularities

47. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
48. The Fund currently uses The Highland Council's policies on prevention and detection of fraud, along with its whistleblowing policy. Since membership of the Fund extends beyond employees of The Highland Council, these policies are to be reviewed and tailored to meet the specific needs and circumstances of the Fund. We are not aware of any other specific issues relating to this aspect of the audit that we need to identify in this report.

NFI in Scotland

49. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported in May 2012. The next round of NFI commenced in June 2012, and expands the range of data sets and bodies.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

50. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.

51. Our Review of Internal Controls 2011/12 report recommended that a tailored Code of Conduct, or handbook, should be prepared for members of the Pensions Committee and Investment Sub-Committee to enable them to be clear about their duties, roles and responsibilities. Officers plan to prepare a Pensions Code of Conduct by end of March 2013. We are not aware of any other issues that we need to identify in this report.

Outlook

52. A number of measures will be introduced in 2012/13 as part of the Pensions Act 2011. This Act is part of the legislation passed by government aimed at reforming workplace pensions and encouraging individuals to save for their retirement. One key provision of the Act is auto enrolment. The requirement is that all employers must make arrangements to ensure that their eligible jobholders become active members of an auto enrolment pension scheme from their auto enrolment staging date. This provision directly impacts on the Local Government Pension Scheme, and the administration section of the Fund. Auto enrolment will be introduced through a series of staging dates. Most of the main employers' staging dates are before the end of July 2013. The Council estimates that auto enrolment will impact on around 3,000 of its employees.
53. Given the complex nature of pensions and investments, it is important that members of the Pensions Committee and the Investments Sub-Committee continue to receive regular training and support to enable effective scrutiny. As noted at paragraph 38, elected members received induction training following the May elections, and members of the Investment Sub-Committee have also had the opportunity to attend a pension fund investment training day. There are likely to be regular legislative and regulatory changes over the coming years, so it is essential that members continue to be kept up to date with emerging issues.

Best Value, use of resources and performance

54. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
55. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
56. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
57. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
58. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
59. This section includes a commentary on the best value and performance management arrangements within the pension fund. We also note any headline performance measures used by members and comment on any relevant national reports.

Management arrangements

Best Value

60. The Pension Fund has not been subject to a separate best value review, although it is covered by the overall best value arrangements of the administering authority (The Highland Council).

Investment performance

61. The performance of pension fund investments is overseen by an independent investment advisor (Hymans Robertson) and managed by the specialised fund managers. Performance monitoring is provided by the Fund's Global Custodian, Northern Trust. Performance against benchmark targets is reviewed on a quarterly basis by the Corporate Budgeting, Taxation and Treasury team and reported to each meeting of the Investment Sub-Committee. One of the Fund's managers is also asked to attend each Investment Sub-Committee meeting to enable members to scrutinise performance.

Administration performance

62. The Highland Council has a local performance indicator measuring the unit cost per scheme member (measured against average scheme membership). Performance targets for service standards and key administration tasks are included in the pension administration strategy which was implemented in July 2012. Performance against these targets will be reported in the Fund's 2012/13 annual report.

Overview of performance in 2011/12

63. During 2011/12, the Fund achieved an annual return on investments of +4.07% against its customised benchmark of +3.72%. This out-performance of the benchmark mainly resulted from the performance of the UK equity portfolio held by one investment manager. The table below shows the performance of the Highland Council Pension Fund over the last 1 to 5 years.

Table 2: Investment Performance

	1 Year	3 Years	5 Years
Fund	4.07	16.69	3.19
Benchmark	3.72	15.28	3.42

Source: Highland Council Pension Fund Q1 2012 performance report prepared by Custodian

64. Following a sustained period of underperformance by Alliance Bernstein, the Fund has appointed a new manager, Pyrford International, for its active global equity mandate. All assets held by Alliance Bernstein were transferred to the new manager by November 2012.
65. The Fund sought to further diversify its investment portfolio during 2011/12 and began the search for a private equity manager. Following interviews by the Pension Fund Investment Advisory Group on 19 August 2011, Partners Group were appointed to manage the Pension Fund's new private equity mandate. The first cash advance of EUR 12.479 million (£10.236 million) to the new manager took place in April 2012. The Fund has made a EUR 50 million commitment to this new mandate, although it is expected that it will take several years before this commitment is fully drawn down.

National performance reports

66. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year which may be of interest to members and officers are detailed in Table 3.

Table 3: A selection of national performance reports 2011/12

<ul style="list-style-type: none">• An overview of local government in Scotland – Challenges and change in 2012• Learning the lessons of public body mergers	<ul style="list-style-type: none">• The National Fraud Initiative in Scotland• How Council's work: using cost information to improve performance• Managing performance: are you getting it right?
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Source: www.audit-scotland.gov.uk

67. Although these reports are generally available to members through The Highland Council (as administrating body), the Pensions Committee should consider introducing a mechanism to ensure that all national reports are reviewed and that any findings relating to governance or performance management of the Fund are brought to their attention.

Refer Action Plan no. 2

Outlook

68. Since March 2012, there has been ongoing volatility and uncertainty in the global markets. The European sovereign debt crisis has been an area of particular concern for fund managers with crises in Greece and Spain. While economies continue to implement improvement measures, the outlook, at least in the short term, is unlikely to improve.
69. Meeting performance targets will continue to become more challenging in the coming years. Investment targets are set based on advice from investment advisors and standard industry benchmarks. The Fund will have to remain vigilant, and ensure that they have the right diversification of investment assets to minimise exposure to risk whilst still delivering the required returns.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Pensions Committee
Annual audit plan	15 February 2012	22 February 2012
Internal controls report	30 May 2012	13 September 2012
Report on financial statements to those charged with governance	4 September 2012	13 September 2012
Audit opinion on the 2011/12 financial statements issued	28 September 2012	13 December 2012 (The Highland Council)
Report to Members on the 2011/12 audit	November 2012	13 December 2012 (The Highland Council)

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	45	<p>A review of the controls and procedures in place for the new banking arrangements is required to ensure all transactions are processed in the correct manner.</p> <p>Risk: transactions pertaining to the Pension Fund do not go through the correct bank account.</p>	<ul style="list-style-type: none"> Reconciliation to match and correct the outstanding difference identified during the 2011/12 accounts closure process. Review of guidance, procedures and management arrangements to prevent further recurrences of this issue. 	Head of Accounting and Budgeting	March 2013
2	67	<p>The Pensions Committee should consider introducing a mechanism to ensure that all national reports are reviewed and that any findings relating to the governance or performance management of the Fund are brought to their attention.</p> <p>Risk: national performance report findings are not used to support continuous improvement in the operation of the Pension Fund.</p>	<ul style="list-style-type: none"> Where appropriate, relevant reports will be brought to the attention of the Pensions Committee either by reference to reports already made to other Council Committees, or by specific reporting to the Pensions Committee. 	Head of Accounting and Budgeting	March 2013