



## **Orkney Islands Council Pension Fund**

### Annual report on the 2013/14 audit

Prepared for the members of the Monitoring and  
Audit Committee and the Controller of Audit

September 2014

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## Key messages

### Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.

### Financial position

- Contributions received increased to £9.4 million in 2013/14.
- Pension costs increased to £5.9 million in the year.
- Net assets rose by £22.3 million to £227 million.
- Funding position remains strong.

### Governance & accountability

- The council's Scheme of Administration as published and interpreted does not adequately provide for pension scheme governance, under the terms of the regulations.
- Systems of internal control operated effectively.
- The pension fund participates in Orkney Islands Council's anti-fraud arrangements.

### Best Value, use of resources & performance

- Investment returns in 2013/14 were 3.3% higher than the local government pension fund benchmark.
- Auto-enrolment contributed to 83 new members joining the fund in 2013/14.

### Outlook

- The next triennial actuarial review is due in 2014/15.
- In 2015/16, there will be significant changes to the pension fund, resulting from new regulations published in 2014.

### Financial Statements

1. We have given an unqualified audit opinion that the financial statements of Orkney Islands Council Pension Fund for 2013/14 give a true and fair view of the state of the affairs of the fund as at 31 March 2014 and of the income and expenditure for the year then ended.
2. The fund grew by £22 million in the year, with investments contributing £19 million, and dealings with members £3 million. The local government pension fund market benchmark rose 6.0% over the year, while on a comparable basis, the value of the fund's investments rose 9.3%.

### Financial position

3. The actuarial funding position of the fund is provisionally estimated at 104%, based on a roll-forward of the 2011 valuation. There will be a new actuarial valuation as at 31 March 2014, but this will not be finalised until next year.
4. On a winding up basis, the fund is still showing a deficit at around 90% funding. However more than 50% of the fund's members are current employees and this compares well with other local government pension funds in Scotland.
5. Employer contributions this year are set at 21.4%.

### Governance and accountability

6. The council defines the fund's governance arrangements in a complex way with responsibilities divided between four committees and sub-committees.
7. In practice the Investments Sub-Committee has a leading role.
8. We note the formation in 2014/15 of a Pension Fund Forum which will include outside representatives, though not in a decision making capacity.
9. In other respects the fund's governance arrangements are sound and supported by systems of internal control. Internal Audit has not recently carried out work on the fund.

### Best Value, use of resources and performance

10. Investment performance of the fund is reported quarterly to committee and has proved better than the local government pension fund benchmark over one, three and five years.

### Outlook

11. The Local Government Pension Scheme (Scotland) Regulations 2014 defines the new scheme which will replace the current one from 1 April 2015. There are some significant changes, including moving from a final salary scheme to a career average revalued earnings (CARE) basis.

# Introduction

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12. This report is a summary of our findings arising from the 2013/14 audit of Orkney Islands Council Pension Fund. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
13. Our responsibility, as the external auditor of Orkney Islands Council Pension Fund, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
14. The management of Orkney Islands Council Pension Fund is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
15. This report is addressed to the members of Orkney Islands Council as the administering body of the Pension Fund and the

Controller of Audit and formed the basis of discussions with the Monitoring and Audit Committee at the meeting on 25<sup>th</sup> September 2014. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

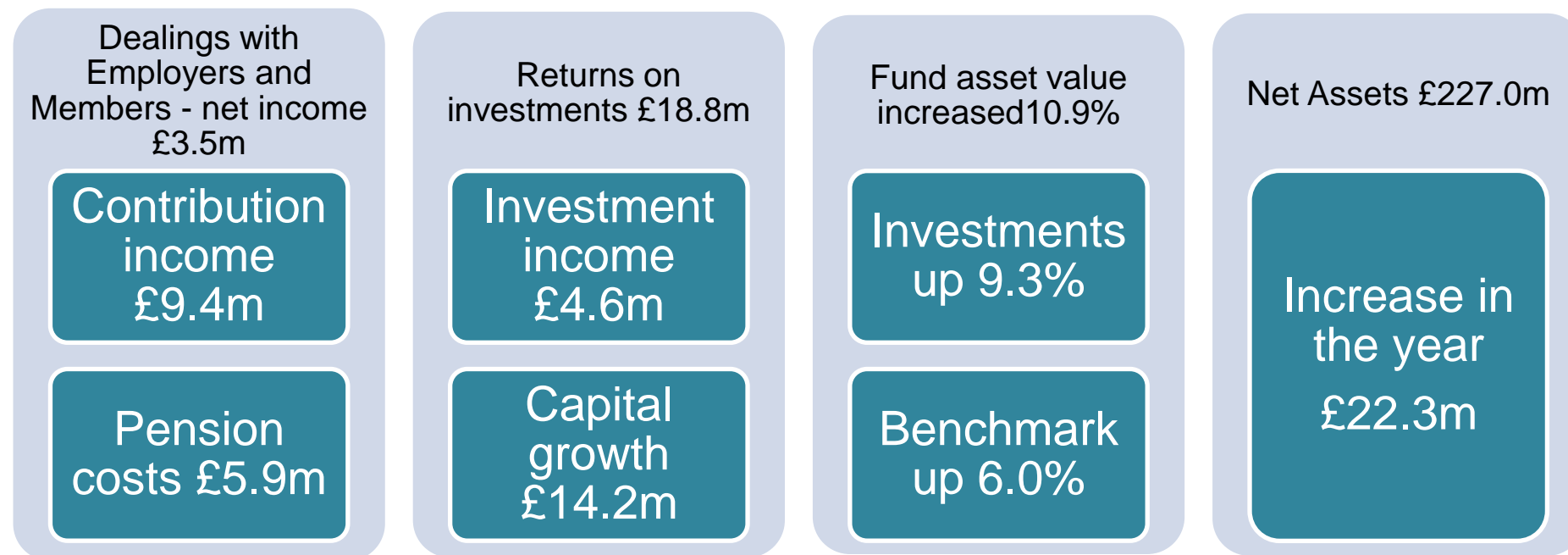
16. This report will be published on our website after it has been considered by the administering body. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
17. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendix I, include recommendations for improvements. 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 Orkney Islands Council Pension Fund.
18. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix II sets out the significant audit risks identified at the planning stage and how we addressed

## Introduction

each risk in arriving at our opinion on the financial statements.

19. Appendix III 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 "Management action/response".
20. We recognise that not all risks can be eliminated or even minimised. What is important is that Orkney Islands Council Pension Fund understands its risks and has arrangements in place to manage these risks. The council, as administering body and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
21. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
22. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

## Financial statements



### Audit opinion

23. We have given an unqualified opinion that the financial statements of Orkney Islands Council Pension Fund for 2013/14 give a true and fair view of the state of the affairs of the fund as at 31 March and of the income and expenditure for the year then ended.

### Other information published with the financial statements

24. Auditors review and report on other information published with the financial statements, including the Foreword by the Head of Finance, the Operating and Financial Review, the Statement on the System of Internal Financial Control and the Governance Compliance Statement. We have nothing to

## Financial position

report in respect of these statements.

## Legality

25. Through our planned audit work we consider the legality of the pension fund's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

## Accounting issues arising

### *Presentational and monetary adjustments*

26. A number of presentational adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements
27. One unadjusted error totalling £15,000 was identified during the course of the audit, which if adjusted would have increased the net additions from dealings with members by £15,000 and increased sundry debtors by the same amount. This related to transfer in amounts that were agreed in March 2014 but not received until April 2014. Such amounts should be reflected in the financial statements.

## Report to those charged with governance

28. We presented to the Monitoring and Audit Committee, on 25 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.

## Significant findings

29. There were no significant findings that required to be reported to members.

## Outlook

30. The financial statements of the Orkney Islands Pension Fund are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards adopted in 2014/15 include:
  - IFRS 10 Consolidated financial statements
  - IFRS 11 Joint arrangements
  - IFRS 12 Disclosures of interests in other entities
  - IAS 28 Investments in associates and joint ventures.



## Financial position

31. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards<sup>i</sup>. The regulations set out in more detail what is required in respect of financial management, internal control, and the annual accounts themselves.
32. One of the changes includes the requirement for the unaudited accounts to be considered by the governing committee of the pension fund. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the governing committee by 30 September with publication on the administering body's website by 31 October.
33. There is also a significant change in the relationship with admitted bodies. While previously, the relationship was governed by the admission agreement with each body, from 1 April 2015, the regulations specify certain events which lead to the crystallisation of an employer's liabilities to the fund. The following organisations no longer have active members in the fund: Weylands Farms Limited, D&H Glue, Golder Landscapes, Orkney & Shetland Valuation Joint Board. Typically this triggers an actuarial cessation valuation, the specifics of such arrangement being set out in an organisation's admission agreement. However, the fund has been unable to locate these agreements and has not instructed any actuarial valuation for these organisations. Under the new regulations the fund, using the advice of its actuary will need to

consider whether there are consequent liabilities, and if there are, how they will be recovered.

**Refer Action Plan Point 1**

# Financial position

- 34. The net assets of the pension fund grew by £22 million to £227 million.
- 35. Returns on investments contributed £18.8 million. £4.8 million of this was from the reinvestment of income and the remainder from profits and losses on disposal and changes in the market value of investments. The growth in market value of the fund was 9.3%. This compares well with the benchmark of other local government schemes, which rose 6%. Although not directly comparable, the FTSE All-share index returned 8.8%.
- 36. While the growth of investment assets is very encouraging, the recent trend of a falling discount rate has also caused liabilities to increase and Exhibit 1 shows that if the fund was wound up immediately, it would still be in a technical deficit.

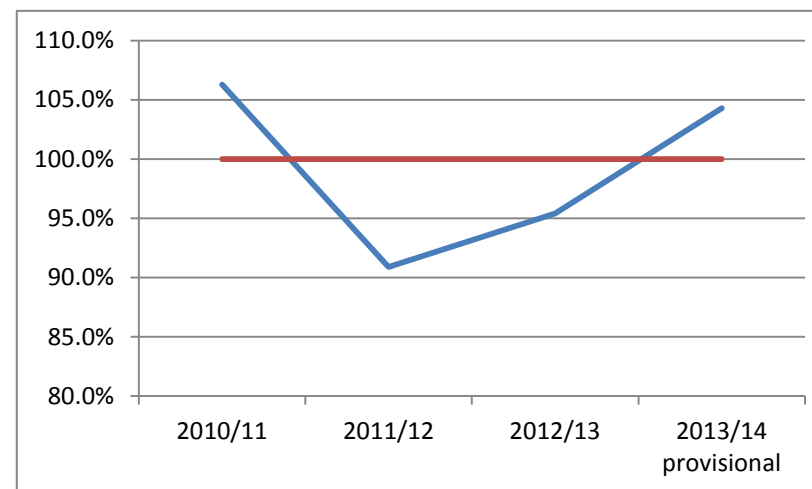
**Exhibit 1: Snap-shot of assets and liabilities**

Description	31 March 2013 £million	31 March 2014 £million
Fund Assets	205	227
IAS 19 Liability	222	251

Source: Orkney Islands Council Pension Fund Annual Accounts 2013/14

- 37. The fund is, of course, a going concern, with its long-term funding position calculated every three years by an actuary. The last actuarial valuation in 2011 showed that the fund's assets amounted to 106% of the fund's liabilities. In the years since then, the estimated funding ratio has moved as shown in Exhibit 2 below. After a dip in the funding level immediately after the actuarial valuation, the fund is provisionally estimated to have recovered to around the same level as in 2011.

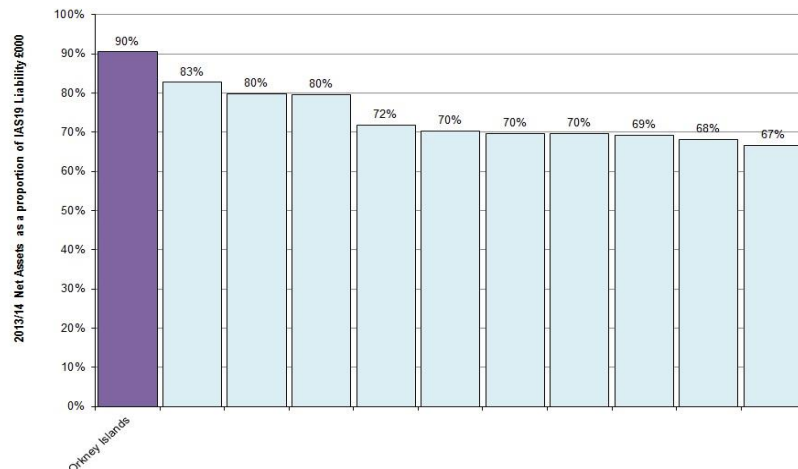
**Exhibit 2: Funding level of the pension fund**



Source: Hymans Robertson 2014 Navigator Report

- 38. The fund also compares well against other Scottish funds within the local government scheme (Exhibit 3), maintaining its position as the best funded scheme this year.

**Exhibit 3: The ratio of net assets to IAS 19 liabilities compared with other Scottish funds**



Source: Scottish local government pension funds' unaudited accounts 2013/14

## Funding and outlook

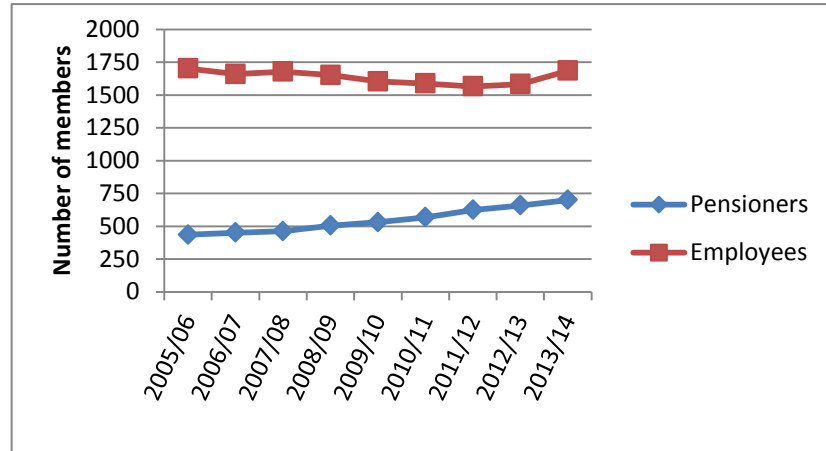
39. Additions to the fund from its dealings with members were £3.5 million, which was £0.2 million higher than last year. The most significant contributors to the rise were:

- one-off gains from members who transferred their pensions into the fund, resulting in a gain of £0.49 million

- auto-enrolment, which directly increased contributions by up to £0.17 million as 83 staff were auto-enrolled. Orkney Islands Council was the only employer required to auto-enrol members this year.
- opposing these factors, there was a £0.11 million rise in the cost of pensions payments due to an increase in the number of pensioners, including early retirements, and a £0.09 million rise in administration costs due to investment and preparation in advance of the 2015 Scheme. There were also transfers out of the scheme of £0.16 million.

40. As shown in Exhibit 4, the number of pensioners continues to rise, though this year, auto-enrolment provided a boost to the number of employees.
41. The average age of active members is around 45 which gives an average of 20 years of contributions until the normal retirement age. The planning horizon of the fund is therefore about twenty years. However, this will change as the retirement age rises in line with pension reforms (refer paragraph 65).

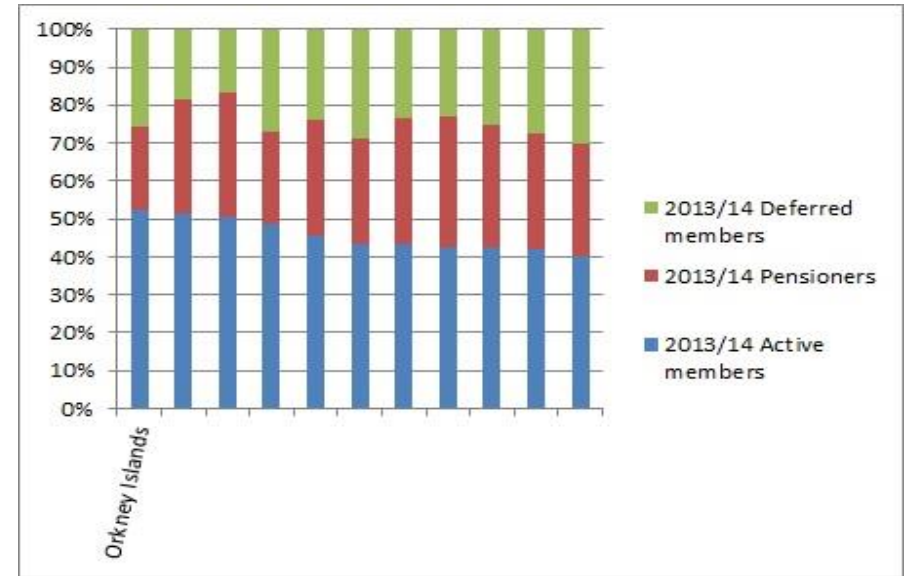
**Exhibit 4: Trends in fund membership 2005/05 – 2013/14**



Source: Orkney Islands Council Pension Fund Annual Accounts 2005/06 to 2013/14

- 42. In terms of membership, the fund is favourably placed in comparison to other Scottish local government pension funds with a relatively high proportion of active members, and a low proportion of pensioners (Exhibit 5).
- 43. The fund is therefore in good health, and is emerging from the 2008-2013 financial crisis stronger than it went in; it has performed well despite the most adverse actuarial background for a generation.

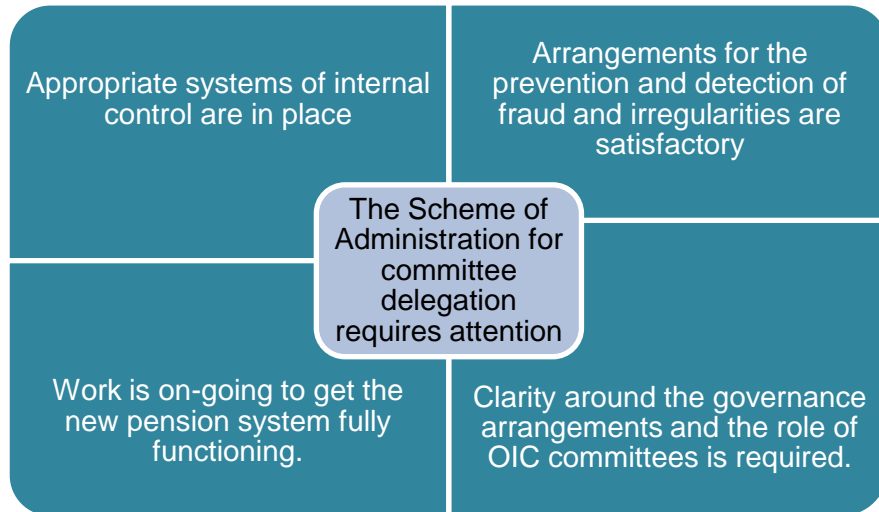
**Exhibit 5: Membership compared with other Scottish funds**



Source: Scottish local government pension funds' unaudited accounts 2013/14

- 44. As the scheme matures, and the value of pensions in payment continues to rise, there will at some point be a need to alter investment strategy to stabilise income, but this is likely to be many years in the future.
- 45. For now, the higher than benchmark exposure to equities provides protection to the fund from inflation, though the other side of this is exposure to volatility in annual net asset valuations.

# Governance and accountability



46. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Orkney Islands Council Pension Fund and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

47. The corporate governance framework within Orkney Islands Council Pension Fund is determined by the council, as

administering authority. The council is supported by the following standing committees/sub-committees, part of whose remit includes pension fund matters.



48. The current Scheme of Administration does not give clarity to governance arrangements of the pension fund, and does not provide for the single governing board mentioned in the LGPS regulations. For example, although the Investments Sub-Committee takes most pension fund business, its formal remit is limited to "the management of the investment of the Pension and reserve funds, including the appointment and monitoring of investment fund managers".
49. Dealings with employers and members appear to fall under the remit of the HR Sub-Committee, which is responsible for "establishment and review of policies relating to Local Government Pension Regulations". It is possible that the Policy and Resources Committee will consider the Triennial

## Governance and accountability

Review in the coming months from the point of view of the council as an employer, but it is not clear that any governance group has a formal remit to consider the Triennial Review from the point of view of the Pension Fund. This situation would appear to be at odds with the incoming 2014 Regulations, which refer to the role of a unified board.

### Refer Action Plan Point 2

50. In 2014/15, a Pension Fund Forum which includes representatives of admitted bodies, trade unions and members is expected to begin meeting, and this body's remit includes the requirement to produce a formal minute to inform the decision-making of the Investments Sub-Committee.
51. The fund does not currently maintain a separate risk register. Members with a responsibility for fund governance, therefore, lack a comprehensive overview of the risks facing the scheme and the controls put in place by management.

### Refer Action Plan Point 3

52. In other respects, the fund has the expected structures and controls in place, though there will be a need to update these in the coming year due to pensions reform.

## Internal control

53. The fund's financial systems run alongside those of the administering authority and its financial ledger and payroll

system are used to process fund transactions. We were able to take assurance from our audit of the council that high level controls in the ledger, payables and payroll system that impact on the financial statements operated effectively.

54. We also reviewed controls relating to the pension investment and administration transaction systems. Our overall conclusion was that Orkney Islands Council Pension Fund had appropriate systems of internal control in place in 2013/14.
55. Computerisation of the pension administration system is ongoing and we have been told that all members joining the scheme in 2014/15 are recorded in the new system. There is a backlog of records of existing members still to be migrated.
56. The system is an important part of the fund's strategy for dealing with the change to the pension scheme set out in the 2014 Regulations. The 2014 actuarial valuation also requires accurate, up-to-date records, and provides an additional incentive to computerise all the records in good time.

### Refer Action Plan Point 4

57. The pensions section consists of only two people with relevant expertise. This exposes the fund to the possibility of being unable to maintain administration services and controls should one of them become unavailable.

### Refer Action Plan Point 5

## Internal audit

58. Internal audit provides members of the fund and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes.
59. Internal audit did not plan to undertake any work on the fund's governance or key financial systems in 2013/14 so there was no relevant internal audit work on which to place reliance.

## Arrangements for the prevention and detection of fraud

60. 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.
61. Orkney Islands Council Pension Fund participates in the National Fraud Initiative (NFI) as part of the council wide exercise. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data

matches identified by the NFI.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

62. The arrangements for the prevention and detection of corruption in Orkney Islands Council Pension Fund are satisfactory and we are not aware of any specific issues that we need to record in this report.

## Outlook

63. The Local Government Pension Scheme (Scotland) Regulations 2014 apply from 1 April 2015. These introduce a new pension scheme which replaces the current LGPS as constituted by the Local Government Pension Scheme (Scotland) Regulations 2008 (as amended), "the 2008 Scheme".
64. The reform of the LGPS follows Lord Hutton of Furness' report of March 2011 and the resulting Public Service Pensions Act 2013.
65. In contrast to the 2008 Scheme, which was a final salary pension scheme in which unreduced benefits were payable to members from the age of 65, the new scheme provides for members to accrue pension on a career average revalued earnings basis and for unreduced benefits to be payable from

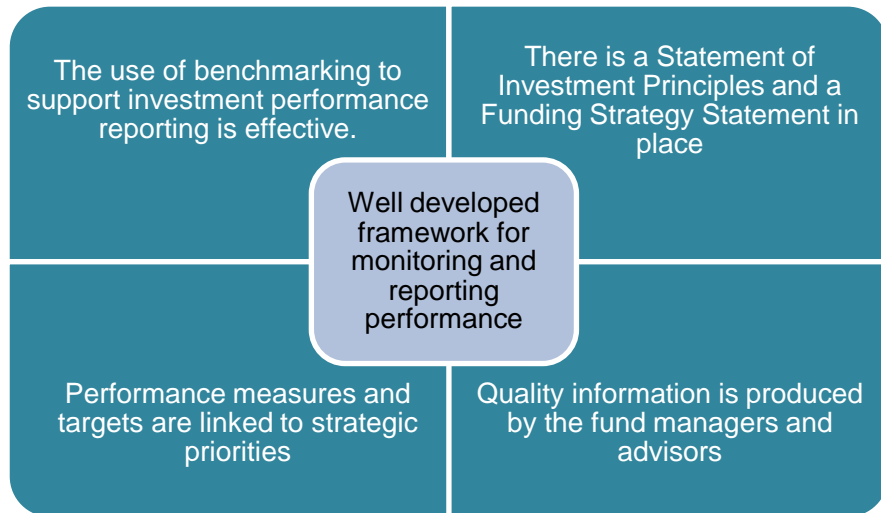
## Governance and accountability

their state pension age.

66. The accrual rate of the new scheme is 1/49<sup>th</sup> of annual pensionable pay, which compares with 1/60<sup>th</sup> under the previous scheme. The new scheme also provides for more flexibility over retirement age. Benefits accrued up to 1 April 2015 under the old scheme are protected.
67. The governance arrangements for pension schemes under the new regulations are more prescriptive with a requirement for administering authorities to establish a pension's board responsible for compliance with legislation and requirements imposed by the Pensions Regulator.
68. The pension fund has yet to advise employee or elected members of the significant changes resulting from the introduction of the new local government pension scheme. It plans to issue a newsletter outlining the changes shortly.



# Best value, use of resources and performance



69. Audited bodies have a specific responsibility to ensure arrangements have been made to deliver best value in the services they provide. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what

quality of service is being delivered and what they can expect in the future.

70. The council as the administering body has in place a Statement of Investment Principles which sets out the operational framework for the fund's investments. This is subject to regular review to ensure that it continues to reflect the needs of the fund. In addition, a Funding Strategy Statement defining how the fund intends to meet its financial obligations has been in place since 2009.

## Performance management

71. 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

72. Investment returns of the fund have outperformed benchmark targets over a one, three and five year period as shown in Exhibit 6 below.

**Exhibit 6: Investment performance**

Description	Year 1	Year 3	Year 5
Fund	9.3	10.3	16.8
Benchmark	6.0	7.6	13.1

*Source: Orkney Islands Council Pension Fund 2013/14 financial statements*

73. Performance management encompasses monitoring and forecasting arrangements over pensions' administration. We have noted in previous years that the pension fund does not have an Administration Strategy, which is optional under the governing regulations. In the last year, the fund has taken steps to support monitoring and forecasting such as amending the financial reporting system. It is also expected that the new computer system will add to reporting capabilities.
74. As a result of the small size of the pension team, administration performance is sensitive to changes in workload and at present, with the actuarial review, system changes and the new pension regulations, workload remains very challenging. The fund should ensure that it applies sufficient resources to fulfil its objectives and statutory duties.

**Refer Action Plan Point 6**

## National performance audit reports

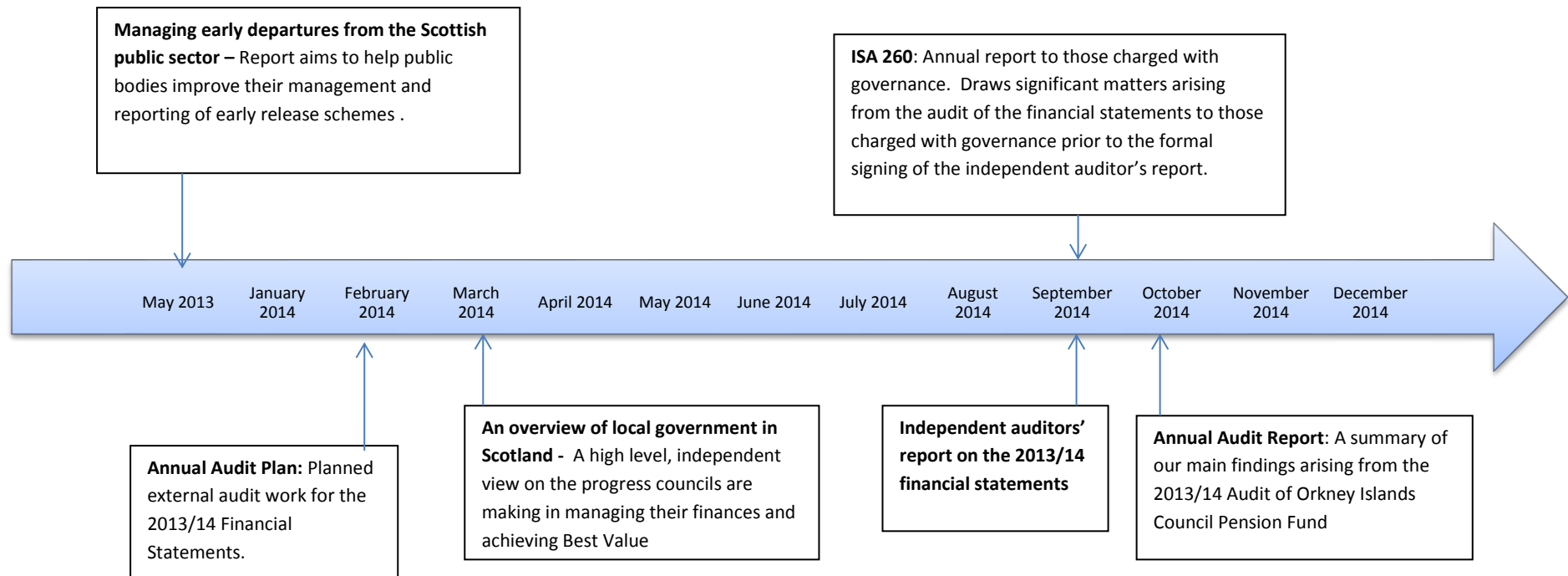
75. The pension fund does not regularly report the findings from our national reports to any governing committee including an assessment of current practices against good practices and the agreement of actions to ensure further improvements. A summary of national performance audit reports, along with local audit reports, is included in Appendices I.

**Refer Action Plan Point 7**

## Outlook

76. Auto-enrolment is beginning to affect the fund's employers, with the Council already covered and others coming in over the next two years. Auto-enrolment can mean additional costs for employers and it is possible that some will join other schemes. We will monitor developments in this area as part of our 2014/15 audit.

## Appendix I – Summary of local and national audit reports 2013/14



## Appendix II – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p><b>Governance</b></p> <p>The recently revised Scheme of Administration involves the Policy and Resources Committee, the Investments Sub-Committee and the Human Resources Sub-Committee in aspects of pension fund governance.</p> <p><i>In terms of the Governance Compliance Statement presented in the annual accounts, the management of the administration of benefits and strategic management of fund assets does not rest with the main committee established by the appointing council.</i></p> <p><i>The governing committee may not include a sufficient range of experience and skills</i></p>	<p>We monitored the proceedings of the Policy and Resources Committee, the Investments Sub-Committee and the Human Resources Sub-Committee.</p> <p>The Investments Sub-Committee received a report from the actuary in June 2014 which outlined fund performance over the last year and was published on the council web-site. The Sub-Committee also took reports from the investment managers and performance analysts.</p> <p>The Policy and Resources Committee approved the setting up of a Stakeholders' Representative Forum, to be known as the Pension Fund Forum, which will meet at least twice each year.</p> <p>The Human Resources Sub-Committee did not record any Pension Fund business.</p>

## Appendix II – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Completeness of contributions</b></p> <p>The fund lacks a procedure for obtaining confirmation from admitted bodies that contributions paid in the year are complete and accurate.</p> <p><i>With the changes caused by banded contributions and auto-enrolment, it is harder for the pension fund manager to assess accuracy and completeness.</i></p>	<p>We noted during the audit of internal controls that the fund has developed an employer certificate for obtaining assurance from admitted bodies. These statements were provided at the year end.</p> <p>We recalculated pay and deductions for a sample of employees of Orkney Islands Council.</p> <p>We also reviewed the monthly analyses of actual and expected contributions of admitted bodies prepared by the pensions manager and performed ratio tests to determine whether the contributions received were within the expected range.</p> <p>We noted that the larger admitted bodies were all subject to audit this year and that they were given unmodified audit reports.</p>
<p><b>Admitted body cessations</b></p> <p>The current economic climate, together with auto-enrolment and smaller numbers of active members, increases the risk that admitted bodies will cease to be active.</p> <p><i>When an admitted body ceases to be active, there is a risk that the fund is left with a liability that the admitted body is unable to pay.</i></p>	<p>We discussed cessations of admitted bodies with management. The following admitted bodies, having no active members and a total of one pensioner and two deferred members between them, transferred their liabilities this year to Orkney Islands Council: Drinkwise Orkney, Orkney Meat and Orkney Opportunities Centre.</p> <p>The following admitted bodies have had no active members for some time and therefore are likely to be in the process of exiting the fund: Weyland Farms, D&amp;H Glue, Orkney Joint Valuation Board and Golder Landscapes. They have 4 deferred members, 3 pensioners and 1 dependant. The 2014/15 financial statements will need to reflect any exit payments that are recoverable from third parties.</p>

## Appendix II – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Investment management expenses</b></p> <p>The investment management fees for pooled investment vehicles and the trading activities of fund managers are not disclosed separately in the financial statements. There is therefore a possible lack of transparency over the level of expenses charged. Guidance is awaited on how to disclose, and any separate disclosure may involve the use of estimates.</p> <p><i>Investment management expenses disclosed may be under-stated.</i></p>	<p>Investment management fees for pooled funds were clarified by the investment managers.</p> <p>It was noted that the units held in the pooled fund are designated as non-fee-paying and therefore the globally calculated investment management fees are accurately stated and disclosed.</p>
<p><b>Heywoods implementation</b></p> <p>Implementation of the new Heywoods system for pensions administration is proceeding slowly, and it is not clear that there is a formal work plan for migrating pensions records.</p> <p><i>It may take longer than expected to realise the benefits of the new system.</i></p> <p><i>Improved monitoring of administration performance may be delayed.</i></p>	<p>We discussed the implementation of the new pensions system with management. We noted that the system is now live for all new and incoming members.</p> <p>While the input of historic data for existing members is continuing, we were informed that features of the new system are beginning to produce benefits. In particular, the requirement to produce career average calculations from 1 April 2015 would be very onerous without the new system.</p>

## Appendix II – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Administration performance</b></p> <p>Administration performance is not currently reported to management or committee.</p> <p><i>Management may not recognise workload or resources issues in the pensions team before they have led to a decline in administration performance with an adverse impact on the quality and timeliness of the provision of the pension fund administration services.</i></p>	<p>We established from the Scheme of Administration that the Human Resources Sub-Committee has formal responsibility for pensions’ administration. Review of its minutes revealed no mention of reporting of pensions’ administration performance. The fund does not have an Administration Strategy.</p> <p>We also reviewed the minutes of the Policy and Resources Committee and the Investments Sub-Committee.</p>
<p><b>Forecasting and budgeting</b></p> <p>As noted last year, there is no formal budgetary control arrangement for pension fund income and expenditure, and management have undertaken to put one in place for 2014/15.</p> <p><i>Costs may not be contained and expected income may not be received.</i></p>	<p>We understood from discussions with management that general ledger codes for expenditure were amended to make it easier to monitor pension administration budgets.</p> <p>However, our review of committee minutes did not provide evidence that pension administration performance is actually monitored or reported.</p>

## Appendix II – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Pension reform</b></p> <p>The pension fund will be subject to a period of significant change in the wake of the Public Service Pensions Act 2013, which is to be implemented by April 2015.</p> <p><i>There is a risk that the necessary governance arrangements, systems and processes are not fully implemented by April 2015.</i></p>	<p>We tracked developments and pronouncements from the Scottish Public Pensions Agency (SPPA) over the course of the year.</p> <p>We noted the publication of Scottish Statutory Instrument 2014 No 164 on 9<sup>th</sup> June 2014 which defines the scope of the new Local Government Pension Scheme, and includes provisions covering career average pension benefits, referred to above. It also contains provisions applicable to the council as administering authority and to scheme employers, including the council and admitted bodies.</p>



## Appendix III– Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/9	<p><b>Cessation events</b></p> <p>The 2014 regulations require the fund to obtain cessation valuations for employers that cease to have active contributing members. The fund currently has several employers in such a position.</p> <p><b>Risk</b></p> <p>When employers have no members, there is no cash flow to meet the costs of providing future pensions. If sufficient funds have built up over the life of the employer’s membership of the scheme, future pensions can be met from fund assets. Where a deficit exists, if it cannot be recovered from the former employer, it may fall to be made up by other employer members of the fund through increased contributions.</p> <p><b>Recommendation</b></p> <p>Cessation valuations for relevant employers should be obtained in advance of 1 April 2015 and the governing committee of the pension fund should liaise with the council, as the administering body, to decide what is to be done about recovering any consequent deficits.</p>	<p>This issue has been the subject of previous discussion with the fund Actuary at the 2011 Valuation where the conclusion was reached that due to the small number of deferred or pensioner members that had formerly been active members and the limited prospects of recovery of any deficit share from the admitted bodies the cost of carrying out the exercise of obtaining cessation valuations was not worthwhile. The valuation fees for admitted bodies that no longer exist will be a drain on the fund for no benefit.</p> <p>However, with a regulatory requirement contained in the 2014 Regulations we will re-engage with the Actuary on this matter to meet this requirement.</p>	Head of Finance	31 March 2015

Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/14	<p><b>Governance</b></p> <p>The Scheme of Administration does not currently provide for a single committee or sub-committee with responsibility for the pension fund.</p> <p><b>Risk</b></p> <p>There are different interpretations of the responsibilities of Policy and Resources Committee, the Monitoring and Audit Sub-Committee, the Investments Sub-Committee and the Human Resources Sub-Committee over pension fund matters. As the membership of these committees does not fully overlap, it is unclear who the quasi-Trustees of the fund are in practice.</p> <p><b>Recommendation</b></p> <p>The council should revise the scheme of administration so that one sub-committee receives all reports, including audit reports, and makes all decisions in relation to pension fund matters.</p>	<p>The council will review the scheme of administration and delegation to consider the recommendation that one sub-committee receive all reports, including audit reports, and makes all decisions in relation to pension fund matters.</p> <p>In advance of the review the expectation from officers is that the Investment Sub Committee will be designated as the responsible sub-committee.</p>	Chief Executive	31 March 2015

Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/14	<p><b>Risk management</b></p> <p>The fund does not maintain its own risk register.</p> <p><b>Risk</b></p> <p>Members do not have the benefit of a high level summary of the risks the pension fund faces nor the control measures in place or planned.</p> <p><b>Recommendation</b></p> <p>A risk register for the fund should be developed and updated annually.</p>	<p>A Pension Fund risk register will be developed and reported to the appropriate committee (Investment Sub Committee)</p>	<p>Head of Finance</p>	<p>31 March 2015</p>

Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/14	<p><b>Computerisation</b></p> <p>The migration to the new computerised pension administration system is not yet complete.</p> <p><b>Risk</b></p> <p>The actuarial valuation for 2014 could be based on a mix of paper and computerised records which could result in errors/omissions in the next valuation.</p> <p><b>Recommendation</b></p> <p>Resources should be committed to ensure that the new system is fully populated in good time for the 2014 valuation.</p>	<p>The management priority is to complete the 2014 valuation process in time to have the new employer's contribution rate for the budget setting process for 2015/16. This will necessitate reliance being placed once more on mostly manual data records.</p> <p>The risk of error or omission will be the same as for previous valuation exercises.</p> <p>Additional staff resources are however being provided to the Pensions Team on a temporary basis from within the Finance Service when other workloads permit and a small additional resource has recently been provided on a permanent basis by redirecting a vacant part time post within the Finance service.</p>	Head of Finance	N/A

Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/14	<p><b>Workforce planning</b></p> <p>The pensions section is very small, consisting of only two people with relevant expertise.</p> <p><b>Risk</b></p> <p>With so few trained staff, the fund is exposed to the loss or unavailability of staff members.</p> <p><b>Recommendation</b></p> <p>The fund’s administration strategy should encompass arrangements to ensure resilience.</p>	<p>An administration strategy will be developed that considers the risk identified and the increasing workload that will be required with the new regulatory regime coming into force from 2015.</p> <p>Additional staff resources are however being provided to the Pensions Team on a temporary basis from within the Finance Service when other workloads permit and a small additional resource has recently been provided on a permanent basis by redirecting a vacant part time post within the Finance service.</p>	Head of Finance	April 2015

Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/18	<p><b>Performance monitoring</b></p> <p>Administration performance is sensitive to changes in workload. Due to the actuarial review, system changes and the new pension regulations, the workload remains very challenging.</p> <p><b>Risk</b></p> <p>There may be insufficient resources to fulfil objectives and statutory duties.</p> <p><b>Recommendation</b></p> <p>The governing committee of the fund should obtain regular updates on administration performance and use these to ensure workload risks are mitigated.</p>	<p>Performance reporting of pension matters and administration is recognised by management as an area that requires to be developed and was one of the factors influencing the decision to invest in the new pension software which will be able to provide much of the information for reporting.</p> <p>A performance report will be developed for regular reporting to the appropriate committee (Investment Sub committee)</p>	Head of Finance	April 2015 or on full implementation of the Pension System.

## Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
7/18	<p>National Performance reports</p> <p>The fund does not regularly report findings from our national performance reports to the governance committee</p> <p>Risk</p> <p>Areas of good practice to reduce risk and tighten controls are not appropriately reflected within the fund.</p> <p>Recommendation</p> <p>National performance reports relevant to the pension fund should be considered by the governance committee to ensure any relevant issues are addressed.</p>	<p>National performance reports relevant to the pension fund have in the past been reported to other Council committees. Management will in future seek to identify those reports that are relevant to the pension fund and report these to the Council committee with responsibility for pension governance matters.</p>	Head of Finance	Immediate

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<sup>i</sup> The Local Government Pension Scheme (Scotland) Regulations 2014 Scottish Statutory Instruments 2014 No. 164  
<http://www.legislation.gov.uk/ssi/2014/164/contents/made>