

Orkney Islands Council Pension Fund

Annual report on the 2012/13 audit



Prepared for Orkney Islands Council as administering body 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.

Contents

Key messages	4
Financial Statements	4
Key facts	4
Financial position	4
Funding position	4
Governance & accountability	5
Performance	5
Outlook	5
Introduction	7
Financial statements	8
Audit opinion	8
Accounting issues	9
Financial position	11
Financial performance 2012/13	11
Funding position	11
Outlook	12
Governance and accountability	14
Governance Compliance Statement	14
Systems of internal control	15
Internal audit	15
Prevention and detection of fraud and irregularities	15
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	16
Outlook	16
Best Value, use of resources and performance	17
Management arrangements	17
National performance reports	18
Outlook	18
Appendix A: audit reports	19
Appendix B: action plan	20

Key messages

Financial Statements

We have given an unqualified opinion that the financial statements of Orkney Islands Council Pension Fund for 2012/13 give a true and fair view of the state of affairs of the fund as at 31 March 2013 and of the income and expenditure for the year then ended.

Key facts



Financial position

The fund had net assets of £205 million at 31 March 2013. The actuarial value of promised retirement benefits at the accounting date has been estimated by the actuary as £222 million, giving a net liability of £17 million as at 31 March 2013 (£13 million as at 31 March 2012).

Funding position

The most recent triennial valuation, as at March 2011, was reported in March 2012 and set employer contributions for 1 April 2012 to 31 March 2015. The report highlighted that the fund's assets valued at 31 March 2011 (£160 million) were sufficient to meet 106% of its

liabilities accrued up to that date, resulting in a funding surplus of £9 million. This represents an improved position from the 2008 triennial valuation that reported a funding position of 86% (a funding shortfall of £18 million).

Governance & accountability

No significant control weaknesses were identified during our audit work, although some areas for improvement are noted in this report. There were adequate arrangements in place for the prevention and detection of fraud and corruption.

Performance

Investment returns of Orkney Islands Council Pension Fund have outperformed its benchmark over a one, three and five year period. This represents a good result over a challenging period.

Outlook

The global economic outlook remains uncertain and this continues to present particular problems for investment management and strategy. The cost of future pensions is determined largely by factors outside the fund's control, such as inflation and government bond yields.

Against this backdrop, there are on-going developments that may have a significant impact on the form and operation of local government pension schemes. For example there are the recommendations of the Hutton Report, auto enrolment, and governance requirements of the Public Service Pensions Act 2013.

Following recommendations made by the Public Service Pension Commission, headed by Lord Hutton, the UK Government is looking to reform the Local Government Pension Scheme (LGPS), along with other public service schemes. As people are living longer, and so drawing a pension for longer, the Government is proposing that changes should be made to the LGPS. England and Wales are well advanced in preparing for these changes, whereas the position in Scotland has yet to be fully clarified.

Legislation enacting the auto enrolment of eligible job holders into workplace pensions came into effect in October 2012. The impact of this change in legislation is that there will likely be more active employee members contributing to the Fund, subject to employees exercising their option to opt out of a pension. A lower opt out rate would represent a positive increase in contributions to the Fund, but would also require the council to pay more employer contributions to the Fund.

Orkney Islands Council's staging date to apply these changes and opt to auto enrol all employees into the local government pension scheme was August 2013. The council has deferred auto enrolment for casual employees with 'eligible jobholder' status and only new starts are currently auto-enrolled. To date, only one council employee has opted out of auto enrolment. It is not yet known if admitted bodies will opt into the local government pension scheme or if they will auto enrol into an alternative scheme. The next 12 to 18 months will be

crucial in terms of establishing the full picture when the admitted bodies to the fund start their auto enrolment process.

The 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, are ongoing in Scotland. The reforms are likely to result in some changes to defined benefit arrangements with the possible introduction of a career average revalued earnings (CARE) pension scheme. This change has already been agreed for the LGPS in England and Wales and will commence from 1 April 2014.

Additionally, the Public Service Pensions Act 2013 has new governance requirements. 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.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Orkney Islands Council Pension Fund. 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 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 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 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 Orkney Islands Council, as administering body for Orkney Islands 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 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 foreword and governance compliance statement.

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 pension fund's 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 fund are 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. The statement includes disclosure of areas where full compliance has not been achieved (see paragraphs 40 to 41).

Annual Report

13. Scottish Government Guidance requires that the annual report for the pension fund incorporates the following:
 - the annual accounts
 - 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.
14. Except for the requirement below, we are satisfied that the report incorporates the above sections and that the other sections are consistent with the audited accounts.
15. The fund's pension administration systems do not currently support performance measurement.

Accounting issues

16. Local authority bodies in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code) and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS). We are satisfied that the financial statements have been prepared in accordance with the Code.

Accounts submission

17. The fund's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. This 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

18. 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 Monitoring and Audit Committee on 26th September 2013.
19. A small number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed and processed all the adjustments through the financial statements. There were therefore no unadjusted errors in the audited financial statements.

Year end verification of monthly contributions

20. Admitted body employers are required to provide year end information on contributions to the Fund as well as their monthly returns and remittances. We regard the year end check as a key control as it provides assurance that contributions are complete and accurate. At the start of this year's audit, we suggested that the admitted bodies should be asked to confirm that to the best of their knowledge, the correct deductions were made and remitted. However, this control was not implemented in time for the year-end. Furthermore, the process of updating

the new pensions system to include existing members did not begin until after the year-end. When the new system contains the full membership record, it will provide a valuable check that contributions are received as expected.

21. A high level year end check was done comparing the monthly amounts recorded in the pensions system against the amounts recorded in the financial ledger. Assurance was therefore taken from the monthly checks performed on the remittance advices, and the high level analysis done at year end.
22. We reviewed the supporting documentation and were satisfied with the monthly checks. Additional assurance to support the audit opinion was also obtained through the Head of Finance's letter of representation.

Action Plan no 1

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 fund.

Financial performance 2012/13

26. The overall position at 31 March 2013 is that the fund's assets have grown to £205 million. Although the financial statements do not include future liabilities, an estimate by the actuary disclosed in the Notes to the Accounts indicates that liabilities have grown too, and for the third year running forecast liabilities exceed current assets by about 8%.
27. The actuarial value of promised retirement benefits at the accounting date is estimated by the Fund Actuary as £222 million (2011/12 £184 million), giving a net liability of £17 million as at 31 March 2013 (£13 million as at 31 March 2012). 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, longevity of members and 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

28. The most recent triennial valuation (as at 31 March 2011) was published in March 2012 and reported a funding level of 106% (a funding surplus of £9 million) and calculated that a theoretical employer contribution rate of 16.5% would be required to cover future liabilities. This compares to the 86.3% funding level (a funding shortfall of £18 million) and a 21.4% theoretical employer contribution rate from the previous valuation. The volatility of financial markets in the year following the valuation date led the actuary to recommend that employer contributions be maintained for three years at the 21.4% level.
29. Orkney Islands Council, as the administering body, monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update, as at 31 March 2013 showed that the funding level (excluding the effect of any membership

movements) has worsened since the 2011 valuation due to falling real bond yields. The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed at that time.

Budgetary control

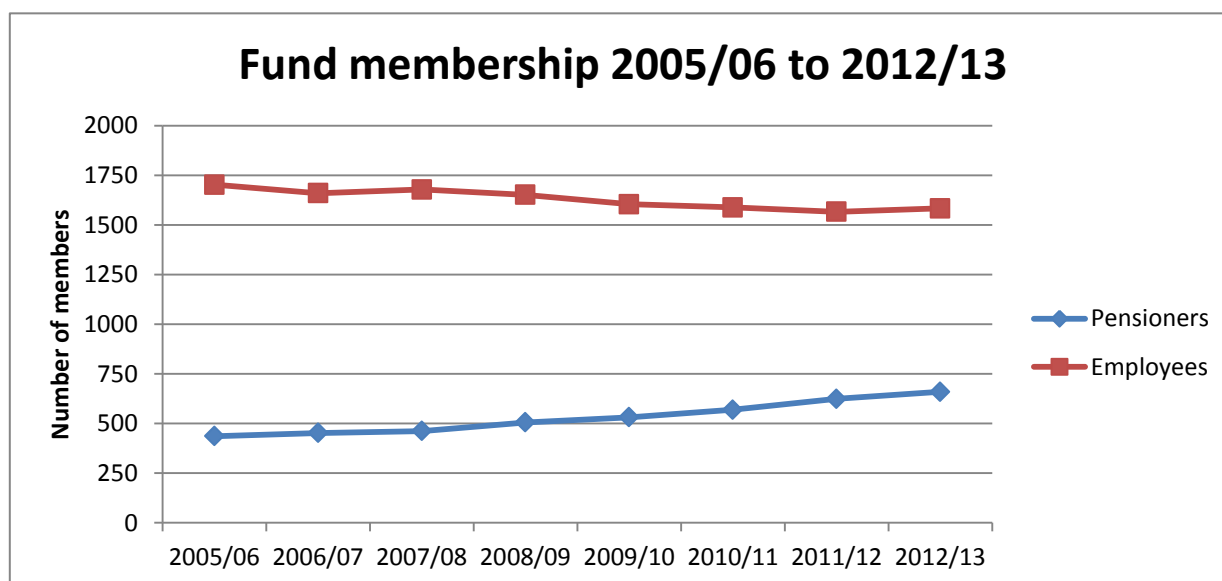
- 30. The pension fund does not set a budget for its activities or report on progress throughout the year. This is mainly due to the fact that for most of its activities it does not have control over the value of the transactions at any one time. There are however some areas where it is possible to exercise some control (administration costs, investment manager expenses and other overheads).

Action Plan no 2

Outlook

- 31. Looking ahead it is clear that the outlook for public spending remains very challenging as significant budget reductions are required in future years. Spending constraints are set to continue and pressures on the fund will increase as scheduled and admitted bodies seek to reduce expenditure and deliver efficiencies through reductions in staffing levels.

Exhibit 1: The trend is towards fewer employee members and more pensioners



Source: Orkney Islands Council and Orkney Islands Council Pension Fund financial statements

- 32. The graph of fund membership in Exhibit 1 shows that there is an emerging trend of a reduced number of active members and increasing numbers of pensioners and deferred members. If this continues it will have an adverse impact on the pension fund in terms of cash flows, employers' contribution rates and, potentially, the investment strategy. The scheme actuary recognises such trends when setting the employer contributions for the scheme; contributions paid in are intended to provide a fund to pay for the future liabilities. The impact of reduced membership levels will need to be kept under review if the fund is to remain sustainable into

the future. The impact of auto enrolment on the number of active members in the pension fund is not yet known; it may not be enough to reverse the trend of reduced numbers of active members.

Action Plan no 3

33. Looking ahead, it is clear that the outlook for public spending for the period 2013/14 to 2015/16 remains very challenging. There are a number of on-going 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 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. Heads of Agreement have been drawn up to introduce a new Scottish Local Government Pension Scheme (LGSPS) from 1 April 2015. Changes to the LGPS in England and Wales take effect from 1 April 2014.
34. The main benefit in any pension scheme is expressed in the form of the accrual rate. This determines the amount of the pension paid on retirement. The current accrual rate in the Scottish LGPS is one 60th of final salary for each year of service. An advantage of a career average scheme is that by spreading the benefits more evenly, it is possible to improve the value of pensions in payment through a better accrual rate. For most public sector pension schemes this means an accrual rate of around one 50th, and in the case of the England & Wales LGPS, one 49th. The base line proposed for Scotland is one 49th. Member contributions are proposed to remain at 6.3% on average.
35. 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.

Governance and accountability

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

Governance Compliance Statement

40. Pension administration regulations require an administering authority to prepare and publish a governance compliance statement to measure their pension fund's governance arrangements against the standards set out in the guidance issued by the Scottish Ministers. Having reviewed the governance compliance statement we are satisfied that it complies with the guidance issued by the Scottish Ministers.
41. As noted in the fund's governance compliance statement, the oversight arrangements currently in place exclude representatives of admitted bodies and deferred members. This means that some key stakeholders, including ordinary members, have limited opportunity to review and challenge. This situation is not in accordance with best practice standards as defined by the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008. This point was raised last year in our '*Review of internal controls*' pension fund audit report; management's response is included in the agreed action plan for that report. This point is still under review by management.

Action Plan no 4

Systems of internal control

42. It is the responsibility of management to develop and implement systems of internal financial control and to put in place arrangements to monitor their adequacy and effectiveness in practice. We review these arrangements for the purposes of our financial statements audit.
43. 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.
44. As part of our work we took assurance from key controls within the fund's systems. We noted that the small size of the pensions section presents some internal control challenges. In particular, it is not always feasible to separate duties. However, no significant control weaknesses were identified during this work.

Internal audit

45. Internal audit is an important element of the fund's governance structure. The internal audit service is provided by the council's internal audit section. We reviewed internal audit in terms of ISA 610 and concluded that they operated in accordance with the 2006 CIPFA Code of Practice for Internal Audit in Local Government and had sound documentation standards and reporting procedures in place.
46. Internal Audit did not plan to undertake any work on the fund's governance or key financial systems in 2012/13 so there was no relevant internal audit work on which to place reliance.

Prevention and detection of fraud and irregularities

47. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Audit and Monitoring Committee we seek confirmation from those charged with governance of any instances which have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud was included in the Head of Finance's letter of representation.
48. The pension fund complies with the relevant fraud and irregularity policies of Orkney Islands Council and these have been reviewed as part of the council wide audit. No issues have been identified by us for inclusion 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 June 2012 and we will report on findings as part of our 2013/14 audit once the investigation of data matches by the fund is completed.

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. No issues have been identified by us for inclusion in this report.

Outlook

51. The recently enacted Public Service Pensions Act 2013 requires local government schemes in England and Wales to designate a Scheme Manager, and to set up a Pension Board and a Scheme Advisory Board. It is unclear at this time to what extent regulatory changes such as increased powers for the Pensions Regulator will affect the LGPS in Scotland.
52. It is important, in light of these on-going developments that the training needs of the Investments Sub Committee and relevant officers are kept under review to ensure that they are appropriately briefed on these developments and their potential impact.

Action Plan no 5

53. Auto enrolment will be implemented during 2013/14 for Orkney Islands Council and from 2014/15 for other employers within the fund. This will inevitably have an impact on administrative workloads, but early preparation, and changes that have been put in place in readiness for this change, should reduce the impact.
54. The fund must 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 more queries and enquiries from fund members seeking clarification on their benefits on an on-going basis.
55. An electronic pension administration system is currently being set up by the fund. One of the reasons for investing in an electronic pensions system is to improve the control over data quality and consistency of calculations by having an interface with the payroll system. In the first year of use of the system, existing records will be copied to it, and various changes to administration practices will take place. It is anticipated that significant audit work will be required in the coming year to establish the reliability of the new system and its associated controls and procedures. We will consider this in collaboration with internal audit as part of our 2013/14 audit planning.

Action Plan no 6

Best Value, use of resources and performance

56. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. 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 pension fund. We also note any headline performance outcomes/ measures used by the members and any comment on any relevant national reports and the body's response to these.

Management arrangements

Investment Performance

61. The main mechanism for measuring investment performance is through an analysis of the returns achieved by the fund's external fund manager. The manager's performance, in terms of achieving benchmarks, is subject to independent verification by the appointed advisors (WM Company) and is regularly reported to the Investments Sub Committee.
62. Investment returns of the fund have outperformed benchmark targets over a one, three and five year period as shown in Exhibit 2 below.

Exhibit 2: Investment Performance

	1 Year	3 Years	5 Years
Fund	17.90	11.40	10.10
Benchmark	14.00	8.10	6.90

Source: Orkney Islands Council Pension Fund 2012/13 financial statements

National performance reports

63. 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 3:

Exhibit 3: A selection of National performance reports 2012/13

- Responding to challenges and change - An overview of local government in Scotland 2013
- How councils work: an improvement series for councillors and officers - Managing performance: are you getting it right?

Source: www.audit-scotland.gov.uk

64. 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.
65. From the 'How Councils Work' report key messages include how good quality performance information is required to make well informed decisions and identify areas for improvement.
66. We suggest that officers review national performance reports as they become available and consider any findings which may impact on the pension fund.

Outlook

67. There continues to be on-going 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 likely to remain volatile.
68. 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 2012/13

Title of report or opinion	Date of issue	Date presented to Monitoring and Audit Committee
Annual Audit Plan	12 February 2013	21 February 2013
Report on financial statements to those charged with governance	16 September 2013	26 September 2013
Audit opinion on the 2012/13 financial statements	27 September 2013	26 September 2013 (proposed opinion)
Report to Members on the 2012/13 audit	31 October 2013	28 November 2013

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer and Target Date
1	22	<p>Employee / Employer Contributions</p> <p>The administration system operating in 2012/13 was unable to provide an independent annual check that monthly contributions received from admitted bodies were complete and accurate.</p> <p>Risk: contributions may be misstated within the financial statements.</p>	<p>An independent check has been instructed for 2013/14. The risk of contributions being misstated is however considered to be small with the majority of admitted body membership on payrolls that are administered by OIC finance staff.</p>	<p>Pensions Manager Dec 2013</p>
2	30	<p>Budgetary Control</p> <p>The fund has yet to implement budgetary control processes for the elements of costs which it has the ability to control (administration costs, investment manager expenses and other overheads).</p> <p>Risk: costs may not be contained, especially where they are not regularly monitored and assessed against predetermined budgets.</p>	<p>An annual budget will be established for 2014/15. The cost elements under Fund control are reasonably predictable and will be conducive to incorporation into the Council's budget monitoring procedures.</p>	<p>Head of Finance April 2014</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer and Target Date
3	32	<p>Financial Challenges</p> <p>There is an emerging trend towards a decline in the number of active members and increases in the numbers of pensioners and deferred members. The implications of this need to be managed by the pension fund to ensure its future financial sustainability.</p> <p>Risk: if this continues it will have an adverse impact on the pension fund in terms of cash flows, employers' contribution rates and, potentially, the investment strategy.</p>	<p>The fund will continue to keep its investment strategy under review. The employers contribution rate is determined by the scheme Actuary every three years taking account of all factors including the profile of scheme membership.</p> <p>As the fund matures the investment strategy will be amended to reflect the changed profile.</p>	<p>Head of Finance</p> <p>Ongoing</p>
4	41	<p>Oversight arrangements</p> <p>The oversight arrangements currently in place exclude representatives of admitted bodies and deferred members. This means that some key stakeholders, including ordinary members, have limited opportunity to review and challenge.</p> <p>Risk: This situation is not in accordance with best practice standards as defined by the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.</p>	<p>A report reviewing the Pension Fund governance arrangements will be considered at the November Committee cycle. The establishment of a Pension Fund Forum with membership including representatives from admitted bodies etc will be one of the considerations in that report.</p>	<p>Head of Finance</p> <p>Nov 2013</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer and Target Date
5	52	<p>Pension Reform</p> <p>There are a number of on-going developments that may have a significant impact on the form and operation of local government pension schemes.</p> <p>Risk: if elected members are not kept up to date with the progress and impact of these changes, their ability to make decisions on behalf of the fund will be reduced.</p>	<p>An increased emphasis has been placed on Elected Member (Trustee) training recently. As pension fund reform proposals for the LGPS in Scotland are firmed up, they will be reported to Elected Members.</p>	<p>Head of Finance</p> <p>Ongoing</p>
6	55	<p>Pension Administration System</p> <p>An electronic pension administration system is currently being set up by the fund. In the first year of use of the system, existing records will be copied to it, and various changes to administration practices will take place.</p> <p>Risk: It is anticipated that significant audit work will be required in the coming year to establish the reliability of the new system and its associated controls and procedures.</p>	<p>The system that has been acquired is the leading system for the LGPS in the UK with well established controls and procedures. The implementation of the system is being undertaken with support from the supplier who has considerable experience of the sort of transition that the Council is undergoing. Internal Audit will be requested to undertake a review of the new system and associated controls and procedures.</p>	<p>Pensions Manager</p> <p>Dec 2014</p>