

North East Scotland Pension Funds

Annual report on the 2011/12 audit



Prepared for Aberdeen City Council
as administering body for North East Scotland Pension Funds
and the Controller of Audit
October 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 North East Scotland Pension Funds. Our audit work included both the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (Transport 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 North East Scotland Pension Funds for 2011/12 give a true and fair view of the state of the financial transactions of the funds during the year and of the amount and disposition of their assets and liabilities at the year end.

As the administering authority, Aberdeen City Council has statutory responsibility for the administration of the funds with responsibility for their overall strategic direction delegated to the Pensions Panel.

From October 2012, the Pensions Panel has been formally recognised as the body charged with governance in respect of the pension funds. The opportunity should now be taken to review the funds' governance arrangements to ensure that the panel receive appropriate assurances in terms of governance compliance requirements and that it is in a position to effectively scrutinise proposals from officers and the advisory committee.

A triennial funding valuation was carried out by the scheme actuaries as at March 2011. The valuation established the extent to which scheme assets met its liabilities and concluded that the NESPF and Transport Fund were 88% and 95% funded respectively. The results of the triennial valuation determines employer contribution rates required over the next three year period to attain the objective of a fully funded scheme at a set future date. As a consequence of the funding level, no change in employer contribution rates was required for the main fund but there will be an increase from 2012/13 in respect of the Transport Fund.

During 2011/12 the NESPF Fund achieved an annual return of 0.9% against its scheme specific benchmark of 2.2% while the Transport Fund achieved an annual return of 8.0% against its scheme specific benchmark of 7.6%. It is recognised that the current financial climate impacts on managers' abilities to meet performance targets against benchmarks. Nonetheless, measures have been put in place to address underperformance.

The funds are currently not complying with regulations due to a delay in implementing its Administration Strategy and associated performance monitoring measures. Such a strategy sets out standards required from participating employers to assist the funds in meeting their obligations and deliver services efficiently.

Outlook

It is clear that these are challenging times for pension fund management. With the global economic outlook and increased levels of volatility in the financial markets there are particular problems for investment management and strategy. With investment performance 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 Local Government Pension Scheme (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 other 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 North East Scotland Pension Funds. The funds comprise of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. Both of these together are referred to as 'the funds'. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our 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 funds.
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. The fund should ensure that those charged with governance are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to Aberdeen City Council, as administering body for the North East Scotland Pension Funds, 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 members of the Pensions Panel and officers and staff of North East Scotland Pension Funds 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 in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial transactions of the funds during the year ended 31 March 2012 and of the amount and disposition at that date of their 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 Explanatory Foreword, Governance Compliance Statement and Statement on the System of Internal Financial Control. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the 2011/12 financial statements of North East Scotland Pension Funds give a true and fair view of the financial transactions of the fund during the year and of the amount and disposition of their assets and liabilities.

Legality

11. Through our planned audit work we consider the legality of the pension funds' financial transactions. In addition the Head of Finance has confirmed that, to the best of his knowledge and belief, the financial transactions of the pension funds 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.

Statement on the System of Internal Financial Control

12. As part of our annual audit, we review the disclosures in the Statement on the System of Internal Financial Control and the process of obtaining sufficient assurances to inform the content of the statement. Overall we were satisfied with the processes put in place to obtain the necessary assurances. However these could be strengthened through the involvement of internal audit.
13. Internal audit currently provides assurances to Aberdeen City Council on the financial controls in place within the administering authority. While specific internal audit work may be undertaken on investments and pensions, it is done so as part of the financial landscape of Aberdeen City Council. With the requirement for the pension funds to have a separate audit opinion and governance arrangements, officers responsible for those arrangements need to

consider the necessary assurances required from the perspective of the pensions funds. In some cases, this may simply be a change of emphasis in reporting rather than the need for additional audit work.

Refer Action Plan no. 1

14. It is good practice for the Pensions Panel as the body charged with governance to have the opportunity to formally consider and approve the Statement on the System of Internal Financial Control and supporting assurances prior to the submission of the financial statements for audit. This would strengthen the arrangements already in place for the Governance Compliance Statement.

Refer Action Plan no. 1

Governance Compliance Statement

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

Annual Report

16. The Scottish Government Guidance requires that the annual report for the pension fund incorporates the following:
- the financial statements
 - a report about the management and financial performance of the funds during the year, a report explaining the authority's investment policy and reviewing the performance during the year of the investments of each 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.
17. We are satisfied that the North East Scotland Pension Funds Annual Report complies with Scottish Government guidance and that the other sections are consistent with the audited accounts.

Accounting issues

18. Local authority bodies in Scotland are required to follow the 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom (the 2011/12 Code). We were satisfied that the financial statements have been prepared in accordance with the 2011/12 Code.

Accounts submission

19. The funds' unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. There was however a delay before we received the supporting working papers and further lengthy delays before officers responded to queries arising from the audit. The audit was, however, concluded and the financial statements certified by the target date of 30 September 2012. The annual report, incorporating the financial statements, is now available for presentation to members and for publication.
20. We have agreed with officers that it will be useful to reflect on processes for the preparation and audit of the financial statements to identify improvements for 2012/13 including a tighter timetable and arrangements for responding to audit matters.

Refer Action Plan no. 2

Presentational and monetary adjustments to the unaudited accounts

21. In our 'Report to those charged with governance on the 2011/12 audit', we recommended inclusion in the accounts of a provision of £0.180 million for non-collection of debts from a former admitted body of the NESPF. The Head of Finance subsequently decided not to alter the accounts. On the basis that we had proposed the amendment to provide a consistency of accounting treatment and that the amount was not material in respect of pension fund balances, we concurred with this decision. There were no other unadjusted misstatements to bring to members' attention.
22. A range of presentational changes were, however, made to improve the disclosures within the accounts.

Financial position

23. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
24. 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.
25. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the funds.

Financial results

Budgetary control

26. The funds prepare an annual budget for administration and external investment costs. In 2011/12, an underspend of £1.3 million was reported against net budgeted expenditure of £8.7 million. The main reason for the underspend was the reduction in fund managers' fees because performance targets had not been achieved in the current financial climate.
27. Cashflow monitoring reports are prepared by the funds on an ongoing basis to ensure that sufficient cash balances are held to meet pension commitments, and that any excess balances are passed periodically to the funds' investment portfolios. These cashflow reports are also presented quarterly to the Pensions Panel. The funds maintained a cash surplus position throughout the year, and during 2011/12 excess cash balances of more than £13.5 million were transferred to the fund's global custodian for investment.

Funding position

28. The triennial valuation determines employer contribution rates required over the next three year period. The result of the triennial valuation of the funds as at 31 March 2011 was reported in April 2012. Table 1 sets out the movements since the last triennial valuation as at 31 March 2008.
29. In respect of the NESPF, a common employer contribution rate for the period 2012-2015 of 19.3% has been retained. There had been indications that this might reduce however the actuary reported a worsening position during 2011/12 due to the impact of the recession on global markets, and the rate of 19.3% was therefore held. For similar reasons, it has been

necessary to increase the 27% contribution rate for the Transport Fund applicable in 2012/13 and 2013/14 to 33% in 2014/15.

Table 1: Movement between triennial valuations

	North East Scotland Pension Fund		Aberdeen City Council Transport Fund	
	2011 £m	2008 £m	2011 £m	2008 £m
Assets	2,218	1,770	68	53
Liabilities	2,512	2,142	72	72
Net Liability	294	372	4	1.8
Funding Level	88%	83%	95%	74%

Source: Report of the Actuarial Valuation at 31 March 2011

Outlook

Financial forecasts beyond 2012/13

30. During 2011/12, the number of employees in the North East Scotland Pension Fund reduced by 907 with an almost compensatory increase in pensioners. There are also rises in deferred pensioners and an increase in the number of employees who leave the scheme for a range of reasons and request a refund of contributions. Currently the funds' monthly cash inflows exceed the required outflows, resulting in a surplus cash position throughout the year. However, if the above picture becomes the trend, the impact on income and cash flow will be very different.
31. Looking ahead, it is clear that the outlook for public spending 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 UK government has announced its intention to reform public service pension schemes, with changes to include a move to career average pay and an automatic link between normal retirement and state pension age. Discussions for the 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 have been limited discussions in respect of the scheme in Scotland.

32. 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.
33. 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.
34. During the year, 5 admitted bodies withdrew from the North East Scotland Pension Fund. In most cases these bodies no longer had active members but in one case, the body was no longer operating. At that point a valuation of the outstanding pension liability, known as a termination valuation is determined by the actuary and becomes an immediate and significant cost to the admitted body. In the current climate, this could become a more common experience for smaller employers.

Governance and accountability

35. 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.
36. 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.
37. 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.
38. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

39. As the administering authority, Aberdeen City Council has statutory responsibility for the administration of the funds. Its functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998 and the Superannuation Act 1972. Responsibility for the overall strategic direction of the funds is delegated by the council to the Pensions Panel.
40. The Pensions Panel meets quarterly to consider reports on the performance of investments, and fund managers' investment approaches and portfolio changes. The panel's membership changed following the council elections but it retains an element of continuity. The new convenor of the panel was formerly a panel member prior to the election.
41. The Pensions Panel was considered well placed to be the body charged with governance. Steps were therefore put in place to transfer responsibility from the Audit and Risk Committee to the Pensions Panel. As the audit committee for the administering authority, the Audit and Risk Committee felt there was merit in maintaining a watching brief over the pension funds but this suggestion was not supported at full council. From October 2012, the Pensions Panel formally became the body charged with governance and its remit will be amended accordingly.

42. The Pensions Panel has four Aberdeen City Council elected members, one from each of the major political parties, with a minimum quorum of two members. The recent Hutton review made recommendations about the membership of committees both in terms of size and quorum. While changes may be implemented in Scotland as part of wider pension reform, the Pensions Panel, now that it is formally identified as the body charged with governance, may wish to consider if its number and quorum are sufficient to effectively scrutinise proposals from officers and the Joint Investment Advisory Committee.

Refer Action Plan no. 3

43. The Joint Investment Advisory Committee has twelve members representing scheduled and admitted bodies. It advises and makes recommendations to the Pensions Panel regarding the investment management and performance of the funds.
44. A revised training policy for elected members was approved by the Pensions Panel in March 2012. Training is provided through a combination of personal review of key policy documents, online training and attendance at courses and seminars. We consider this to be a satisfactory approach.
45. Day to day management of all aspects of the pension funds is delegated to the Pensions Manager who reports directly to the Head of Finance. A long standing postholder left in March 2012. The appointment of a replacement manager was a particularly difficult challenge as there was a limited pool of potential candidates given the geographical location. The new manager was previously part of the North East Scotland Pension Fund team with a number of years' experience. In order to manage the transition period, the former manager has been retained as a consultant on an ad hoc basis and the Head of Finance is providing more direct support in the interim.
46. Having identified that there was an absence of succession planning in the management of the pension funds, additional budget has been identified in 2012/13 to appoint an assistant pensions manager. In our view, this will provide additional management capacity and more flexibility within the team.

Internal control

47. 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.
48. International Standards on Auditing (ISAs) require evaluation of critical financial systems and testing of key controls on an annual basis. In reaching conclusions, audit work should be based on controls and transactions across the financial year.
49. As part of our work, we took assurance from audit work carried out on the key controls within the financial systems of the administering authority. While we seek to rely on the work of internal audit wherever possible, we did not plan to take assurance from internal audit in respect of the 2011/12 audit. We would however suggest that the internal audit

arrangements in respect of the pension funds are separately identified including reporting arrangements to the Pensions Panel as the body charged with governance.

Refer Action Plan no. 1

50. No material weaknesses in the accounting and internal control systems were identified during the audit 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 financial statements.

Prevention and detection of fraud and irregularities

51. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
52. In general, the pension funds adopt the fraud and corruption prevention arrangements put in place by Aberdeen City Council. However, we noted specific internal controls in relation to the operation of the pension funds which enhance fraud prevention arrangements e.g. separation of duties for cash transfers, additional checks for new pensioners and mortality checks carried out through ATMOS (Address Tracing and Mortality Screening) to confirm the validity of existing pensioners. We consider the arrangements in place to be satisfactory.

NFI in Scotland

53. 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 upon in May 2012. The next round of NFI commenced in September 2012, and expands the range of data sets and bodies.

Standards of conduct

54. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and that they 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. We have concluded that the arrangements in the North East Scotland Pension Funds are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

55. 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.
56. Aberdeen City Council is examining options to set up 2 wholly owned companies to deliver council services. Plans are being progressed to set up a local authority trading company to deliver adult social care while a Limited Liability Partnership (LLP) is being considered for managing property repairs. These plans have important implications for relevant staff currently employed by the council and if implemented, the companies will likely become admitted bodies of the pension fund which will have an impact on the administration section of the fund.
57. Given the complex nature of pensions and investments, it is important that members of the Pensions Panel continue to receive regular training and support to enable effective scrutiny. There are likely to be regular legislative and regulatory changes over the coming years, so it is essential that members are kept up to date with emerging issues. This is particularly important for those members who are new to the pensions panel this year.

Best Value, use of resources and performance

58. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
59. 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.
60. 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.
61. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
62. 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.
63. This section includes a commentary on Best Value and the performance management arrangements for the pension funds. We also noted any headline performance outcomes/ measures used by the members and comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

64. The pension funds have not been subject to a Best Value review, however they are covered by the overall Best Value arrangements of the administering authority.

Investment Performance

65. Performance against benchmark targets is reported to the Pensions Panel at a summary level and to the Joint Investment Advisory Committee at a detailed level on a quarterly basis. Both the panel and the advisory committee received investment presentations from fund managers.

66. At the year end, a report on overall performance forms part of the Pension Fund Annual Report along with the annual accounts. This complies with the Scottish Government guidance on the content of annual reports referred to earlier in paragraph 16.

Administration Performance

67. The funds have an administration strategy in draft which has yet to be approved by the Pension Panel. This contains the standards which are required of the participating employers to ensure that the funds meet statutory obligations and are able to deliver services efficiently. The strategy contains a variety of performance measures against which the funds and the participating employers are assessed.
68. As a consequence of the delay in implementing the strategy and the supporting performance measurement systems, the funds are currently not complying with the requirements of Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008. This also results in a lack of transparency of reporting of administration performance to the stakeholders of the funds.

Refer Action Plan no. 4

Overview of performance in 2011/12

The fund's performance measurement outcomes

North East Scotland Pension Fund

69. During 2011/12 the fund achieved an annual return of 0.9% against its scheme specific benchmark of 2.2%. This underperformance has resulted from a combination of underperformance in the UK equity portfolio held by one manager and continued restructuring of the property portfolio held by another manager.
70. Table 2 shows the performance of the North East Scotland Pension Fund over the last 1-5 years. Although the fund is still outperforming against benchmark over the 5 year period, the 3 year performances shows evident signs of a performance dip.

Table 2: Investment Performance – Main Fund

	1 Year	3 Years	5 Years
Fund	0.9	15.4	3.8
Benchmark	2.2	15.7	3.2

Source: North East Scotland Pension Funds Annual Report 2011/12

Aberdeen City Council Transport Fund

71. During 2011/12 the fund achieved an annual return of 7.6% against its scheme specific benchmark of 8.0%.

72. Table 3 shows the performance of the Aberdeen City Council Transport Fund over the last 1-5 years. Although the fund outperforms the benchmark over the last 3 years, the 1 year and 5 year returns are both below target indicating that the fund is generally underperforming.

Table 3: Investment Performance – Aberdeen City Council Transport Fund

	1 Year	3 Years	5 Years
Aberdeen City Council Transport Fund	7.6	17.8	6.2
Benchmark	8.0	15.9	6.4

Source: North East Scotland Pension Funds Annual Report 2011/12

73. To improve performance of both funds a number of actions were agreed to be undertaken including:
- revision of the Fund Strategy Statement following the 2011 actuarial valuation
 - revision of the statement of investment principles as at June 2012
 - approval of a review of the fund by the Scheme actuary
 - approval for a tender exercise to appoint service providers to deliver a de-risking strategy for the Transport Fund.
74. A review of the funds' investment strategy was agreed by the Pensions Panel in March 2012 following a report on the results of the 2011 Actuarial Valuation. This has not yet taken place due to limited resources and the change in panel membership following the May 2012 election.

Refer Action Plan no. 5

National performance reports

75. 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 4.

Table 4: A selection of National performance reports 2011/12

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| <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 |
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Source: www.audit-scotland.gov.uk

76. Such reports are generally available to members through the administering authority. Going forward they will form part of the personal development undertaken by members of the pensions panel through personal reading.

Outlook

77. Since March 2012, there has been ongoing volatility and uncertainty in the global market. 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.
78. 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 funds will have to remain vigilant, and ensure that they have the right diversification of funds 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 Panel
Annual Audit Plan	February 2012	March 2012
Report to those charged with governance on the 2011/12 audit	August 2012	September 2012
Audit opinion on the 2011/12 financial statements	September 2012	N/A
Report to Members on the 2011/12 audit	October 2012	December 2012

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	13-14 and 49	<p>Governance arrangements for the pension funds should define the role of internal audit in providing assurance to management and the pensions panel on the operation of internal controls.</p> <p>The pensions panel should consider and approve the internal controls and governance statements prior to the submission of the accounts for audit.</p> <p>Risk: <i>There is a risk that weaknesses in internal control are not identified and there is insufficient review to support the annual governance statements.</i></p>	Discussions to be held between the Pension Fund, Administering Authority and Internal Audit in respect of separate Internal Audit arrangements and the reporting of those to the Pensions Panel.	Pensions Manager	January 2013
2	20	<p>The timetable, including roles and responsibilities for the preparation and audit of the pension funds' accounts should be reviewed and tightened in consultation with external audit.</p> <p>Risk: <i>The target date for submission of audited accounts is not met.</i></p>	Discussions to be held with Audit Scotland and the Pension Fund to agree timetable and roles and responsibilities for providing audit files and responding to queries.	Pensions Manager	February 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	42	<p>Now that that the pensions panel is formally charged with the role of governance, its membership and quorum should be reviewed, perhaps taking the Hutton recommendations into consideration, to ensure that the panel can effectively discharge its scrutiny role.</p> <p>Risk: <i>The panel does not have sufficient capacity to operate effectively.</i></p>	<p>When the Pensions Panel was formed it was agreed to have a member from each party to keep the party balance as Pensions is non-partisan.</p> <p>The current quorum meets the Councils quorum requirement, it has been questioned by members in the past, however it was agreed that the numbers were reasonable.</p> <p>This could be revisited and be put to the Panel.</p>	Pensions Manager	December 2012
4	68	<p>The administration strategy and supporting processes should be approved and implemented as soon as possible.</p> <p>Risk: <i>The pension funds fail to comply with regulations and are not monitoring employer bodies effectively.</i></p>	<p>The Pensions Administration Strategy is under review, to be implemented in the new year. An update report will go to the March 2013 Pensions Panel.</p>	Pensions Manager	January 2013
5	69-74	<p>Investment strategy should be reviewed and fund performance tightly monitored to ensure that results are maximised (accepting the financial climate)</p> <p>Risk: <i>The panel is not effectively discharging its governance duties.</i></p>	<p>The Investment Strategy Report is due for completion during November 2012. There will be further discussion between the Pension Fund Officers and Head of Finance, followed by a report to the February 2013 meeting of the</p>	Pensions Manager	November 2012 and February/March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			Joint Investment Advisory Committee and recommendation to the March 2013 Pensions Panel.		