Strathclyde Pension Fund

Annual report on the 2012/13 audit

Prepared for Glasgow City Council as administering body for Strathclyde 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.

Contents

Key messages

Financial statements

We have given an unqualified opinion that the financial statements of the Strathclyde Pension Fund for 2012/13 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.

Financial position

Fund No. 1 had net assets of £13,066 million as at 31 March 2013. The actuarial value of promised retirement benefits at the accounting date is estimated by the actuary as £15,707 million giving a net liability of £2,641 million as at 31 March 2013 (£1,659 million as at 31 March 2012).

Fund No. 3 had net assets of £158 million as at 31 March 2013. The actuarial value of promised retirement benefits at the accounting date is estimated as £138 million, giving a net asset of £20 million as at 31 March 2013 (net asset of £21 million as at 31 March 2012).

Funding position

The most recent triennial funding valuation was carried out by the scheme actuaries as at March 2011.

For Fund No. 1, this reported a funding position of 97.3%. This represented an improved position from the previous triennial valuation which reported a funding position of 95.1%. The intervaluation assessment at March 2013, which is not used to determine future contribution rates, reported a reduced funding level of 83.4%, mainly due to the historically low level of gilt yields.

The triennial funding valuation for Fund No. 3 reported a funding position of 89%. This represents a slight improvement from the previous triennial valuation which reported a funding position of 88%. The intervaluation assessment showed a funding level at March 2013 of 90%.

Governance & accountability

As the administering authority, Glasgow City Council has statutory responsibility for the administration of Strathclyde Pension Fund. The fund has sound governance arrangements that include a Pension Fund Committee responsible for the overall strategic direction of the fund and a Representative Forum which allows for engagement with the fund's stakeholders.

Based on our testing of the main financial systems in 2012/13, we can conclude that internal controls systems operated effectively.

Performance

The fund has a well structured performance management framework in place. Comprehensive monitoring reports covering the performance of investments and administration activities are reported regularly to the Pension Fund Committee.

Fund No. 1 achieved an annual return of 14.5% against its scheme specific benchmark of 13.6%. The strong investment performance is reflected in the growth of the value of Fund No. 1 which at 31 March 2013 reached £13,066 million, the highest value in the fund's history. Fund No. 3 fell slightly below target, achieving an annual return of 14.5% against its scheme specific benchmark of 15.0%.

Administration performance has been mixed in 2012/13 with actual performance in the processing of retirals significantly below target, although statutory targets have been met. This is the result of a number of reductions in staffing levels in addition to increased volumes of retirals across the fund's participating employers.

Outlook

Looking ahead, it is clear that the outlook for the funding of public spending remains uncertain and challenging, with volatility in the financial markets continuing to affect the value of fund assets. With investment performance key to the funding position of the Local Government Pension Scheme, 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 Public Service Pensions Act received Royal Assent in April 2013 which signals more changes ahead for the Local Government Pension Scheme. Some changes are aimed at reducing costs and others at setting a common legislative framework and improving governance arrangements. The 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 future of the Local Government Pension Scheme will be significantly affected by these changes and although discussions are continuing, the full impact of this legislation on pension schemes in Scotland still remains uncertain.

Auto enrolment is likely to place additional pressures on employer budgets and place administrative pressure on fund staff. Furthermore, the requirement to move to career average pensions will be demanding.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Strathclyde Pension Fund. The fund comprises the No. 1 Fund and No. 3 Fund (the fund). The purpose of this annual audit report is to set out 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 Glasgow City Council, as administering body for Strathclyde 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 and give an opinion on:
   - whether they give a true and fair view of the financial transactions during the year ended 31 March 2013 and of the amount and disposition at that date of 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. 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 of Strathclyde 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

11. Through our planned audit work we consider the legality of the fund's financial transactions. In addition the Executive Director of Financial Services and Deputy Chief Executive has confirmed that, to the best of her knowledge and belief, the financial transactions of the 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 the full Governance Compliance Statement covers the areas and levels of compliance required by the Scottish Government's guidance.

Annual report

13. The Scottish Government's guidance requires that the annual report for a pension fund includes a number of standard statements including :
    - the financial statements
    - a report about the management and financial performance of the pension fund during the year, a report explaining the 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, 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. We are satisfied that the annual report for Strathclyde Pension Fund incorporates the above sections and that they are consistent with the audited accounts.

Accounting issues

15. Local authority bodies in Scotland are required to follow the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 2012/13 Code). We are satisfied that the financial statements have been prepared in accordance with the 2012/13 Code.

16. The CIPFA Code on Local Authority Accounting in the UK 2012/13 recommends that investment management expenses be shown as a separate item in the fund account and further analysed in a note. The 2012/13 financial statements disclose management fees for Fund No. 1 of £14.7 million and £0.036 million for Fund No 3. This however excludes the value of management fees related to pooled investment vehicles, private equity funds and global real estate funds. These fees are charged within the fund and reflected in the fund net asset value. Additional narrative was added by management to the investment management expenses note in the financial statements to reflect this.

17. As the total value of investment management expenses is not currently highlighted in the financial statements, there is a lack of transparency over the reporting of these costs. This is a common issue to all pension funds in Scotland which have these types of investment.

Refer to Action Plan point 1

Accounts submission

18. The fund's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. The working papers provided to support the unaudited accounts were of a high standard and staff provided good support to the audit team during our fieldwork. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2013.

Presentational and monetary adjustments to the unaudited accounts

19. All errors, which were of a presentational nature, identified during the audit were amended in the financial statements and there were no unadjusted misstatements to bring to your attention.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

21. 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.

Financial results

Budgetary control

22. The fund prepares an annual budget for its administration costs and monitoring reports are presented to the Committee on a quarterly basis. Total net budgeted expenditure for 2012/13 was £4.77 million and an underspend of £0.26 million was reported at the year end with respect to employee costs, property costs and supplies and services.

23. Cash flow monitoring reports are prepared monthly to ensure that sufficient cash balances are held to meet on-going pension commitments with any excess balances being added periodically to the fund’s investment portfolios. These cash flow reports are also presented quarterly to Committee. During 2012/13, excess cash balances of £20 million were transferred to the fund's global custodian for investment.

Funding position

24. The liability on the fund is an estimate of the present value of future liabilities of the funds, based on actuarial assumptions including future discount rates, the longevity of members and rates of inflation. This figure is prepared for statutory accounting purposes under International Accounting Standard 26 (IAS 26) and is not relevant for calculations undertaken for funding purposes. Table 1 sets out the net assets for Fund No. 1 and Fund No. 3 and compares them with the actuarial value of retirement benefits to establish the net asset/liability position.

Table 1: Financial position of the funds at 31 March 2013 (IAS 26 basis)

Description	Net Assets £m	PV of promised retirement benefits £ m	Net asset/(liability) £m
Fund No. 1	13,066	(15,707)	(2,641)
Fund No. 3	158	(138)	20

Source: 2012/13 Financial Statements

25. The result of the full triennial valuation of the funds at 31 March 2011 was reported in April 2012. This reported a net liability of £320million and funding level of 97% for Fund No1and a net liability of £16million and funding level of 89% for Fund No3.

26. The triennial valuation determines employer contribution rates required over the next three year period. Based on the March 2011 funding level, the actuary has calculated a common employer contribution rate for the period 2012-2015 of 19.3%. This rate means that for most participating employers, including all councils, there is no increase in contribution rates for this period.

27. The financial statements should disclose an intervaluation of the fund. The intervaluation for Fund No. 1 as at March 2013, which has no impact on employer contribution rates, reports a lower funding level from the triennial valuation of 83.4%. A key driver of the reduction in the funding level is the current historically low gilt yields. For Fund No. 3, the intervaluation assessment as at March 2013 reports a slightly increased funding level of 90%.

28. Due to the increasing number of pensioners, the value of pension contributions received from members and employers reduced by 4% from £508.5 million in 2011/12 to £489.9 million in 2012/13 whilst the value of pensions paid increased by 8%. However, the total benefits paid figure, including lump sum payments, has reduced from last year due to a reduction in the number of retirement programmes across the fund's participating employers. The trend of decreasing receipts and increasing pension payments has been recognised in the fund's 10 year cash flow projection and from 2014/15 onwards it is forecast that there will be an annual closing negative cash flow position. Management are aware of this change in cash flow balances and are planning ahead to address it through the fund's investment strategy.

29. The current economic and funding pressures faced by employers has focused attention on the need to actively manage the risk of employers defaulting on the payment of pension contributions and orphaned liabilities where admitted bodies have ceased participation in the fund. Where a cessation occurs, the fund pursues any pension liability through a variety of ways including claims to administrators, negotiated settlements, payment arrangements, and at times legal action. The position at 31 March 2013 was reported to the Strathclyde Pension Fund Committee in June 2013. This noted that for one former employer a payment arrangement has been agreed, discussions are on-going with six terminated employers, with

cessation liabilities estimated at £6.5 million, and two new cessation reports are being commissioned from the actuary.

Outlook

30. An analysis of fund membership shows that there is an emerging trend of a reduced number of active members and an increasing number of pensioners and deferred members. If this continues it may have an adverse impact on the pension fund in terms of cash flows. Although auto enrolment may have an impact on this trend, the effect of reduced membership levels should continue to be kept under review.

Refer to Action Plan point 2

31. The fund has prepared a 10 year cash flow projection in recognition that the overall cash flow pattern is changing. Management recognise that many factors in the pension's landscape remain to be finalised including the design of the new career average revalued earnings (CARE) scheme and the removal of contracting out. Therefore the impact of these significant developments on the cash flow of the fund and the wider management of the fund are still uncertain.

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. 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 bribery and corruption.

Corporate governance

Processes and committees

35. The fund has a well defined corporate governance framework in place. As the administering authority, Glasgow City Council has statutory responsibility for the administration of the fund. Its functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998 and the Superannuation Act 1972.

36. Responsibility for the overall strategic direction of the fund is delegated by the council to the Strathclyde Pension Fund Committee (the Committee) which comprises elected members of the council. Day to day administration of the fund is carried out by the Strathclyde Pension Fund Office (SPFO) which is a division of the council's financial services department.

37. The committee meets quarterly to consider a standard suite of reports ranging from the performance of investments, the investment approach of individual fund managers to changes in the portfolio of fund managers. The quality of reporting to committee is good with regular presentations by officers and the submission of comprehensive reports.

38. The Representative Forum is the main mechanism for engagement with the fund's stakeholders and enables their involvement in the decision-making process. The forum meets quarterly on the same cycle as the committee. Forum membership forms a broadly representative cross-section of the fund's stakeholders including local authorities, scheduled bodies, admitted bodies, trade unions and pensioners.

39. Given the complex nature of pension funds and pending reforms, members should be supported in their roles on the committee to ensure proper scrutiny and challenge. It is noted that training sessions are often provided at the start of each committee meeting and we are pleased to note that an update paper is presented to each committee on public sector pension's reform. During this period of change it is important that the training needs of members are kept under review.

Refer to Action Plan point 3

Governance Compliance Statement

40. All administering authorities are required 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. These standards are structured around the following nine principles: structure, committee membership and representation, selection and role of lay members, voting, training/facility/expenses, meeting frequency and quorum, access, scope and publicity. Having reviewed the fund's full Governance Compliance Statement we are satisfied that it complies with guidance and note that the fund's governance arrangements comply fully with the required standards.

41. The fund has also taken the positive step of publishing for the first time in 2012/13 an Annual Assurance Statement on the effectiveness of the systems of internal control.

Internal control

42. The fund's main financial systems run alongside those of the administering authority, Glasgow City Council 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.

43. Based on the results of our review of the main financial systems in 2012/13 we concluded that the fund's systems of internal control operated effectively and could be relied upon for the preparation of the financial statements. The results of our review were reported to the Committee in June 2013.

44. It is noted that members of the Committee do not consider a separate year end statement by Internal Audit on the effectiveness of the systems of internal control. This is an important source of assurance to members on the control environment and should be submitted with respect to financial year 2013/14.

Refer to Action Plan point 4

Prevention and detection of fraud and irregularities

45. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. The fund follows the arrangements of Glasgow City Council with respect to these issues and we have reviewed these as part of our audit of the council. We are not

aware of any specific issues relating to this aspect of the audit that we need to identify in this report.

NFI in Scotland

46. 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.

47. 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'. An example of a match is a person who is in receipt of a pension but also appears on DWP and registrars' records as being deceased, or who appears on another payroll system. Where matches are identified these are made available to bodies to investigate.

48. The latest round of NFI commenced in June 2012, with an expanded range of data sets and bodies. The fund submitted data in the autumn of 2012 with data matches arising from the exercise issued early in 2013. The total number of matches identified for the fund was 3,770 and work is currently ongoing to investigate these further. Good progress has been made in following up those matches recommended for investigation with 78% being processed to date.

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

49. 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. We are not aware of any specific issues relating to this aspect of the audit that need to be reported.

Pension reform agenda

50. The Public Service Pensions Act received Royal Assent in April 2013. This Act is part of the legislation passed by government aimed at reforming workplace pensions and encouraging individuals to save for their retirement. One key provision of the Act is auto enrolment whereby all relevant employers must make arrangements to ensure that their eligible employees become active members of a pension scheme.

51. Auto enrolment will be introduced through a series of staging dates. Most of the fund's main employers' staging dates were before the end of July 2013 with some of the smaller employers staging dates up to April 2017. Many of the large employers have made use of a transitional delay which allows them to delay for 3 years the re-enrolment of employees who have previously opted out of the scheme. As the timing of the staging dates of admitted bodies will impact on the workload of the SPFO, management should continue to monitor this position across employers.

52. The Act will also introduce changes to the governance arrangements of pension schemes. The Act brings in a statutory requirement for a Pensions Board for each scheme which is responsible for assisting the scheme manager. The Pensions Board should have equal numbers of employer and member representatives. It is intended that the function of the Pensions Board will be carried out by the fund's existing Representative Forum.

53. Elements of the fund's governance and representation arrangements were reviewed by management in 2012/13 which will assist the fund in implementing the new governance arrangements introduced by the Act. In addition, in anticipation for the new legislation, the pension administration system was upgraded during 2012/13. The upgraded system has the ability for the direct input of data by employers. This part of the system has not been utilised by employers yet, however SPFO are working with employers on this and it is planned that this feature will be rolled out over the next year.

Outlook

54. The future shape of the LGPS in Scotland remains uncertain. Discussions are on-going on the impact of pension's reform with firm proposals yet to be agreed. There are also other on-going developments including recommendations from the Hutton report and the creation of single Police and Fire Services which are likely to affect the operation of the LGPS. The fund is represented on the political oversight and negotiating groups on pensions reforms and we will continue to review how the fund is monitoring and responding to the reform agenda.

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. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body’s response to national recommendations.

57. This section includes a commentary on the fund's best value and performance management arrangements and an overview of performance in 2012/13.

Management arrangements

58. The fund has in place a well structured framework for monitoring the performance of the fund's investments and administration activities. Comprehensive reports are prepared for every committee meeting and actual levels of performance are clearly measured against agreed targets.

Investment performance

59. Investment advice and support is provided to the fund by its Investment Advisory Panel (IAP) which is comprised of investment advisers, actuarial consultants and senior officers. The role of the IAP includes development of the investment strategy and the monitoring of performance of the fund's investments.

60. Actual performance against benchmark targets is reported to the pension fund committee and the IAP on a quarterly basis. During the year fund managers are required to present to the panel on their performance and at the year end, an annual report on overall performance is produced and reported to committee.

Administration performance

61. The fund's administration strategy was approved by committee in March 2011. It contains the standards which are required of the participating employers to ensure that the fund meets its statutory obligations and is able to deliver services efficiently. The strategy contains a variety of performance measures against which the fund and the participating employers are assessed. Progress against the strategy is reported to committee on a quarterly basis.

62. In accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008, the fund's annual report discloses performance against the measures detailed in the administration strategy.

Overview of performance in 2012/13

The fund's performance measurement outcomes

63. Investment performance was strong during 2012/13 with Fund No. 1 out performing its benchmark and Fund No. 3 performing just marginally behind its benchmark. It is noted that in September 2013, as part of the Pension Scheme of the Year Awards, Strathclyde Pension Fund was the winner of the Public Sector Scheme of the Year and Premier Scheme of the Year (over £2.5 billion).

64. The strong investment performance is reflected in the growth of the value of Fund No. 1 which at 31 March 2013 had reached £13.07 billion, the highest value in the fund's history. A review of the fund's investment strategy was completed at the end of 2011/12 and implemented in July 2012. Part of the revised strategy involved increasing the proportion of the fund's portfolio invested in equities. This change in investment strategy has been beneficial to the valuation of the fund due to the recovery in the equities markets during 2012/13.

Fund No. 1

65. During 2012/13 Fund No.1 achieved an annual return of 14.5% against the scheme specific benchmark of 13.6%. This benchmark is one that is internally derived and set at the beginning of the year. The strongest performance came from equities, corporate bonds and index linked securities.

66. Fund No 1 achieved a 10 year annualised return of 9.8% which is below the benchmark of 10.3% but significantly above the actuarial assumed rate of return of 5.7%, used by the actuary as part of the triennial valuation.

Fund No. 3

67. During 2012/13 Fund No.3 achieved an annual return of 14.7% against its scheme specific benchmark of 15.0%. This slight under performance is attributed to the property portfolio as all other portfolios outperformed their benchmark over the year.

68. Fund No.3 achieved a 10 year annualised return of 8.2% which is above the benchmark of 6.3%.

Administration performance

69. In 2012/13, administration performance for five out of nine key measures was below target. The latest administration performance monitoring report for the first quarter of 2013/14 shows that these areas are still behind target with performance levels in two measures (actual and provisional retirals) having further declined. SPFO officers have confirmed that a high volume of retirals in addition to a reduction in staff has contributed to this decline in performance. In

the last quarter of 2012/13, 14 staff within SPFO retired leaving a staff level of 5 below establishment. However failure to achieve these targets has had no effect on customer satisfaction with feedback from customer surveys still showing a high level of performance.

Refer to Action Plan point 5

70. Employers are required to submit year end contribution returns by 20 May for the preceding 31 March year end. This is an important control over the accuracy of pension contributions received and recorded in the pensions systems. By 20 May 2013, 76% of returns had been received which is a much improved response from 2011/12 (40%). By September 2013, 99% of returns had been received from employers.

71. As part of the fund's governance assurance framework employers are also required to submit compliance certificates verifying compliance with a range of SPFO and regulatory requirements in relation to pension administration. As at 31 March 2013, 83% of certificates had been submitted. This is again an improved position compared to last year (74%). The outstanding certificates for 2012/13 represent only 1.5% of the total value of contributions.

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. The specific reports in the last year which may be of interest to members and officers are detailed in Table 3

Table 3: A selection of 2012/13 national performance reports

• Responding to challenges and change - An overview of local government in Scotland 2013	• Managing early departures from the Scottish public sector

Source: www.audit-scotland.gov.uk

73. We suggest that officers and members review national performance reports as they become available and consider any findings which may have relevance to the pension fund.

Outlook

74. A new initiative to support pension funds investing in infrastructure has now secured ten funds as founding investors, with Strathclyde Pension Fund being one of these funds. The committee approved this investment in June 2012 through the New Opportunities Portfolio. The initial sum of £100k has been invested as start up which may lead to an investment of £100 million. Since then, another separate investment which expands the fund’s infrastructure investments has gained Committee approval. In September 2013 the Committee approved an investment of £50 million into the Clyde Built Fund which was also through the New Opportunities Portfolio and will complement the existing property strategy.

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 SPF Committee
Annual Audit Plan	19 February 2013	4 March 2013
Review of the Internal control system and governance	9 May 2013	3 June 2013
Report on financial statements to those charged with governance	18 September 2013	23 September 2013
Audit opinion on the 2012/13 financial statements	26 September 2013	23 September 2013
Report to Members on the 2012/13 audit	31 October 2013	Planned December 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	17	**Investment management expenses** The investment management fees for pooled investment vehicles, private equity funds and global real estate funds are charged within the fund and reflected in the fund net asset value. As such these costs are not disclosed separately in the financial statements. **Risk:** *there is a lack of transparency in the financial statements over the costs of investment management fees.*	CIPFA through their pension's panel is reviewing current practice in this regard and is likely to issue further guidance. The fund will review its own practice and if appropriate will amend in the 2013/14 financial statements.	Head of Pensions	31 March 2014
2	30	**Declining membership** There is an emerging trend of a reduced number of active members and an increasing number of pensioners and deferred members. Investment income may have to be used to fund the payment of pension benefits. **Risk:** *the fund may become too reliant on investment income to pay benefits which may leave*	The Fund has been aware of this trend for several years and has been improving its cash flow monitoring. This allows investment income to be transferred in advance of any requirement. The situation will be reviewed further during the 2014 actuarial valuation	Head of Pensions	31 March 2015

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		them exposed in the volatile markets.	and accompanying investment strategy review.		
3	39	**Pension reform** The pension fund is subject to a period of significant change. This, in addition to the complexities of pension funds in general, requires the training programme of members of the Pension Fund Committee to be kept up to date. **Risk:** *members may not be able to effectively scrutinise pension matters and make informed decisions.*	A training plan is approved and implemented each year. Training in 2014/15 will include coverage of the pension scheme reforms.	Head of Pensions	31 March 2015
4	44	**Internal Audit Plan and Assurance Statement** Members of the Pension Fund Committee do not consider a separate year end statement from Internal Audit on the effectiveness of the systems of internal control. **Risk:** *members do not adequately consider any implications for the Annual Governance Statement prior to its publication in the Financial Statements.*	The pension fund committee has agreed a 2013/14 programme for internal audit work. This will lead to the production of a year end statement from internal audit.	Head of Pensions Head of Audit and Inspection	30 June 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	69	**Administration performance** Administration performance for five out of nine key measures was below target at the end of 2012/13. **Risk:** *performance continues to decline with an adverse impact on the quality of the provision of the pension fund administration services.*	A number of measures have been taken to address the situation. These include continuing close management of workflow and resources, recruitment in line with agreed service reform, ongoing review of workload and processes and targeted use of the overtime budget. Performance is within statutory timescales. Customer satisfaction remains high indicating that the failure to meet some efficiency targets is not having a detrimental impact on service. Targets will be reviewed in the course of the production of the 2014/15 business plan.	Principal Pensions Officer (Development)	31 March 2014