

Shetland Islands Council

Pension Fund

Annual report on the 2012/13 audit



Prepared for Members of Shetland Islands Council as administering body for Shetland Islands
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

Financial Statements

We have given an unqualified opinion that the financial statements of Shetland 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.

Financial position

The Fund had net assets of £306 million as at 31 March 2013. The actuarial value of promised retirement benefits at the accounting date has been estimated by the actuary as £432 million, giving a net liability of £126 million as at 31 March 2013 (£91 million as at 31 March 2012).

Funding position

The most recent triennial valuation carried out by the Fund's actuary was reported in February 2012. The report highlighted that the fund's assets valued at 31 March 2011 (£251 million) were sufficient to meet 91% of its liabilities accrued up to that date, resulting in a funding shortfall of £25 million. This represents an improved position from the previous triennial valuation which reported a funding position of 88% (a funding shortfall of £26 million). A recent interim report by the actuary at 31 March 2013 indicated that the funding position had fallen to back to 71%, reflecting market volatility.

Governance & accountability

The Shetland Islands Council Pensions Fund has adequate governance arrangements which include a Pension Fund Consultative Panel which is advised by relevant officers of the council as appropriate and meets approximately twice per year.

We also concluded that the Pension Fund has sound internal controls and satisfactory arrangements for the prevention and detection of fraud and corruption.

Performance

Investment performance is monitored by officers on both a quarterly and an annual basis against a benchmark return for fund managers. For the year to 31 March 2013, the Fund had a return of 15%, which exceeded the Fund's benchmark return of 14.6%.

Outlook

These are challenging times for pension fund management. With the global economic outlook and the uncertainty 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 uncertainty may impact on employer contributions in the medium term.

The Public Service Pensions Act received Royal Assent on 24 April 2013. The Act implements the key recommendations of Lord Hutton's Commission as follows:

- the end of final salary benefit arrangements with the introduction of the career average revalued earnings basis
- retirement age linked to state pension age
- cost control system to provide affordability and sustainability
- measures to strengthen governance.

The latest date for commencement of new schemes under the Act is 6 April 2015.

Proposed changes to the LGPS will impact on administrative workloads going forward as will any severance activity by employers. Additionally, auto-enrolment requirements affect information requirements and administration arrangements. Auto-enrolment requires that every employer must automatically enrol workers into a workplace pension scheme if they:

- are aged between 22 and State Pension age
- earn more than £9,440 a year
- work in the UK

The Public Service Pensions Act 2013 has new governance requirements. Currently Shetland Islands Council Pension Fund follows best practice in its governance arrangements, having a Pension Fund Consultative Panel. 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.

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 Shetland Islands Council Pension Fund. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, to summarise the auditor's opinions on the financial statements and conclusions on any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. Appendix A provides details of our reports issued during 2012/13. We do not repeat all of the findings in this report, but instead 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 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 and have arrangements in place to manage 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 Shetland Islands Council, as administering body for the 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. The 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.

Financial statements

6. 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.
7. 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.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the foreword and governance compliance statement.

Audit opinion

9. We have given an unqualified opinion that the financial statements of the Shetland Islands Council Pension Fund 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

10. Through our planned audit work we consider the legality of the pension fund's financial transactions. In addition, the Executive Manager - 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

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

Annual Report

12. 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.
13. We are satisfied that the report incorporates the above sections and that the other sections are consistent with the audited accounts.

Accounting issues

14. 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 Code) and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRSs). We are satisfied that the financial statements have been prepared in accordance with the 2012 Code requirements.
15. The fund's unaudited financial statements and annual report were submitted to the Controller of Audit before the deadline of 30 June 2013. All necessary working papers were also available by this date. This enabled us to conclude the audit and certify the financial statements by the 23 September which was in advance of the statutory deadline date of 30 September 2013.

Presentational and monetary adjustments to the unaudited accounts

16. In line with International Standards on Auditing 260 "*Communication of audit matters to those charged with governance*", we reported the conclusions of our audit to the Audit and Standards Committee on 23 September 2013. Management agreed to make a number of presentational amendments to the unaudited financial statements.

Financial position

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

Financial results

20. The pension fund did not prepare an annual budget for its administration costs in 2012/13 although this had been agreed as an action point following the audit last year. Some progress has been made in the current year but management have agreed to fully address this issue for the next budget-setting cycle and have developed a budget for the 2013/14 financial year.
21. The overall position at 31 March 2013 was that the Fund had net assets of £306 million. 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.

Funding position

22. In accordance with accounting standard IAS 26 '*Accounting and Reporting by Retirement Benefit Plans*', the actuarial present value of proposed retirement benefits (actuarial value) is disclosed by way of a note to the pension fund's financial statements. Employer bodies are required to recognise their share of the net liabilities of the pension fund in their balance sheets. The most recent triennial valuation was reported by the actuaries to the pension fund in February 2012. The report highlighted that the fund's assets valued at 31 March 2011 were sufficient to meet 91% of its liabilities accrued up to that date, resulting in a funding shortfall of £25 million. This represents an improved position from the previous triennial valuation (as at March 2008) which reported a funding position of 88% (a funding shortfall of £26 million).
23. Since this time, the funding position has seen some fluctuation in its position. This is monitored on a regular basis by finance officers. After initially falling to a level of 74.1%, the interim funding position as at 31 March 2013 is 70.8%. The movement in valuations is

summarised in table 2 below, updated with fund values as determined by the actuary for the year ending March 2012/13:

Table 1: Movement in valuations 2008 to 2013

Fund Details	2008*	2011*	2013**
	£'m	£'m	£'m
Assets	200	251	306
Liabilities	226	276	432
Net Liability	(26)	(25)	(126)
Funding Level	88%	91%	71%

* Triennial valuation

** Projected figures in accounts based upon last triennial valuation

Source: actuary's valuations.

24. The actuarial value of promised retirement benefits at the accounting date has been estimated by the fund actuary as £432 million (2011/12 £351 million), giving a net liability of £126 million as at 31 March 2013 (£91 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.
25. Actuarial assumptions include retirement rates, numbers and age of members within their valuations, and although the position is challenging, the fund reviews its position on a regular basis and recent strong investment performance is helping the fund to recover its position.

Membership

26. During the year, overall membership of the pension fund remained fairly consistent with the previous year. At the end of March 2013 there were 5,557 members, compared to 5,477 at 31 March 2012, which is an increase of 1%. Active members, however, decreased from 3,016 to 2,858, while the number of pensioners and deferred pensioners increased by 238. Management should continue to monitor this area closely to ensure that the fund remains sustainable in the future.

Investment performance 2012/13

27. As stated above, the fund held investment assets of £306 million as at 31 March 2013, an increase of £46 million from the previous year. The Shetland Islands Council meeting of 21 March 2012 approved the Shetland Islands Council Pension Fund Statement of Investment Principles. This Statement includes an introduction, administration details, objective of the Fund, types of investment, risk, expected return on investments, realisation of investments, responsible investment, securities lending and compliance.

28. In 2013, the pension fund began work on developing a more focused investment strategy and, although this was raised by external audit as an action plan point last year, a revised implementation date has now been set for the 31st March 2014. We will review progress made in this area during 2013/14.

Refer action plan point 1

Outlook

29. 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 deliver efficiencies through reductions in staffing levels.
30. In recent years, active fund membership has been in decline. Auto-enrolment may have an impact on this trend, increasing membership from scheduled and admitted bodies. The effect of this will need to be kept under review, as the financial pressure of auto-enrolment may lead employers to phase implementation where possible. This is an area for management to monitor closely to ensure the fund is to remain sustainable into the future.

Refer action plan point 2

31. 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 including hedging against currency fluctuations. Funds will have to remain vigilant and keep assessing their exposure to risk.

Governance and accountability

32. 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.
33. 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.
34. 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.
35. In this part of the report we comment on key areas of governance.

Corporate governance

Governance processes and committees

36. Shetland Islands Council acts as the administering authority, responsible for managing and administering the scheme for scheduled and admitted bodies. Its functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998 and the Superannuation Act 1972. The fund's governance arrangements run alongside those of the council. The current arrangements are that all pension fund issues are reviewed by the full council. The overview of the pension fund performance rests with the Executive Committee which meets at least six times per annum.
37. The full council meets to consider the investment strategy and approach, to review or terminate managers' mandates, to agree admittance of new bodies and to review the performance of fund managers. There is also a Pension Fund Consultative Panel in place which meets approximately twice per year. The role of this panel is to involve a wider range of stakeholders in overseeing the pension services.
38. There are on-going developments that may have a significant impact on the form and operation of local government pension schemes. For example, 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, the creation of single Police and Fire Services, auto-enrolment and the introduction of career average earnings are also likely to have an impact on operational processes.

39. The Public Service Pensions Act 2013 has new governance requirements. Currently Shetland Islands Council Pension Fund follows best practice in its governance arrangements, having a Pension Fund Consultative Panel. 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.

Refer action plan point 3

40. As the pension fund does not have its own audit committee we have taken the view as in previous years that "those charged with governance" should be the council's audit and standards committee. The annual plan, ISA 260 report and draft audit certificate were all reported to members of this committee.

Governance Compliance Statement

41. 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.
42. The governance compliance statement is designed to set out the areas of compliance and non-compliance with Scottish Government guidance. There were no areas of non-compliance reported by the Shetland Islands Council Pension Fund. This is an improvement from the previous year when "Training/facility time/ expenses" was highlighted as an area requiring further development. A Member Development Programme is now in place and the Constitution clearly sets out the scope of approved duties.
43. The 2012/13 governance compliance statement disclosed that "there is a need to focus on the controls required to ensure clear separation of duties, due to the small number of staff directly employed to work on the Pension Fund." We have highlighted this as an area of risk in previous years and we will continue to keep this under review as part of our audit testing in 2013/14.

Internal control

44. Internal controls reports are prepared by the external auditors of the investment managers and custodians. To ensure that corrective action is taken where required, it is important that there is a system in place to review these reports. During 2012/13, these reports were not considered by the Pension Fund Consultative Panel, but we note that there are plans to review them in 2013/14. We will review progress made in this area during 2013/14.

Refer action plan point 4

45. 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 is also informed by an assessment of risk and the activities of internal audit.
46. As part of our work we took assurance from key controls within the fund's systems. Our review of these financial systems did not identify any significant issues.
47. In our 2011/12 annual audit report, we raised an action point highlighting that there was a risk that fund managers were not complying with relevant legislation regarding the type and percentage of investments held. This action point is still to be addressed and is part of the on-going development of the council's investment strategy.

Refer action plan point 5

48. At the time of this report there remains a need for the fund to finalise agreement with fund managers to ensure that the type of investments continually comply with legislation. This is also being addressed as part of the council's investment strategy and an implementation date of 31st March 2014 has been set.

Refer action plan point 6

Internal audit

49. 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.
50. We had planned to place reliance on internal audit work in respect of pension payments, collection of contributions and transfers. We reviewed internal audit files and found the work to be of appropriate quality. However, as the internal audit work had focused on transactions which took place in 2011/12, we performed additional testing to achieve our required levels of assurance for the 2012/13 audit.

Prevention and detection of fraud and irregularities

51. The pension fund complies with the relevant fraud and regularity policies of Shetland Islands Council and these have been reviewed as part of the council audit. These arrangements include anti-fraud, corruption and whistleblowing policies. Officers have been made aware of these policies and the relevant procedures to follow. Specific responsibilities have been clearly documented, along with the process for identifying and responding to fraud risk.
52. Overall, we concluded that arrangements for the prevention and detection of fraud are adequate and there are no issues which we require to include in this report.

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.
54. 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.
55. 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 the pension fund officers are proactive in investigating data matches. No areas of fraud were identified in 2012/13.

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

56. 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. Overall, we concluded that arrangements are adequate and there are no issues that we require to include in this report.
57. The Fund's Statement of Investment Principles outlines the responsibilities of the Executive Manager - Finance, Executive Committee and Pension Fund Consultative Panel. Pension staff, as employees of the council, are bound by the council's Code of Conduct. Additionally, panel members are expected to have high standards of character and personal conduct and must declare their interests where relevant. Furthermore, as councillors, panel members receive training on standards in public life.

Outlook

58. There are on-going developments that may have a significant impact on the form and operation of local government pension schemes. For example, 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.
59. Auto-enrolment of employees is now being implemented across employers who are members of Shetland Islands Council Pension Fund. This will inevitably have an impact on administrative workloads, and early preparation for the changes is required to ensure

continuing compliance with guidance. We will continue to keep this area under review in 2013/14.

60. The fund should ensure that it is 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 will increase administrative workload initially, and there is a likelihood that there will be more queries and enquiries from fund members seeking clarification on benefits. There is a risk of non-compliance with guidance and errors in pension calculations if insufficient staff resources are available to accommodate this change.

Refer action plan point 7

61. It is important, that the training needs of the Executive Committee and Pension Fund Consultative Panel are kept under review during this period of significant pension reform to ensure that members understand the key developments and their potential impact and that they are able to exercise their scrutiny role effectively.

Best Value, use of resources and performance

62. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
63. 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.
64. 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.
65. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
66. 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.
67. 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

Best Value

68. The pension fund has not been subject to a Best Value review. However, it is covered by the overall Best Value arrangements of the administering authority. Currently, there is no Best Value audit scheduled for Shetland Islands Council.

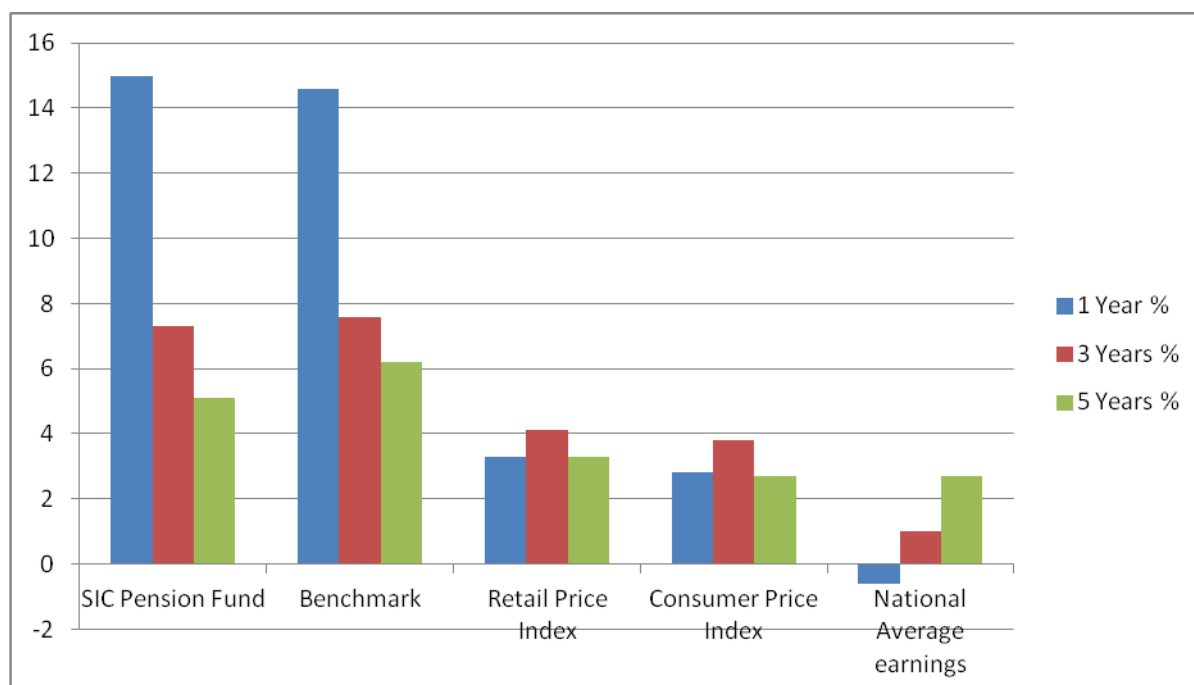
Investment Performance

69. The main mechanism for measuring investment performance is through an analysis of the returns achieved by each of the fund's external fund managers and is overseen by an independent investment advisor (WM Company). The managers' performance levels, in terms of achieving benchmarks, are subject to independent verification by WM Company. Mid year

and year end performance is reported to the Pension Fund Consultative Panel and to the council's Executive Committee.

- 70. The fund managers give an annual presentation to the Council and the members of the Pension Fund Consultative Panel. This performance review meeting covers the performance of the previous year and gives members the opportunity to meet the fund managers and ask questions.
- 71. Visits are made every November to each fund manager to review the six monthly investment position. The Council also receives audited quarterly performance books from the fund managers, which are used to produce a report. The fund managers also provide unaudited weekly fund values, which are used to inform officers and members of the current investment position.
- 72. Over the long term, the overall level of investment return achieved by the fund is expected to exceed the rate of return assumed by the actuary in valuing the Fund. The fund's Investment returns the benchmark target in 2012/13 but is still slightly below the 3 and 5 year benchmarks.
- 73. Recent investment performance of the Fund is highlighted in exhibit 1 below:

Exhibit 1: Investment Performance



Source: Shetland Island Council Pension Fund Annual Report and accounts 2012/13

- 74. The table shows that over a period of one, three and five years, the pension fund has outperformed National Average Earnings, the Consumer Price index and the Retail Price Index. The Fund has outperformed the benchmark for 2012/13 but, as stated earlier, is still

slightly below the 3 and 5 year benchmarks. Fund manager performance should continue to be closely monitored in the future to ensure continued good performance.

Administration performance

75. An administrative strategy was approved by the Pension Fund Consultative Panel and the council's Executive Committee in January 2012. A range of service standards have been developed by the Pensions Section who actively monitors these on a regular basis and there are plans to report these to the Pension Joint Consultative Panel in 2013/14.

National performance reports

76. 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 below:

Exhibit 2 A selection of national performance reports 2012/13

- | | |
|---|--|
| <ul style="list-style-type: none"> • Managing performance: are you getting it right? • Responding to challenges and change - An overview of local government in Scotland 2013 | <ul style="list-style-type: none"> • The National fraud Initiative in Scotland • How councils work: using cost information to improve performance • Managing early departures from the Scottish public sector • National Scrutiny Plan for Local Government. |
|---|--|

Source: www.audit-scotland.gov.uk

- Key messages from the 'Responding to Challenges and Change' report include the gathering pace of the public service reform agenda. This includes pension funds and highlights the significant changes which lie ahead for local government.
- From the 'How Councils Work' report, key messages include the importance of having good quality performance information so that well-informed decisions can be made and areas for improvement are identified.
- We recommend that officers review national performance reports as they become available and consider any findings which may impact on the pension fund.

Appendix A: outputs

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit and Standards Committee
Annual Audit Plan	22 February 2013	7 March 2013
Report on financial statements to those charged with governance	16 September 2013	23 September 2013
Audit opinion on the 2012/13 financial statements	23 September 2013	23 September 2013
Report to Members on the 2012/13 audit	31 October 2013	11 December 2013

Appendix B: action plan

Key risk areas and planned management action

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	<p>Investment strategy</p> <p>An updated investment strategy is currently being developed.</p> <p>Risk: In the absence of a more focussed strategy, the pension fund may not achieve the required returns on investments.</p>	<p>It is anticipated that the Pension Investment Strategy will be completed by 31 March 2014.</p> <p>In the meantime, the performance of the return on pension investments is monitored closely against the benchmark return.</p>	Executive Manager - Finance	31 March 2014
2	<p>Financial Challenges</p> <p>The changing profile of the fund's membership may have negative implications for the long term sustainability of the fund.</p> <p>Risk: There is a risk that the fund is not sustainable if appropriate action is not taken to mitigate the effects of changes in fund membership.</p>	<p>The Council recognises the fund memberships changing profile, and will take this into account as part of the Pension review and the next Triennial Valuation which is due at 31 March 2014.</p>	Executive Manager - Finance	31 March 2014 and 31 December 2014
3	<p>Pension Reform</p> <p>There are on-going developments which will have a significant impact</p>	<p>The staff who are involved in the management of the Pension Fund ensure that they go</p>	Team Leader - Expenditure	1 April 2015

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
	<p>on the form and operation of local government pension schemes.</p> <p>Risk: there is a risk that the fund is not compliant with legislation if processes are not in place to identify and make any changes required.</p>	<p>to all national meetings and training events so that they keep up to date with pension system and legislation developments. This approach will continue, and if necessary can be supplemented with additional on-site training in Shetland, to ensure that the SIC Pension Fund is compliant with all LGPS regulations.</p>		
4	<p>Investment Assurances</p> <p>The internal controls reports provided by the external auditors of the Investment Managers and the Custodian are not being reviewed.</p> <p>Risk: There is a risk that weaknesses may not be identified and that appropriate action is not taken.</p>	<p>The reports will be reviewed and any material weaknesses that are identified will be reported to the Executive Committee with a clear recommendation as to what action to take.</p>	Chief Accountant	31 December 2013
5	<p>Investment Regulations</p> <p>The type and percentage of permitted investments are only considered when an agreement is prepared</p>	<p>All Investment Management Agreements between the Council and fund managers comply with the</p>	Executive Manager - Finance	31 March 2014

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
	<p>between the council and a fund manager. Due to the nature of these investments, the pension fund does not know the composition of the unit trusts.</p> <p>Risk: There is a risk that fund managers are not complying with relevant legislation.</p>	<p>relevant legislation. The performance of an investment is, and will continue to be, monitored quarterly against specified investment benchmarks. Any variance in performance from the benchmark will be reviewed and questioned with the fund manager.</p>		
6	<p>Fund Agreement</p> <p>There is no agreement in place with the fund manager to ensure that any additional investments comply with regulations regarding the type of investments held by the pension fund.</p> <p>Risk: There is a risk that fund managers are not complying with the legislation.</p>	<p>This will be addressed as part of the Pensions Investment Strategy.</p>	Executive Manager - Finance	31 March 2014
7	<p>Career average pensions</p> <p>The introduction of career average pensions may lead to additional demands on officers' time.</p> <p>Risk: There is a risk of</p>	<p>The Finance Service will ensure that it quantifies the additional workloads that may result from Pension Reform. If additional resources are required in the future, in the first</p>	Team Leader - Expenditure	1 April 2015

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
	non-compliance with guidance and issues with pension calculations if insufficient staff resources are available.	instance this will be addressed through re-deploying staff into the Pensions Team, and if this is not possible, recruitment may be necessary.		