



## **Shetland Islands Council Pension Fund**

### Annual report on the 2013/14 audit

Prepared for the members of Shetland Islands  
Council as administering body for Shetland  
Islands Council Pension Fund and the Controller  
of Audit

October 2014



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## Key messages

### Financial statements

- We have given an unqualified opinion on the financial statements of Shetland Islands Council Pension Fund for 2013/14.

### Financial position

- The Fund had net assets of £333 million as at 31 March 2014. The actuarial value of promised retirement benefits at the accounting date has been estimated by the actuary as £478 million, giving a net liability of £145 million as at 31 March 2014.

### Governance & accountability

- The Shetland Islands Council Pensions Fund has governance arrangements that include a Pensions Fund Consultative Panel which is advised by relevant officers of the council as appropriate.

### Best Value, use of resources & performance

- Investment returns were slightly below the benchmark target for 2013/14 and the 3 and 5 year benchmarks.

### Outlook

- The uncertainty in the global financial markets and the consequent effect on the stock market means that the pension fund will require to remain vigilant and continue to assess the risk exposure.
- New governance arrangements come into force on 1 April 2015 as a result of the Public Services Pensions Act 2013.
- The administration of a career average scheme and auto-enrolment for staff may mean changes to the pension fund's processes.

### Financial Statements

1. We have given an unqualified audit opinion that the financial statements of Shetland Islands Council Pension Fund for 2013/14 give a true and fair view of the state of the financial transactions of the fund during the year ended 31 March 2014 and of the amount and disposition at that date of their assets and liabilities.

### Financial position

2. The Fund had net assets of £333 million as at 31 March 2014. The actuarial value of promised retirement benefits at the accounting date has been estimated by the actuary as £478 million, giving a net liability of £145 million as at 31 March 2014 (£126 million as at 31 March 2013).

### Funding position

3. The most recent triennial valuation 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 represented an improved position from the previous triennial valuation that reported a funding position of 88% (a funding shortfall of £26 million).
4. However, the interim funding position disclosed in the accounts at 31 March 2014 is somewhat weaker with funds falling to

70% of estimated future benefits, reflecting volatility in the stock markets.

5. The triennial valuation at 31 March 2014 which will set the employer contribution rates for the next three years starting from 1 April 2015 will be reported in February 2015.
6. The Public Services Pensions Act 2013 will introduce changes to ensure the sustainability of the Local Government Pension Scheme. Notably, the 'employer cost cap' will move some of the risk of future rises in scheme costs away from the Fund and onto members.

### Governance and accountability

7. The Shetland Islands Council Pension Fund has governance arrangements which include a Pensions Fund Consultative Panel advised by relevant officers of the council as appropriate. The Panel meets approximately twice per year.
8. Our audit work indicates that the Pension Fund has adequate internal controls and satisfactory arrangements for the prevention and detection of fraud and corruption.

### Best Value and performance

9. 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 2014, the Fund had

## Key Messages

a return of 6.5%, a shortfall of 0.2% on the Fund's benchmark return of 6.7%.

## Outlook

10. Global financial markets in 2013/14 faced a combination of political tensions across the world, prospects of monetary policy tightening in the US and a loss of economic momentum in some emerging economies. With investment performance key to the funding position of the Local Government Pension Scheme, this may impact on employer contributions in the longer term.
11. The Public Services Pensions Act 2013 passed by the UK parliament will mean changes to the way Local Government Pension Funds operate and pension benefits are accrued by members. Changes to meet the new Act are required to be implemented by 6 April 2015.

# Introduction

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12. This report is a summary of our findings arising from the 2013/14 audit of the Shetland 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 Shetland 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 Shetland 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 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.
16. This report will be published on our website after it has been considered by those charged with governance. 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. Local reports and relevant national reports are summarised at Appendix I. 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 Shetland 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 sources of assurance 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 each risk in arriving at our opinion on the financial statements.

## Introduction

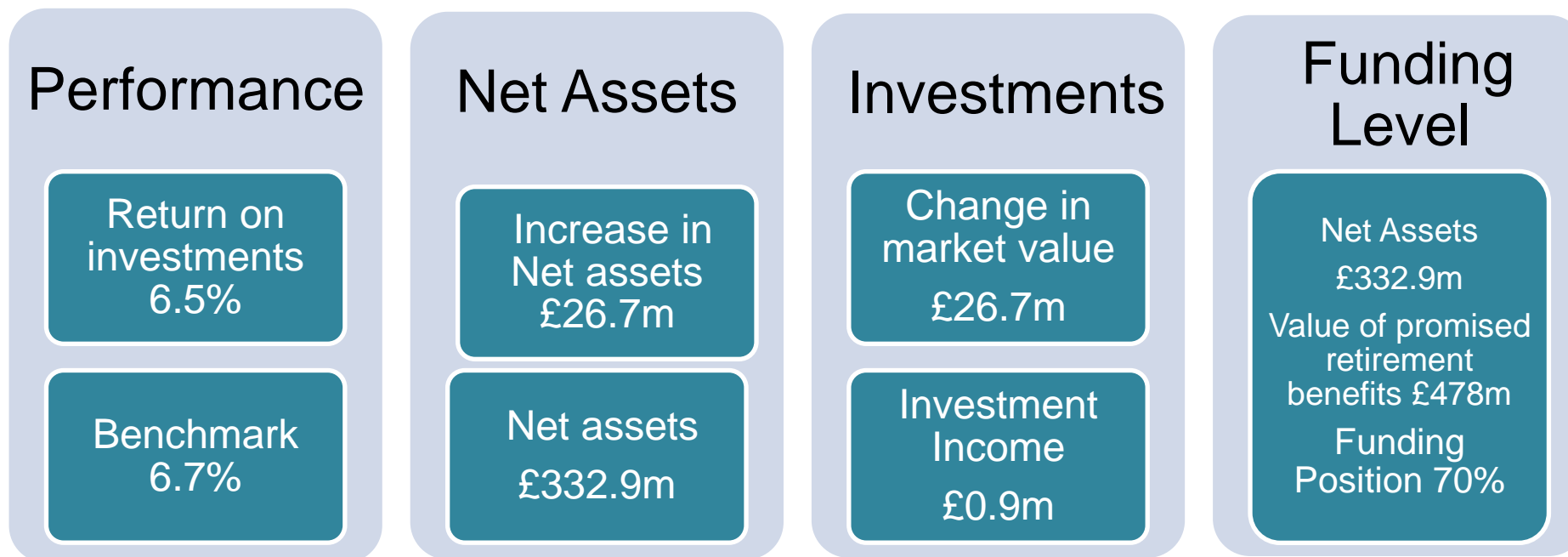
19. Appendix III is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".
20. We recognise that not all risks can be eliminated or even minimised. What is important is that Shetland Islands Council Pension Fund understands its risks and has arrangements in place to manage these risks. The council 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.

## Acknowledgement

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

## Financial statements



### Audit opinion

23. We have given an unqualified opinion that the financial statements of Shetland Islands Council Pension Fund for 2013/14 give a true and fair view of the financial transactions of the fund during the year to 31 March 2014 and of the amount and disposition at that date of their assets and liabilities.

### Other information published with the financial statements

24. Auditors review and report on other information published with the financial statements, including the explanatory foreword and the annual governance compliance statement. We have nothing to report in respect of these statements.



### Legality

25. 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.

### Accounting issues arising

#### *Presentational and monetary adjustments*

26. A number of presentational adjustments were identified during the course of the audit. These were discussed and agreed with management who agreed to amend the unaudited financial statements.
27. Local authority bodies in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 supported by International Financial Reporting Standards (IFRS). We concluded that the financial statements have been prepared in accordance with extant guidance.

### Report to those charged with governance

28. We presented our report to those charged with governance (ISA 260) to the council's Audit Committee on 23 September. 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. There were no significant issues identified from our audit.

### Outlook

29. The financial statements of the Fund are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards to be adopted in 2014/15 include:
- IFRS 13 Fair value measurement
  - IAS 32 Financial Instruments: Presentation
  - Annual improvements to IFRSs 2009-2011 cycle
30. The revised Local Authority Accounts (Scotland) Regulations 2014 apply to financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and the content of the annual accounts. The significant requirements in relation to the financial statements include:
- the requirement for the unaudited accounts to be considered by a governance committee. This can take

## Financial Statements

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 a governance committee by 30 September with publication on the administering authority's website by 31 October.

31. The Pension Fund should ensure that arrangements are put in place to comply with the requirements of the revised Local Authority Accounts (Scotland) Regulations 2014.

**Refer to action plan point no.1**

## Financial position

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32. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
33. 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.
34. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the Fund.

## Financial results

### *Budgetary control*

35. The pension fund prepared an annual budget for the first time in 2013/14. A mid-year review is reported to the council's

Policy & Resources Committee and the Pension Fund Consultative Panel to monitor the financial performance of the Pension Fund to ensure that expenditure incurred and income generated has been delivered within the approved budget.

### *Financial position*

36. The overall position at 31 March 2014 is that the fund has net assets of £333 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 Note 18 to the Accounts. When taking into account these obligations (£478 million) the overall funding position of the fund is 70%.

### **Funding position**

37. The most recent triennial valuation was reported in January 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 86% (a funding shortfall of £26 million).
38. Since this time, the funding position has seen a significant downward movement. This is monitored on a regular basis as part of the administering authority's risk management

## Financial position

programme. The interim funding position as at 31 March 2014 has reduced to 70%, reflecting market volatility. This is an area of concern for the Fund and management should take appropriate action to address the reasons for the shortfall.

### Refer to action plan point no.2

39. The movement in valuations is summarised in Table 1 below, updated with fund values as determined by the actuary for the year ended March 2014:

**Table 1: Movement in valuations 2008 to 2014**

Fund Details	2008	2011	2014
	£ million	£million	£million
<b>Assets</b>	200	251	333
<b>Liabilities</b>	(226)	(276)	(478)
<b>Net Liability</b>	(26)	(25)	(145)
<b>Funding Level</b>	86%	91%	70%

Source: actuary's valuations at 31 March 2014

40. The actuarial value of promised retirement benefits at the accounting date has been estimated by the fund actuary as £478 million (2012/13 £432 million), giving a net liability of £145 million as at 31 March 2014 (2012/13 £126 million). There has been a significant increase in the net liability year on

year since the last triennial valuation in 2011 and this is mainly attributed to the reduction in the real discount rate (the nominal discount rate net of inflation) and real bond yields, which have fallen considerably.

41. The Public Services Pensions Act 2013 is designed to ensure the continued sustainability of the Local Government Pension Scheme. In particular, the employer cost cap measures will move some of the risk of the future rises in scheme costs from the Fund onto members.
42. 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.

## Outlook

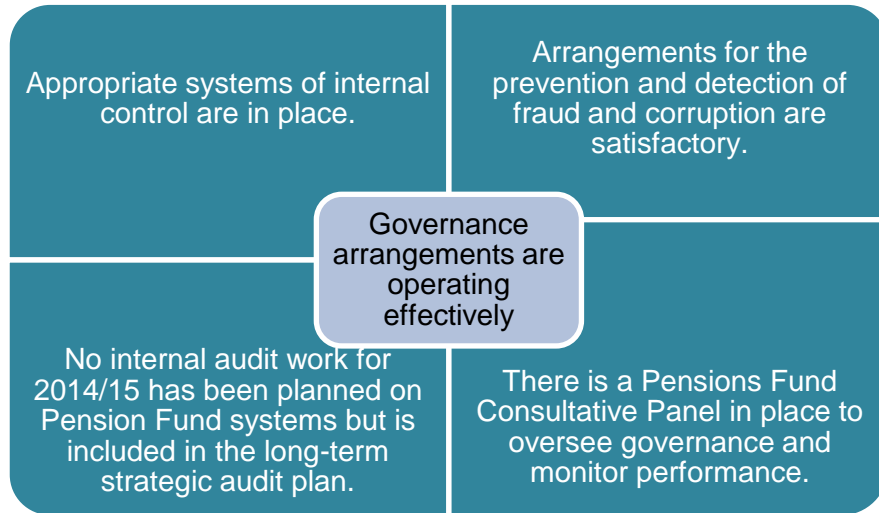
43. Looking ahead, it is clear that the outlook for public spending remains very challenging as significant budget reductions are required in future years. Spending constraints are set to continue and pressures on the fund will increase as scheduled and admitted bodies seek to deliver efficiencies through reductions in staffing levels.
44. Pension Fund membership increased during the financial year from 5,557 to 5,805 and is likely to increase further as other employers progress through the auto-enrolment process. This is an area for management to monitor closely to ensure the

## Financial position

fund remains sustainable.

45. The volatility in the global financial markets makes it important for pension funds to have a wide range of investment vehicles including hedging against currency fluctuations. The Pension fund will have to remain vigilant and ensure the risk exposure is at an acceptable level.

# 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 Shetland Islands Council Pension Fund and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

47. Shetland Island Council, as the administering authority for the

Pension Fund, manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008. There is a Pension Fund Consultative Panel and the Policy and Resources Committee of the council has an overview of the activities of the fund.

48. Based on our observations and audit work, our overall conclusion is that the governance arrangements within Shetland Islands Council Pension Fund are operating effectively. The fund should continue to monitor arrangements to ensure compliance with legislation.

## Governance processes and committees

49. Shetland Islands Council acts as the administering authority for the Pension Fund. It is responsible for managing and administering the scheme for scheduled and admitted bodies.
50. The current arrangements are that all pension fund issues are reviewed by the full council. The Policy and Resources Committee has the responsibility of reviewing the performance of the pension fund. In addition, there is 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 fund.
51. The Pension Fund commissioned Hymans Robertson, as investment adviser to the Fund, to conduct a review of its investment strategy. A new investment strategy was recently

## Governance and accountability

approved by the Fund with the aim of achieving a fully funded pension scheme by 2027. As a result of the new investment strategy, a number of changes are to be made to the fund manager and investment structure to achieve better returns on investments whilst reducing risk. The Pension Fund will need to ensure that all changes to fund manager and investment structure comply with the new investment strategy and The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

### Refer to action plan point no.3

52. The Pension Fund will require to review its governance arrangements as a result of the Public Services Pensions Act 2013. The Act requires, at a national level, the establishment of a Scheme Advisory Board to provide advice and guidance with regard to the management and administration of the Local Government Pension Scheme. In addition, with the introduction of career average pensions, there will be a requirement to maintain pension records for each individual which will lead to an increased administrative workload for the pensions section.
53. At a local level, the Act requires a Scheme Manager and the establishment of a Pensions Board (from 1 April 2015) to support the manager. The Pensions Board must contain an equal number of employer and member representatives.

54. In addition, a Heads of Agreement on governance matters has been concluded between COSLA and the trade unions. However, the statutory regulations underpinning the new governance requirements will not be available until early 2015. This tight deadline presents a number of challenges to the pension fund and there is a risk that the Fund will not have appropriate arrangements in place by 1 April 2015.

### Refer to action plan point no.4

## Governance Compliance Statement

55. Pensions administration regulations require an administering authority to prepare and publish a governance compliance statement to measure the pension fund's governance arrangements against the standards set out in the guidance issued by Scottish Ministers. Having reviewed the governance compliance statement in the 2013/14 financial statements, we are satisfied that it complies with the guidance issued by the Scottish Ministers.
56. 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.

## Internal control

57. 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.
58. 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.
59. Shetland Islands Council acts as the Administering Authority, responsible for managing and administering the scheme for scheduled and admitted bodies. The Council plans to update its General Ledger system in 2014/15. Currently a number of reconciliations between the General Ledger System and the Pension Fund are performed. It is important that these controls are maintained and that the new system is tested prior to introduction.

**Refer to action plan point no.5**

60. In our 2012/13 audit report, we raised an action point highlighting that the internal controls reports provided by the external auditors of the Investment Managers and the Custodian are not reviewed. This action point is still to be addressed and there is a risk that weaknesses already

identified by the auditors of the Investment Managers may not be addressed by the fund. We will continue to monitor progress in this area.

**Refer to action plan point no.6**

## Internal audit

61. 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 the work of internal audit in terms of ISA 610 and concluded that they operated in accordance with the Public Sector Internal Audit Standards.

## Arrangements for the prevention and detection of fraud

62. The Shetland Islands Council Pension Fund complies with the relevant fraud and irregularity policies of Shetland Islands Council and these have been reviewed as part of the council wide audit. 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.
63. Shetland Islands Council as the administering authority for the pension fund participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare



## Governance and accountability

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.

64. 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 officers are proactive in investigating data matches. No areas of fraud were identified in 2013/14.

## Outlook

65. There are a number of challenges for the Fund including the revised governance arrangements as a result of the Local Authority Accounts (Scotland) Regulations 2014 and the Public Services Pensions Act 2013. In addition, the move to pensions on a career average basis may have significant implications for the Fund in relation to the transition to and administration of a new scheme, as well as impacts on the Fund's assets, liabilities and future funding requirements.
66. The revised Local Authority Accounts (Scotland) Regulations 2014 apply to financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and the content of the annual accounts. The significant requirements in relation to governance include:

- the regulations require an annual review of the effectiveness of a local authority's system of internal control. The findings of that review are to be considered at a meeting of elected members.
- the regulations require a local authority to assess the efficiency and effectiveness of internal audit.

67. The Pension Fund should ensure that arrangements are put in place to comply with the requirements of the revised Local Authority Accounts (Scotland) Regulations 2014.

**Refer to action plan point no.1**

68. Auto-enrolment of employees is now being implemented by 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 2014/15.
69. Preparations are required for the introduction of career average pensions. There will be a requirement to maintain pension records for each individual bringing together a range of entitlements arising from benefits built up under different pension regimes. This will not only increase administrative workload initially, but may also generate more queries and enquiries from fund members seeking clarification on their

## Governance and accountability

benefits on an ongoing basis.

70. It is important, that the training needs of members are kept under review during this period of significant pension reform to ensure that the key developments and their potential impact are understood and that members continue to be able to exercise their scrutiny role effectively.

# Best value, performance and use of resources

## Best Value

71. 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.

## Performance

### Investment Performance

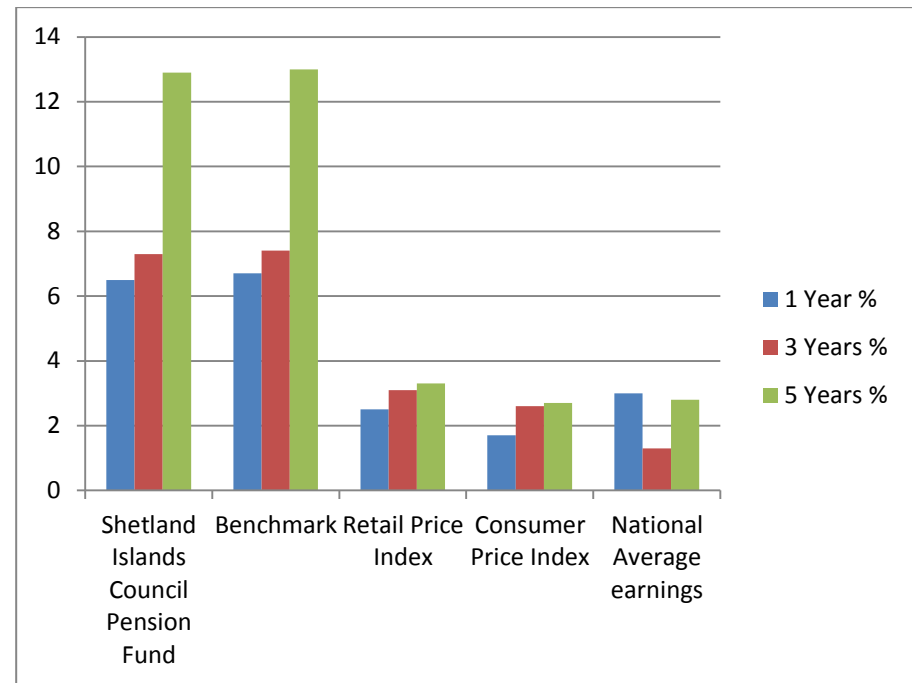
72. The main mechanism for measuring investment performance is through an analysis of the returns achieved by each of the fund's external fund managers. The manager's performance, in terms of achieving benchmarks, is subject to independent verification by an independent investment adviser (WM Company). Mid year and year end performance is reported to the Policy & Resources Committee and the Pension Fund Consultative Panel.

73. 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. Investment returns of Shetland Islands Council Pension Fund were slightly

below the benchmark target for 2013/14 and the 3 and 5 year benchmarks.

74. Recent investment performance of the Fund is highlighted in table 2 below:

**Table 2: Investment Performance**



Source: Shetland Islands Council Pension Fund Annual Report & Accounts 2013/14

75. The table shows that over a period of one, three and five years,

## Best value, use of resources and performance

the pension fund has outperformed National Average Earnings, the Consumer Price index and the Retail Price Index. However, as stated earlier the Fund is slightly below the benchmark target for 2013/14 and is still slightly below the 3 and 5 year benchmarks. Fund manager performance should continue to be closely monitored in the future to help ensure that benchmark returns are achieved.

Auditor General for Scotland. Reports in the last year of direct interest are included in Appendix 1 along with locally produced audit reports.

## *Administration performance*

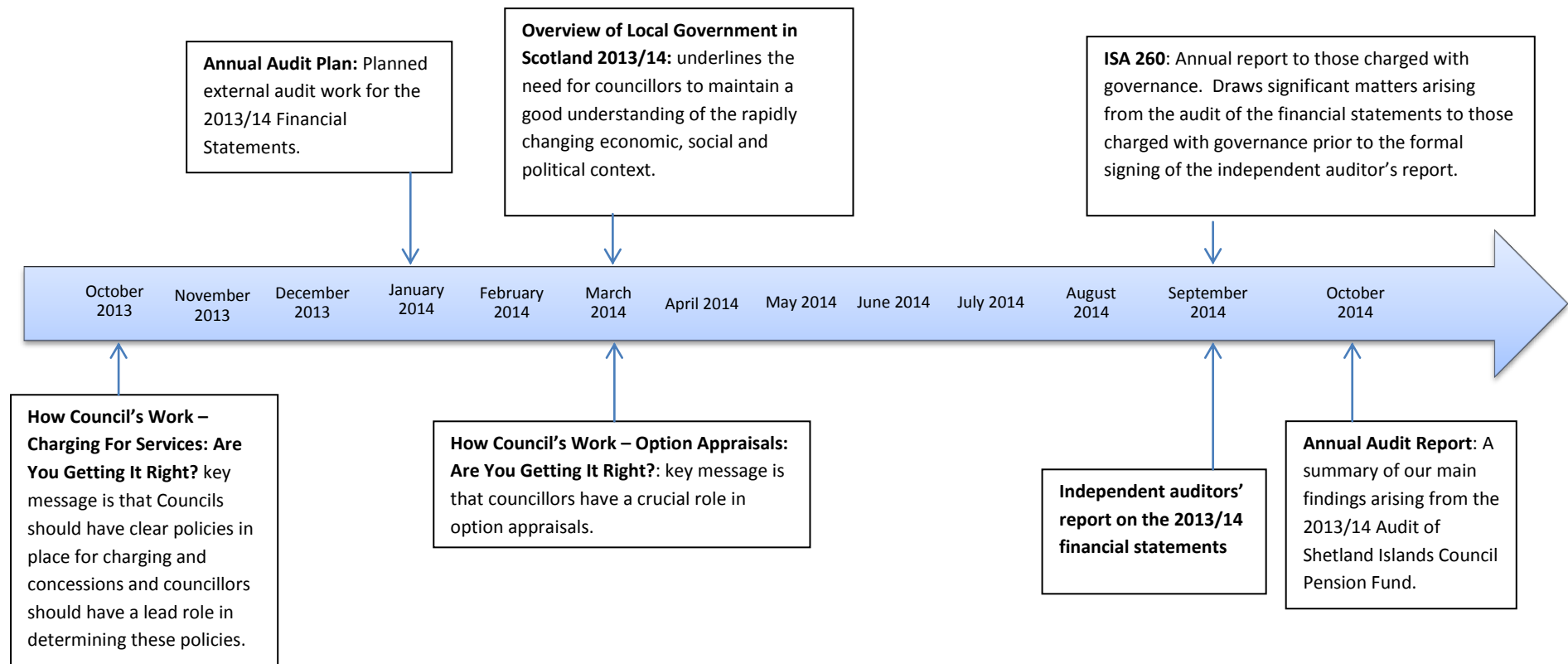
76. An administrative strategy was approved by the Pension Fund Consultative Panel and the Council's Executive Committee in January 2012.
77. In our 2011/12 audit report, we raised an action point highlighting that service standards had been developed by the Pensions Section to monitor administrative performance and that there were plans to report these in 2012/13. However, these service standards are still not reported to committee and there is a risk that those charged with governance are not made aware of performance against service targets.

**Refer to action plan point no.7**

## National Performance reports

78. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the

## Appendix I – Shetland Islands Council Pension Fund local audit and National 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
<b>Investment Performance</b>	
<p><b>Investment Strategy</b></p> <p>In the absence of a more focussed strategy, there is a risk that the pension fund may not achieve the required returns on investments and reach full funding before the fund reaches maturity.</p>	<ul style="list-style-type: none"> <li>• Monitored progress throughout the year.</li> <li>• Reviewed minutes.</li> <li>• Reviewed updated Investment Strategy implemented on the 26<sup>th</sup> March 2014.</li> </ul>
<p><b>Internal Controls</b></p> <p>There is a risk that appropriate action is not taken by management to address any weaknesses identified in the control systems of the pension fund investment managers.</p>	<ul style="list-style-type: none"> <li>• Monitored progress throughout the year.</li> <li>• Internal controls reports of independent service auditors are still not submitted to the Policy &amp; Resources Committee or the Pension Fund Consultative Panel.</li> </ul>
<b>Pension Fund Administration</b>	
<p><b>Non-compliance with legislation</b></p> <p>There is a risk that management and investment regulations for permitted investments are not monitored on</p>	<ul style="list-style-type: none"> <li>• Monitored progress throughout the year.</li> <li>• Updated Investment Strategy outlines new proposed investments.</li> </ul>

## Appendix II – Significant audit risks

Audit Risk	Assurance procedure
<p>an on-going basis and investments are not held in accordance with legislation.</p>	
<p><b>Public Service Pension Reform</b></p>	
<p><b>Pension Reform – Administration</b></p> <p>There is a risk that the pension fund may not prepare for and implement the required changes to comply with the Public Pensions Services Act.</p>	<ul style="list-style-type: none"> <li>• Monitored progress throughout the year.</li> <li>• Reviewed administration arrangements through monitoring of reports and minutes of committee meetings.</li> </ul>
<p><b>Pension Reform – Governance</b></p> <p>There is a risk that the governance arrangements of the pension fund do not comply with the changes introduced by the Public Services Pensions Act 2013.</p>	<ul style="list-style-type: none"> <li>• Monitored progress throughout the year.</li> <li>• Reviewed governance arrangements through monitoring of reports and minutes of committee meetings.</li> </ul>
<p><b>Pension Reform – Governance</b></p> <p>There is a risk that members will not be able to perform the scrutiny function effectively without appropriate training for the changes brought about by the Public Services Pensions Act 2013.</p>	<ul style="list-style-type: none"> <li>• Monitored progress throughout the year.</li> <li>• Reviewed governance arrangements through monitoring of reports and minutes of committee meetings.</li> </ul>

## Appendix III – Action plan

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/31 and 67	<p><b>Local Authority Accounts (Scotland) Regulations 2014 – Financial Statements</b></p> <p>The revised Local Authority Accounts (Scotland) Regulations 2014 requires a number of significant changes in respect of financial management, internal control and in the content of the financial statements.</p> <p><b>Risk</b></p> <p>The fund may not comply with legislation.</p> <p><b>Recommendation</b></p> <p>The Pension Fund should put arrangements in place to ensure compliance with legislation.</p>	<p>The Finance Service is aware of the changes that will be taking place as a result of the regulations and is providing necessary training and implementing necessary changes to ensure that the SIC Pension Fund is compliant with legislation.</p>	Section 95 Officer	31 March 2015



Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/38	<p><b>Funding Position</b></p> <p>The most recent triennial valuation reported in February 2012 highlighted that the fund had sufficient assets to meet 91% of its liabilities. However, the interim funding position as at 31 March 2014 has significantly fallen to 70% representing an area of concern for the fund.</p> <p><b>Risk</b></p> <p>The fund may not be able to meet all of its long term liabilities.</p> <p><b>Recommendation</b></p> <p>The Pension Fund should take appropriate action to address the reasons for the shortfall.</p>	<p>The Council approved a new Pensions Fund Investment Strategy in 2014 which is designed to ensure that the Pension Fund is 100% funded by the estimated time that it reaches maturity in 2027. This has meant the Pension Fund taking a more active management approach towards its investment portfolio, requiring new Fund Managers. The Pension Fund is currently going through a procurement exercise to award 3 new Investment Mandates which should be concluded in November 2014, with funds transferred to the new managers before the end of 2014.</p> <p>The new strategy will be monitored each year to ensure the investments are generating the expected returns.</p> <p>With regard to scheme liabilities, there is little that the Council can do as it does not have control over pension benefits. However, it is hoped that the new LGPS coming in from April 2015 will help to ensure that the scheme remains affordable for its member bodies.</p>	Section 95 Officer	31 December 2014

Appendix III – Action plan

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/51	<p><b>Investment Strategy</b></p> <p>A new investment strategy was recently approved by the Fund with the aim of achieving a fully funded pension scheme by 2027. As a result of the new investment strategy, a number of changes are to be made to the fund manager and investment structure to achieve better returns on investments whilst reducing risk.</p> <p><b>Risk</b></p> <p>The fund may not comply with legislation.</p> <p><b>Recommendation</b></p> <p>The Pension Fund should put arrangements in place to ensure compliance with the new investment strategy and The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.</p>	<p>As part of the investment strategy review, due consideration was given to the 2010 regulations.</p> <p>The new arrangements will be in place by the end of December 2014 to ensure that the funds are invested in line with the agreed strategy.</p> <p>This position will be maintained into the future as net contributions are added to the funds in the years up to 2027.</p>	Section 95 Officer	31 December 2014

Appendix III – Action plan

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/54	<p><b>Public Services Pension Act 2013</b></p> <p>The Public Service Pensions Act 2013 requires changes to public service pensions in line with the Government’s objectives and the recommendations of the Independent Public Service Pensions Commission.</p> <p><b>Risk</b></p> <p>There is a risk that the pension fund may not comply with the Public Services Pensions Act 2013.</p> <p><b>Recommendation</b></p> <p>The Pension Fund should put arrangements in place to ensure compliance with legislation.</p>	<p>The relevant staff have attended national meetings and training courses to ensure that there is a local understanding of the changes that are coming into place from April 2015.</p> <p>Arrangements are currently being put in place to ensure that IT Systems will be able to meet the requirements of the new CARE scheme, and then ensuring that existing data is successfully migrated to the new system.</p> <p>This work is being managed through a project which has a timetable in place to ensure that the new arrangements are in place for April 2015.</p>	Section 95 Officer	31 March 2015

Appendix III – Action plan

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/59	<p><b>General Ledger System</b></p> <p>The General Ledger system of Shetland Islands Council who acts as the Administering Authority for the pension fund is to be updated during 2014/15. Currently a number of reconciliations between the General Ledger System and the Pension Fund are required to be performed. The updating may have an adverse impact on the Pension Fund if internal controls are not maintained and tested prior to the system update.</p> <p><b>Risk</b></p> <p>There is a risk of accounting mis-statement or financial loss for the Pension Fund if internal controls are not robust.</p> <p><b>Recommendation</b></p> <p>Changes to the General Ledger system should be tested to ensure that there is no adverse impact on the financial controls.</p>	<p>The Finance Service's in-house Systems Officer will ensure that any changes to the General Ledger System do not negatively impact upon the internal controls of the Pensions Fund.</p>	Section 95 Officer	31 March 2015

Appendix III – Action plan

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/60	<p><b>Investment Assurances</b></p> <p>The internal controls reports provided by the external auditors of the Investment Managers and the Custodian are not being reviewed.</p> <p><b>Risk</b></p> <p>There is a risk that weaknesses may not be identified and that appropriate action is not taken.</p> <p><b>Recommendation</b></p> <p>All reports should be reviewed and reported to committee with appropriate action taken to address any weaknesses.</p>	<p>These reports will be reviewed and reported to the appropriate committee as they become available with immediate effect.</p>	Section 95 Officer	31 March 2015

Appendix III – Action plan

Action plan point/para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
7/77	<p><b>Administrative Performance</b></p> <p>Service standards for administrative performance are not reported to those charged with governance.</p> <p><b>Risk</b></p> <p>There is a risk that corrective action is not put in place to address areas of weakness in administrative performance.</p> <p><b>Recommendation</b></p> <p>The Pension Fund should put arrangements in place to ensure that administrative performance is reported to the appropriate committee.</p>	<p>Appropriate arrangements will be developed for the 2014-15 Annual Performance Review of the Pension Fund and included in that report.</p>	Section 95 Officer	31 March 2015