

# Fife Council Pension Fund

## Annual report on the 2012/13 audit



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

October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Key messages

## 2012/13 audit findings

This report covers the 2012/13 audit of Fife Council Pension Fund (the fund). During the year we looked at the key strategic and financial risks faced by the fund. We audited the financial statements and examined aspects of governance, use of resources and performance. This report sets out our main findings, summarising key outcomes from the 2012/13 audit and the outlook for the period ahead.

We have given an unqualified opinion that the financial statements give a true and fair view of the financial transactions of the fund during the year ended 31 March 2013 and of the amount and disposition at that date of its assets and liabilities.

As the administering authority, Fife Council has statutory responsibility for the administration of the fund with responsibility for the overall strategic direction of the fund delegated to the Superannuation Fund and Pension Sub-committee (the sub-committee).

The most recent triennial funding valuation was carried out by the scheme actuaries as at March 2011 and established the extent to which, based on future assumptions, scheme assets met its liabilities. The valuation concluded that the scheme was 87% funded (March 2008: 81% funded). 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, the actuary has calculated a common employer contribution rate for the period 2012-2015 of 21.3% (2008-2011: 24.1%).

Investment performance is reported to the sub-committee on a quarterly basis with overall performance reported annually. During 2012/13 the fund outperformed against its 'one year' benchmark by 0.07% but underperformed against its 3 and 5 year benchmarks by 1.49% and 1.37% respectively. Overall, this is an improvement on the performance reported for 2011/12 and reflects improved market returns obtained by most investment managers and a move away from an investment manager, Alliance Bernstein who had consistently underperformed over the previous five years (as it found it difficult to recover from their investment commitment in the financial sector). 2013/14 will see the full replacement of Alliance Bernstein with a passive investment manager, State Street Global Advisers.

Investment performance was also compared to the performance achieved by each of the eleven local government pension schemes in Scotland (although this must be treated with some caution as it is based on the unaudited accounts of the other funds), The comparison showed Fife Council Pension Fund as achieving the lowest return of all the funds based on its ratio of net return on investment to opening net asset value.

The administering authority has developed four administration performance measures against which the fund is assessed. Performance against these indicators and against target has improved in 2012/13. Although management had previously agreed that there is scope for further development of administration performance indicators and had advised us that work

was being carried out in this area nationally, no further indicators have been introduced due to delays in the national work and the full implementation of the Heywood Pension Payroll system later this year.

## Outlook

Looking ahead, it is clear that the outlook for public spending remains uncertain and challenging, while volatility on the financial markets continue to affect the value of fund assets. With investment performance key to the funding position of the LGPS, this may impact on employer contributions in the medium term. Against this backdrop, there are on-going developments that may have a significant impact on the form and operation of local government pension schemes.

The Government is looking to reform the Local Government Pension Scheme (LGPS), following recommendations made by the Public Service Pension Commission, headed by Lord Hutton. England and Wales are well advanced in preparing for the changes to the scheme, whereas the position in Scotland has yet to be fully clarified.

Auto-enrolment will place additional financial pressures on employer budgets and place administrative pressure on fund staff. Furthermore, the requirements to move to career average pensions and the subsequent need to administer individual pension entitlements based on a range of elements across a number of years, will be a significant challenge for the fund.

Additionally, the Public Service Pensions Act 2013 has new governance requirements. The Fund currently has a separate Superannuation and Pension Fund Sub-committee in line with good practice. However, the 2013 Act brings in a statutory requirement for a 'Pensions Board' and the fund will have to decide the most appropriate way forward to accommodate this.

## Acknowledgements

The co-operation and assistance given to us by officers during the conduct of our audit is gratefully acknowledged.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of the Fife Council Pension Fund (the fund). The purpose of the annual audit report is to set out 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 our public sector audit model.
2. Appendix A provides details of the reports we issued during 2012/13. 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 administering authority's arrangements for the management 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. The administering authority 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 Fife Council, as administering body for the 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. The management of the 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 Financial Services with responsibility for the Pension 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 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 fund during the year ended 31 March 2013 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 explanatory foreword by the Executive Director Finance and Resources and the governance compliance statement. This section summarises the results of our audit on the financial statements.

## Audit opinion

10. We have given an unqualified opinion that the financial statements give a true and fair view of the financial transactions of the fund during the year ended 31 March 2013 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 Executive Director Finance and Resources 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 Scottish Government guidance.

## Annual report

13. Scottish Government guidance requires the annual report for the pension fund to incorporate 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 fund

- a statement by the actuary of the level of funding disclosed by their valuation
  - the governance compliance statement, the funding strategy statement, and the 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.
14. We are satisfied that the report complies with Scottish Government guidance and that the other sections are consistent with the audited accounts.

## Accounting issues

15. Local authority bodies in Scotland are required to follow the 2012/13 Code of Practice in Local Authority Accounting in the United Kingdom (the 2012/13 Code). Further guidance was issued for 2012/13 requiring more detailed disclosure in the annual accounts. We are satisfied that the financial statements have been prepared in accordance with the 2012/13 Code.

## Accounts submission

16. The fund's unaudited annual report and financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. The working papers supporting the accounts were available from that date. Council officers were able to assist us with issues arising from the audit which enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2013. The annual report, incorporating the financial statements, is now available for presentation to members and for publication.

## Presentational and monetary adjustments to the unaudited accounts

17. In line with International Standard on Auditing 260 'communication of audit matters to those charged with governance', we reported the conclusions of our audit to the Standards and Audit Committee on 26 September 2013. There were no matters reported which resulted in adjustment to the financial statements.



# Financial position

18. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
19. 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.
20. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the fund.

## Financial results

### Budgetary control

21. The fund has not prepared a budget for areas of expenditure where it has control over the sums expended (e.g. administration costs, investment manager expenses and other overheads), although this had been agreed as a planned management action in the 2011/12 action plan. This could result in costs not being contained where they are not regularly monitored and assessed against pre-determined budgets.

***Refer Action Plan no. 1***

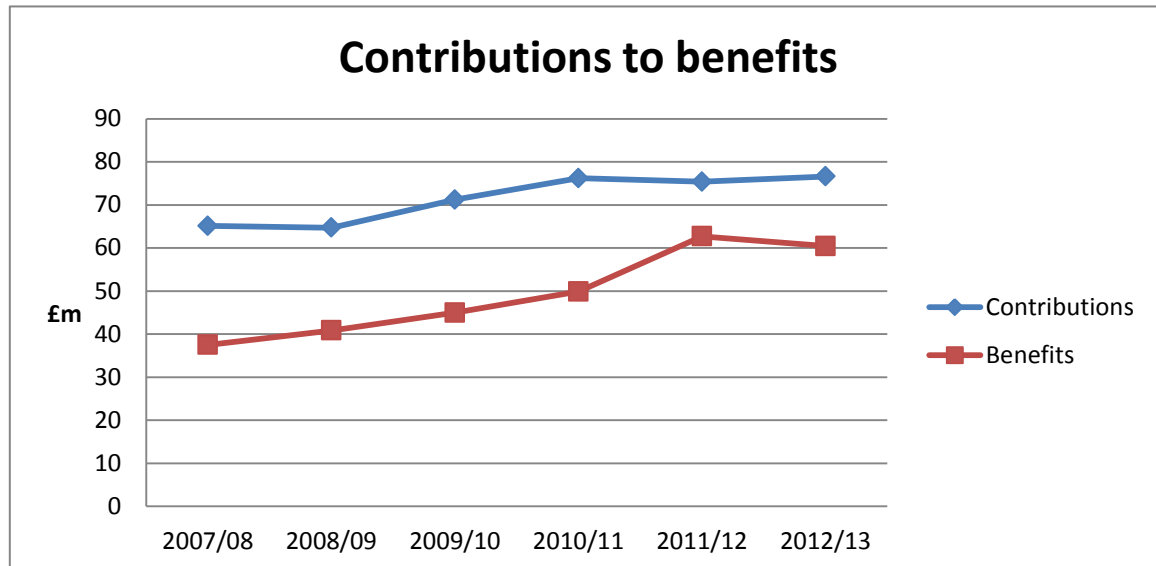
### Financial Position

22. The overall position at 31 March 2013 as set out in the net asset statement is that the fund has net assets of £1,479 million (31 March 2012: £1,317 million).
23. The financial statements do not take account of the obligations to pay pensions and other benefits which fall due after the end of the year. The actuarial position of the scheme, which does take account of such obligations, is disclosed in the Notes to the Accounts.
24. The actuarial value of promised retirement benefits at the accounting date has been estimated by the fund Actuary as £2,145 million (31 March 2012: £1,810 million). This gives an estimated net liability of £666 million as at 31 March 2013 (31 March 2012: £493 million). The liability is an estimate of the present value of the future liabilities of the fund, based on the fund actuary's assumptions regarding the future discount rate, the longevity of members and the rate of inflation. This figure is used by the pension fund for statutory accounting purposes and is not relevant for calculations undertaken for funding purposes and setting contributions payable to the fund.

## Funding Position

25. As demonstrated in exhibit 1, the fund is receiving more income in contributions than it is paying out in benefits.

### Exhibit 1: Contributions received to Benefits payable



Source: Annual audited accounts.

26. In recent years the gap between the income and expenditure has been reducing, with the gap decreasing from £27.6 million in 2007/08 to £12.7 million in 2011/12 due to pay freezes and reducing numbers of staff contributing to the scheme as a result of workforce change. However, 2012/13 saw an increase in the gap to £16.2 million, mainly due to a significant reduction in lump sum payments as a result of fewer redundancy retirals in 2012/13. This reversal may not be sustainable however, as further workforce change may be required to help bridge the council's budget gap which will require budget savings of £102 million to be made over the period to 2017.
27. The introduction of auto-enrolment may result in an increase in income from contributions to the fund which could provide some alleviation of any further decrease in the funding gap as a result of future workforce reductions. Maintaining the gap is important to provide resources to invest in long term investment vehicles to alleviate the dependence on investment returns to pay pensions.

## Actuarial Review

28. At the last full actuarial valuation of the pension fund as at 31 March 2011 the actuary reported that the pension fund's funding level had increased to 87% (from the 81% level identified in the previous valuation in 2008). This represents a funding shortfall of £192 million (£254 million as at 31 March 2008) and has resulted in the actuary calculating a theoretical employer 'common' (average across all employers as a whole) contribution rate of 21.3% (24.1% per 2008 valuation) of pay in order to extinguish this shortfall over a 20 year period.

29. Each employer has its own underlying funding position and financial circumstances and therefore adjustments are made to the common rate for each employer. One employer, Fife Council, had its contribution rates stabilised following a separate modelling exercise carried out on their behalf. This resulted in lower initial contribution rates for the council of 20.0% in 2012/13, rising to 20.9% in 2013/14 and 21.8% (above the common rate of 21.3%) in 2014/15.
30. This stabilisation assists budgetary pressures in the initial years but may result in larger contributions in future, however this is kept under review every three years through the triennial valuation. The next triennial review will take place in 2014/15 and will reflect the value of the fund as at 31 March 2014.

### **Employers' Covenants**

31. During 2012/13, the fund worked with all employers in the scheme to complete an Employer Covenant Schedule, the purpose of which is to review the financial stability of each employer in order to identify early warning signs of potential financial problems and to provide assurance over the employers' governance arrangements. On the basis of the information provided, none of the employers were considered by officers as presenting a risk to the fund. A further review is scheduled for 2014/15 to inform the next triennial valuation.

## **Outlook**

### **Financial forecasts beyond 2012/13**

32. Looking ahead, it is clear that the outlook for public spending remains very challenging and significant budget reductions will be required in future years. Spending constraints are set to continue and pressures on the fund will increase as scheduled and admitted bodies seek to deliver efficiencies through reductions in staffing levels. This will impact on contributions received and benefits payable.

### **Stock market risks**

33. The current volatility in the stock market and the uncertainty around the sustainability of the Eurozone makes it important for pension funds to have a wide range of investment vehicles. The fund will have to remain vigilant and monitor its exposure to risk.

# Governance and accountability

34. 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.
35. 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.
36. 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.
37. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

38. The Superannuation Fund and Pensions sub-committee meets on a quarterly basis and oversees all pension fund activity. The responsibilities of the sub-committee are set out in the fund's statement of investment principles. Representation on the sub-committee was increased in August 2012 to include two non-voting members representing the interests of the scheme's admitted bodies.

### Governance Compliance Statement

39. Pension funds are required to produce a governance compliance statement which sets out the areas where it does and does not comply with guidance issued by Scottish Ministers on committee governance arrangements. Having reviewed the governance compliance statement, we are satisfied that it complies with the guidance issued by the Scottish Ministers.
40. The statement reflects a largely 'compliant' status for the fund's governance arrangements, with one area of 'partial compliance' in relation to the adoption of annual training plans for sub-committee members. The statement notes that the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework training needs analysis has been provided to members of the sub-committee.

41. The training needs analysis was provided to members in August 2013 and will inform ongoing training needs. In the meantime a training event is scheduled for December 2013, with proposed coverage likely to include pension reform, career average pensions and the next triennial valuation.

### Internal control

42. 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. The fund's financial systems run alongside those of the administering authority and there are specific systems and lines of responsibility for pension administration and investment transactions. Our review of the controls operating in the key financial systems revealed no significant weaknesses and we have placed reliance on these controls for our work on the audit of the financial statements.
43. The extent of auditors' work in this area should also be informed by their assessment of risk and the activities of internal audit. In 2011/12 we noted that the council's Audit and Risk Management Services has no annual programme of internal audit work specifically targeted at the fund.
44. Since 2010/11, local government pension funds have been required to prepare an annual report separate from the administering authority's own statutory accounts. In the absence of assurances from internal audit, the Executive Director Finance and Resources may find it difficult to obtain assurances over the controls operating in the fund's key systems which are used to produce the fund's accounts. Members may also find it more difficult to fulfil their scrutiny role in regard to the operation of internal controls.
45. Since there has been no internal audit activity carried out in this area, we have been unable to place any reliance on internal audit work on the fund for 2012/13.

***Refer Action Plan no. 2***

### Prevention and detection of fraud and irregularities

46. The pension fund utilises the relevant policies of Fife Council and these have been reviewed as part of the council wide audit and found to be satisfactory. We are not aware of any specific issues that we need to identify in this report.

### National Fraud Initiative in Scotland

47. Audit Scotland has co-ordinated 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.
48. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies

to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

49. As part of our local audit work we monitor the council's approach to participation in NFI both in terms of the submission of the required datasets and strategies for investigating the subsequent data matches. We are satisfied that staff have been proactive in investigating data matches with 109 of the 112 matches reviewed, resulting in the identification of 5 fraud cases and a financial recovery of £6,340.

## **Standards of conduct and arrangements for the prevention and 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. We are not aware of any specific issues that we need to identify in this report.

## **Outlook**

51. The future shape of the LGPS in Scotland remains uncertain. The full extent of the recommendations made in the Hutton report and how they impact upon pension schemes in Scotland remains uncertain. Other Government initiatives, including workplace pension reforms and the creation of single Police and Fire Services, are also likely to have an impact on operational processes
52. Auto-enrolment will also impact on the operational processes of the administration section. The introduction of the national scheme has been phased with the start date for the Fife Council Pension Fund being 15 May 2013. This will inevitably have an impact on the administrative workloads of pension fund staff and we will continue to monitor the impact of the implementation of auto-enrolment.
53. The fund should also be well prepared for the introduction of career average pensions. There will be a requirement to maintain pension records for each individual that will bring together a range of entitlements arising from benefits built up under different pension regimes. This not only will increase administrative workload initially, but will also undoubtedly generate many more queries and enquiries from fund members seeking clarification on their benefits on an on-going basis.
54. It is important, that the training needs of members should be kept under review during a period of significant pension reform to ensure that they understand the key developments and their potential impact as and when they arise. Also, this is important for ensuring that members exercise their scrutiny role effectively.

# Best Value, use of resources and performance

55. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
56. 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.
57. 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.
58. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
59. 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.
60. This section includes a commentary on the best value and performance management arrangements within the fund. We also note any headline performance measures used by the fund and any comment on any relevant national reports.

## Management arrangements

### Best Value

61. The fund has not been subject to a Best Value review. However, it is covered by the overall Best Value arrangements of the administering authority which were last subject to review in 2009. The timing of Fife Council's next Best Value audit is determined by a risk assessment performed by the Local Area Network (LAN). A focussed, proportionate Best Value audit is currently planned for 2015/16, however the 2013/14 shared risk assessment will assess the continued need for a best value audit and in the event will provide further information to inform the scope of the audit.

## Investment Performance

62. The main mechanism for measuring investment performance is through an analysis of the returns achieved by each of the fund's external fund managers. The managers' performance, in terms of achieving benchmarks, is subject to independent verification by the fund's custodian, Northern Trust, and is regularly reported to the Superannuation Fund and Pensions Sub-committee.
63. During the year fund managers are also required to present to the sub-committee on their performance. At the year end an annual report on overall performance is produced and reported to the sub-committee.

## Administration Performance

64. Fife Council Pension Fund supplies administration performance information to CIPFA and the Scottish Government annually. Key performance information is reported in the Annual Report and Accounts, including retirement benefits issued within 5 days, retirement quotations provided within 10 days, transfer quotations issued within 10 days and refund of contributions issued within 5 days. The performance of the administration section of the fund is regularly reported to members of the sub-committee and is shared with other employers within the scheme on an annual basis.
65. In 2011/12 we reported that there was scope for developing the performance measures for assessing the administering authority's administration performance e.g. unit administration costs and pension payments made within timescales. Management agreed that there is scope for further development and work was being carried out in this area nationally, as part of the work of the Scottish Pensions Liaison Group (SPLG). We have been advised that progress in this area has been slower than anticipated and as a result no additional measures were put in place for 2012/13. We have also been advised that this area will be re-assessed after full implementation of the new Heywood pension payroll system in 2013/14. We shall continue to monitor progress in this area.

***Refer Action Plan no. 3***

## Overview of performance in 2012/13

### Fife Council Pension Fund performance measurement outcomes

#### Investment Performance

66. Investment performance is measured against benchmarks agreed between the investment managers and the fund. During 2012/13 the fund outperformed its benchmark over one year by a small margin of 0.07%. However, the fund underperformed against its 3 and 5 year benchmarks by 1.49% and 1.37% respectively. Overall, this is an improvement on the 2011/12 performance which showed an under-performance of 3.09%, 2.32% and 1.32% respectively. The improvement arose due to a number of factors including improved returns achieved by most managers and a reduced level of investment with Alliance Bernstein who



had consistently under-performed over a five year period (as it found it difficult to recover from their investment commitment in the financial sector).

67. As part of our review of investment performance in 2012/13, we compared the investment performance of each of the eleven local government pension schemes in Scotland, using the ratio of net return on investment to opening net asset value to provide a benchmark against which the fund's performance could be measured. The result (which must be treated with some caution as it is based on the unaudited accounts of the other funds) show Fife Council Pension Fund as achieving a return of just under 12%, the lowest investment return in Scotland based on this ratio. Five of the funds were reported as achieving a return of between 14% and 18%.
68. We recognise that there are some caveats in using this as a measure of investment performance e.g. the return is dependent on the risk appetite of the respective councils and the nature of the portfolio, however there may be some merit in investigating the circumstances which gave rise to the improved performance of the other funds.
69. Following significant debate at the sub-committee on the merits of passive investments (investments held pro rata to a financial index e.g. the FTSE - no subjective decision making required) against active investments (investments made based on a variety of factors considered by the investment manager - requiring subjective decision making), the sub-committee agreed to shift a greater part of its investment portfolio to passive management investments.
70. At its meeting in August 2013, the sub-committee agreed to appoint State Street Global Advisers to manage the fundamental indexation equity mandate, increasing its passive investment portfolio. This investment replaces the remaining portion of the fund that was previously managed by Alliance Bernstein.

### **Administration performance**

71. As outlined above, performance data for the administration of the scheme is reported in the Annual Report and Accounts. Performance is reported to be above target and demonstrates a general improvement in pension administration since 2011/12:
  - percentage of retirement benefits issued within 5 days: 96% (prior year 92%; 2012/13 target 80%)
  - percentage of retirement quotations provided within 10 days: 96% (prior year 96%; target 90%)
  - percentage of transfer quotations provided within 10 days: 92% (prior year 91%; target 80%)
  - percentage of contribution refunds issued within 5 days: 99% (prior year 98%; target 99%).

## National performance reports

72. 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 of direct interest are detailed in Exhibit 2:

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### Exhibit 2: National performance reports 2012/13

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Responding to challenges and change - An overview of local government in Scotland 2013</li></ul> | <ul style="list-style-type: none"><li>• How councils work: an improvement series for councillors and officers - Managing performance: are you getting it right?</li></ul> |
|--|---|

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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73. Key messages from the 'Responding to challenges and change' report include the gathering pace of public service reform agenda. This includes pension funds and highlights the significant changes which lie ahead for Local Government.
74. Members may wish to consider national performance reports which are of relevance, as they become available, to assist them in discharging their governance duties in respect of the fund.

## Outlook

75. There continues to be a degree of volatility in global stock markets and uncertainty around the sustainability of the Eurozone. Administering authorities will have to remain vigilant and keep assessing funds' exposure to risk. Continuing to work, and communicating effectively, with employers and the actuary will be even more critical going forward.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Standards and Audit Committee
Annual Audit Plan	20 February 2013	28 February 2013
Report on financial statements to those charged with governance	19 September 2013	26 September 2013
Audit opinion on the 2012/13 financial statements	30 September 2013	26 September 2013 (proposed opinion)
Report to Members on the 2012/13 audit	18 October 2013	26 October 2013

# 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	21	<p>The fund has yet to introduce budgetary control processes for the costs that they have control over.</p> <p><b>Risk:</b> costs may not be contained where they are not regularly monitored and assessed against pre-determined budgets.</p>	<p>The recharge arrangements and costs will be reviewed to establishing whether budgets can be set and monitoring processes developed.</p>	Accounting Team Leader (Accounting and Ledger Control)	31 December 2013
2	45	<p>The Audit and Risk Management Services section does not have an annual programme of internal audit work relating to the fund.</p> <p><b>Risk:</b> without a review of the governance arrangements and internal controls, it may be difficult for the Executive Director Finance and Resources to obtain assurances over the internal controls in place for the systems which support the fund's financial statements. It may also be more difficult for members to exercise their scrutiny role over the fund's system of internal</p>	<p>The annual internal audit plan, which is presented to the Council's Standard and Audit Committee, uses a risk based assessment to ensure that Internal Audit's resources are directed towards the areas of greatest risk, both financial and non-financial.</p> <p>The Pension Fund is included in this assessment and work planned on the assessment of risk.</p> <p>The audit plan for next year will be</p>	Audit and Risk Management Services Manager	28 February 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		control.	prepared shortly and the need for a pension fund audit will be reviewed as part of this process.		
3	65	<p>We have previously reported that there is scope to extend the fund's administration indicators to provide more information on the performance of the section. We have been advised that no additional indicators have yet been introduced pending agreement of performance measures by SPLG and the full implementation of the Heywood pension payroll system.</p> <p><b>Risk:</b> Performance information may be insufficient to provide a rounded view of the performance of the administration section.</p>	<p>Fife Council Fund is keen to improve the indicators currently in use and proposed to adopt those drafted by SPLG. However, due to the implementation of the new pension payroll, these was insufficient resources available to undertake this task. A plan will be created to oversee the set up and implementation of new indicators.</p>	Payroll and Pensions Team Leader	31 July 2014