

Shetland Islands Council Pension Fund

2015/16 Annual audit
report to Members and
the Controller of Audit

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed David McConnell as the external auditor of Shetland Islands Council Pension Fund for the period 2011/12 to 2015/16.

This report has been prepared for the use of Shetland Islands Council as pension fund administrator and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

Audit of financial statements

- An unqualified auditor's report has been issued on the 2015/16 financial statements.
- No adjustments were required to the Fund's financial statements.

Financial management and sustainability

- Net assets of the scheme increased by £8m (2.1%) to £375.7m.
- The fund has an investment strategy to achieve a fully funded position by 2027.
- The annual actuarial statement projects that funding levels will have decreased and deficits increased in the period since the 2014 valuation.
- The fund currently receives more in contributions from employers and members than it pays in benefits to pensioners.
- Income and expenditure in the year were £3.9m and £3.3m higher than had been budgeted.
- The fund's budgetary arrangements have been revised for 2016/17 and we conclude that satisfactory financial management arrangements are in place.

Governance and transparency

- The fund has coped well with the introduction of new governance arrangements which arise from LGPS 2015.
- The pension board was established in May 2015 and meets concurrently with the pension fund committee.
- Systems of internal control operated effectively throughout the year.
- Training of councillors and board members will continue to play an important role in ensuring effective governance going forward.
- Arrangements for the prevention and detection of fraud and corruption are satisfactory.
- Arrangements are in place for all stakeholders to access Committee and Board papers, but can be improved.



Best Value

- The fund achieved a return on investments of 1% against a target of 2%.
- 2015/16 represented the first full year of investments being managed by 5 fund managers in accordance with the revised investment strategy.
- Investment management costs have risen as a result of the revised investment strategy.
- The fund has received positive feedback from both Member and Employer Satisfaction Survey's carried out in the year.



Outlook

- The aftermath of the UK vote to leave the EU has led to volatility in the markets. The global investment outlook remains uncertain. A period of on-going uncertainty will increase the challenge for investment strategy and performance.
- Investment performance and scheme management costs are likely to come under increasing scrutiny and Scottish Ministers have already expressed an interest in the views of the national Scheme Advisory Board on fund structure and asset pooling. The Scheme Advisory Board have convened a working group with a view to producing an options paper in December 2016.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Shetland Islands Council Pension Fund (the Pension Fund). The report is divided into sections which reflect our public sector audit model.
2. The management of Shetland Islands Council (the council) as administering body, 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.
3. Our responsibility, as the external auditor of Shetland Islands Council Pension Fund, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. Appendix I lists the audit risks that we identified in our planning of the audit, and reported in the annual audit plan issued in March 2016.
6. Appendix II is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". 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 pension fund committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Shetland Islands Council Pension Fund will be Deloitte. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none">We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none">The financial statements of the Pension Fund have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the pension fund's ability to continue as a going concern.
Annual report & other information	<ul style="list-style-type: none">We review the annual report and information published with the financial statements, including the management commentary, investment policy and performance report, and annual governance statement. We have nothing to report as a result of our review.

Submission of financial statements for audit

10. We received the unaudited financial statements on 27 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 1 March 2016.

12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. 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 and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#)

sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Shetland Islands Council Pension Fund we set our planning materiality for 2015/16 at £1.68million (10% of contributions).

18. Performance materiality was calculated at £1.18 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. We report all errors greater than £17,000.
19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and reduced performance materiality to £1.16m.

Evaluation of misstatements

20. No significant misstatements were identified during the audit.
21. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

Significant findings from the audit

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.

- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
23. There are no matters, other than those set out elsewhere in this report, to which we wish to draw to your attention.

Future accounting and auditing developments

Code of Audit Practice

24. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Financial sustainability
 - Financial management
 - Governance and transparency; and
 - Value for money
25. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website. This is irrespective of whether the body meets in public or makes documents such as Audit Committee papers routinely available on its own website.

Code of Practice on Local Authority Accounting

26. The financial statements of pension funds are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. There are amendments to the Code in respect of:
- Amendments to the format of the accounts to be consistent with the new Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015.
 - New disclosure requirements for investments measured at fair value.
 - Recommendations for a new disclosure on investment management transaction costs.

Financial management and sustainability



Financial management

27. In this section we comment on the Pension Fund's financial outcomes and assess financial management arrangements.
28. Pension fund finances are independently assessed every three years by the Pension Fund actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming 3 year period and takes account of the strength of employer covenants and the Pension Fund's investment strategy.
29. In 2014 the Pension Fund actuary reported that the Pension Fund's assets were sufficient to meet 92% of its liabilities. The next evaluation will be completed in 2017.
30. Setting the Pension Fund's investment strategy and monitoring performance against it are key aspects of financial management.

Investment strategy is a complex area and has to take account of factors such as the overall fund deficit, cash flows from dealing with members and the maturity of fund membership. Balancing the risks and rewards from various asset types and approaches is something that the Pension Fund takes advice on from professional advisors.

Financial outcomes

31. The Pension Fund increased its net assets by £7.9m in the year, to £375.7m. This increase is significantly less than the £34.9m increase reported in 2014/15, and mainly reflects a much more modest increase in the market value of investments in the year.
32. Profits and losses on disposal of investments and changes in market value of investments reduced from a return of £30.0m in 2014/15 to £1.6m in 2015/16. This increase was supported by investment income of £2.9m across the 5 funds, and a combined net return on investments of £4.5m.
33. An excess of contributions from members over benefits payable in the year contributed an additional £3.3m to the Pension Fund's net assets.
34. Investment strategies at different funds can be said to be broadly similar but there are differences in asset allocations, fund manager approaches and ultimately risk. Pension funds set a benchmark locally for investment return based on the risk associated with their strategy and Shetland Islands Council Pension Fund missed its benchmark for the year by 1%.

Financial management arrangements

35. As auditors, we need to consider whether the pension fund has established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the proper officer and fund manager have sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and adhered to
 - reports monitoring performance against budgets are accurate and provided regularly to members
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge on significant variances and under performance.
36. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government".
37. Our review noted that the proper officer (the Executive Manager – Finance) has sufficient status to deliver good financial management of the Pension Fund.
38. We also concluded that the Pension Fund complies with the statement's five principles
39. The financial regulations of the administering authority apply to the Pension Fund. These should be reviewed by the pension fund committee as part of its review of internal financial control

arrangements. We note that the Financial Regulations have not been updated for several years but updated regulations are being considered for approval in November 2016.

- 40. Investment and administration performance reports are submitted to the pension fund committee on a quarterly basis. Reports are comprehensive and we have observed a good level of review and scrutiny by councillors and board members at the meetings we attended.
- 41. Fund managers are invited to attend meetings of the pension fund committee which provide board members the opportunity to scrutinise the investment strategies adopted by the fund managers on their behalf, and to assess returns against benchmarks.

Budget setting

- 42. Total income and total expenditure of the Pension Fund were both considerably higher than had been budgeted.

The higher than budgeted expenditure is attributed to Death Benefits, Lump Sums and Transfers Out in the year. No budget was set for these costs, on account of their unpredictability. The unbudgeted income is attributed to additional employer contributions.

- 43. While we note that there is a degree of unpredictability due to the nature of pension fund activities, budgeting should attempt to reflect the most likely movements in to and out of the Pension Fund using historical data. No budget was set in 2015/16 for Death Benefits, Lump Sums and Transfers Out in the year, as noted above, or for

Transfers in. Transfers in to the Pension Fund from other pension funds in 2015/16 totalled £0.5m.

- 44. We have been advised that the 2016/17 budget setting process has taken into account these additional factors, following a detailed exercise assessing historical spend and assumptions.
- 45. Notwithstanding the unpredictable nature of some elements of the Pension Fund's income and expenditure, as noted above, Management should continue to review the revised budget setting process to ensure it provides the best estimates of income and expenditure of the Pension Fund.

Action Plan Point No. 1

Financial sustainability

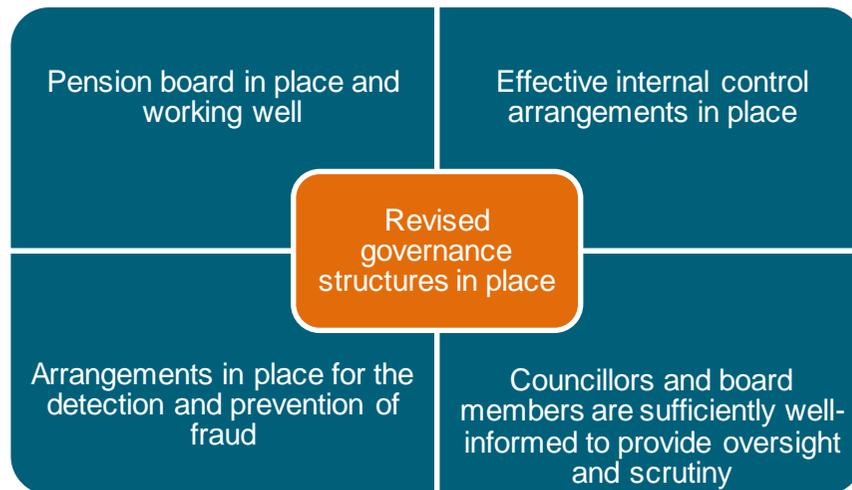
- 46. The pension fund is a multi-employer fund with 2 scheduled bodies and 15 admitted bodies. Given the nature of these employers the funding risk associated with default is seen as relatively low.
- 47. The pension fund did however recognise an impairment loss of £0.941m in the year, following the cessation of trade of one of the admitted bodies.
- 48. The new LGPS includes a cost sharing arrangement which will cap employer costs in relation to current service and help ensure that the scheme remains affordable for employers. Additionally, the retirement age for most LGPS members going forward is linked to the state retirement age and this may also act to limit scheme liabilities for active members.

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49. The pension fund is currently in a deficit position, with the 2014 triennial valuation assessing the Pension Fund as having assets to cover 92% of liabilities. The actuarial statement for 2015/16 refers to the dramatic fall in real bond yields, increasing the level of liabilities.
 50. The funding policy for the Pension fund is set out in the Shetland Islands Council Pension Fund Investment Strategy 2014-2027. This strategy aims to ensure the long-term solvency of the Pension Fund, and that there are sufficient funds to meet all benefits as they fall due for payment.

Outlook

51. The financial outlook across the public sector and in local government in particular remains challenging. Recent revisions to the LGPS should help ensure that the scheme is affordable to employers going forward whilst the scheme remains attractive to employees.
52. It is perhaps inevitable that management costs and investment performance will come under increasing scrutiny given the financial pressures faced by employers and employees alike. And pension funds may need to be more radical in their approaches to administration and investment going forward.

Governance and transparency



53. Members and management of the council, supported by the pension board, are responsible for establishing arrangements to ensure the proper conduct of the affairs of the Shetland Islands Council pension fund in accordance with the law and proper standards and for monitoring the adequacy and effectiveness of these arrangements.
54. As part of our work we reviewed various aspects of governance that apply to the Pension Fund including standing orders, financial regulations, Codes of Conduct for officers and members, anti-fraud

and corruption arrangements, and arrangements for reporting to the Pension Regulator on breaches of regulation.

55. Overall, we concluded that there are open and transparent arrangements in place, although as noted previously, financial regulations require to be updated.

Governance structure

56. The Public Service Pension Act 2013 introduced new governance arrangements for LGPS pension funds and from 1 April 2015 funds were required to introduce local pension boards. The remit of the Pension Board is to support the Pension Fund Committee in compliance with regulations and with requirements imposed by the Pension Regulator. Shetland Islands Pension Committee and Pension Board met concurrently throughout 2015-16.
57. The Pension Board consists of 4 employer representatives and 4 union representatives and each side appoints a joint secretary. Other attendees are at the discretion of the chair. The Pension Board made no requests to review decisions in 2015/16.

Pension Regulator public service code

58. The Pension Regulator issued a code on the governance and administration of public service pension schemes in January 2015. The pension fund has undertaken an in-depth / high level review against the code in 2015-16 and is compliant in all major respects.

Annual Governance Statement and Governance Compliance Statement

59. Local Government Pension Scheme Regulations require pension funds to include a governance compliance statement in addition to the Annual Governance Statement.
60. The governance compliance statement is designed to compare the Pension Funds' governance arrangements against the standards set out in the guidance issued by the Scottish Ministers. We reviewed the governance compliance statement and are satisfied that it complies with the guidance issued by the Scottish Ministers.

Internal control

61. The Accounts Regulations 2014 require the Pension committee to consider the findings of an annual review of the system of internal control and to approve the Annual Governance Statement for the pension fund.
62. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
63. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant

data so as to result in a material misstatement in the financial statements.

64. We note, however, that the council financial regulations have not been updated since 2012, and the scheme of administration and delegation contain outdated references. These should be revised to ensure that policies remain relevant for the pension fund.

Action Plan Point No. 2

Internal audit

65. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes for the Pension Fund.
66. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. We concluded that IA was provided in accordance with Public Sector Internal Audit Standards which enabled us to take assurance from their documentation and reporting procedures.
67. Internal Audit did not carry out any specific work on the Pension Fund during 2015/16. We have, however, taken assurance from the work carried out by internal audit in evaluating the internal controls in place at Shetland Islands Council, as the administering body. Specific work on the pension fund systems would give members additional assurance over risk management and governance

processes for the Pension Fund. This was raised as a recommendation in our 2014/15 report, and is repeated here.

Action Plan Point No. 3

ICT audit

68. Our ICT audit work during 2015/16 generally found that the ICT controls are satisfactory. We note that following the successful completion of a revision to the information backup process, the ICT department is planning an upgrade to their business continuity provision.

Standards of conduct and arrangements for the detection and prevention of fraud and corruption

69. A register of training for committee members is maintained by the Pension Fund. Our review noted that Pension Board and Pension Committee members had received appropriate training, with further training sessions scheduled.
70. The arrangements for the prevention and detection of corruption in the Pension Fund are satisfactory and we are not aware of any specific issues that we need to record.

Transparency

71. Information regarding the pension fund is published on the council's website. However, we have previously noted that information about the Pension Fund and its committee members are located in

different areas of the website, making navigation difficult for members. Shetland Islands Council intends to update the website during 2016/17 to improve navigation and transparency of information in relation to the Pension Fund.

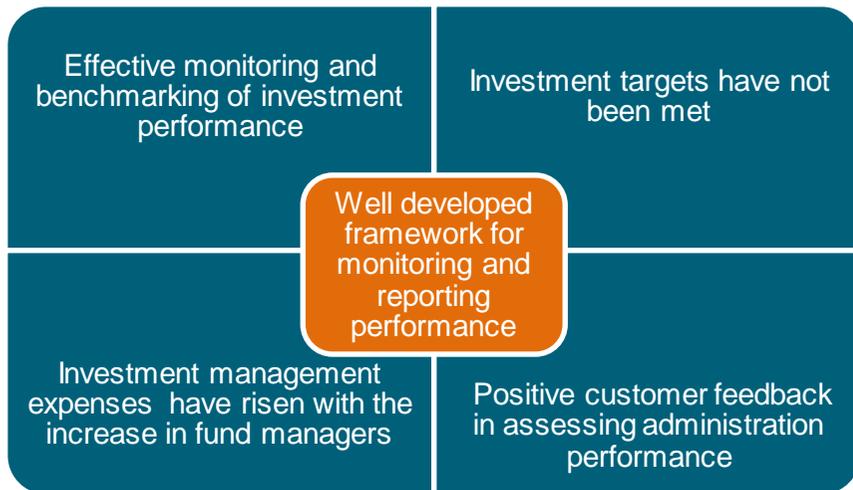
72. The annual report and accounts is comprehensive and helps ensure a good level of financial scrutiny and accountability. However more detail could be disclosed in relation to administration costs.

Outlook

73. The change to CARE and the introduction of new governance arrangements have been major changes for the pension fund which demand on-going investment in terms of governance and administration.
74. Changes to the state pension arrangements and the need for Guaranteed Minimum Pension reconciliations have also added to workloads.
75. Going forward the operation of cost sharing mechanisms may well increase levels of interest and scrutiny in pension fund business. We understand that the Government's Actuary Department (GAD) is currently undertaking a review in relation to cost sharing on behalf of Scottish Ministers.
76. There is a move towards the pooling of fund assets through collective investment vehicles south of the border and Scottish Ministers have already indicated that this is an area where the views

of the national Scheme Advisory Board may be requested in due course.

Best Value



- 77. Administering authorities have a duty to ensure best value in the provision of services and to report performance publicly so that pension fund members, employers and other stakeholders know the quality of service being delivered and what they can expect in the future.
- 78. Best value requires clear strategic goals and priorities and these are well developed and articulated for the pension fund.

Investment performance

- 79. As a result of adverse market conditions the Pension Fund's investments failed to meet its bench mark in 2015/16.
- 80. The pension fund has also failed to meet both the 3 and 5 Year Annualised benchmarks as illustrated below:

Exhibit 1: Fund Investment Performance

Description	2015/16 %	3 Year %	5 Year %
Fund Return	1.0	5.4	6.3
Benchmark	2.0	6.0	6.7
Performance	-1.0	-0.6	-0.4

Source: Shetland Islands Council Pension Fund 2015/16 financial statements

- 81. The pension fund's revised investment strategy was implemented in 2014, and 3 new fund managers were appointed. 2015/16 has been the first full year with the 5 fund managers in place. It is difficult to gauge the performance of fund managers over single years, and performance over the longer term is a more reliable benchmark of performance. The pension fund will be better placed to assess the returns of each fund in the coming years.
- 82. Individual investment manager performance is reported on a quarterly basis to the pension fund committee and the pension fund

makes use of professional investment advisors to help with a more comprehensive review of performance on an annual basis.

83. Scrutiny arrangements are in place within Shetlands Islands Council. Fund managers are invited to attend committee meetings and present reports on the performance of their investments. Fund managers are then challenged on the performance of their investments by members.

Management Expenses

84. There are three main categories of management expense, with the largest being investment management costs. Other significant expenses are the cost of staff time allocations and support services and system costs provided by the council.
85. In 2015/16 the investment management costs of the pension fund rose from £871k to £1,442k. 2015/16 is the first full year of accounts for which management fees have been charged for the additional 3 fund managers, and these account for the increased costs reported.
86. Quarterly reports received by members assess the performance of investments against benchmarks and targets. It will be important going forward for the pension fund to monitor investment management expenses to ensure that the additional expenditure is providing value to the Pension Fund through improved investment returns.

Action Plan Point No. 4

Administrative performance

87. The Pension Fund again reports high levels of member satisfaction and good performance against administrative targets during this difficult period. 71% of retiring members completing a customer satisfaction summary rated the customer care provided as excellent. Two thirds of employers also rated the Pension Fund's administrative performance as excellent, with the remaining third rating it as good.

Outlook

88. With financial austerity within the public sector set to continue and increased pressure from employers to keep costs and contributions down makes it imperative for funds to be able to demonstrate best value and continued improvement. Just as councils themselves are having to look to new models of service deliver so pension funds may need to reconsider the costs and benefits of, for example, shared services and asset pooling..

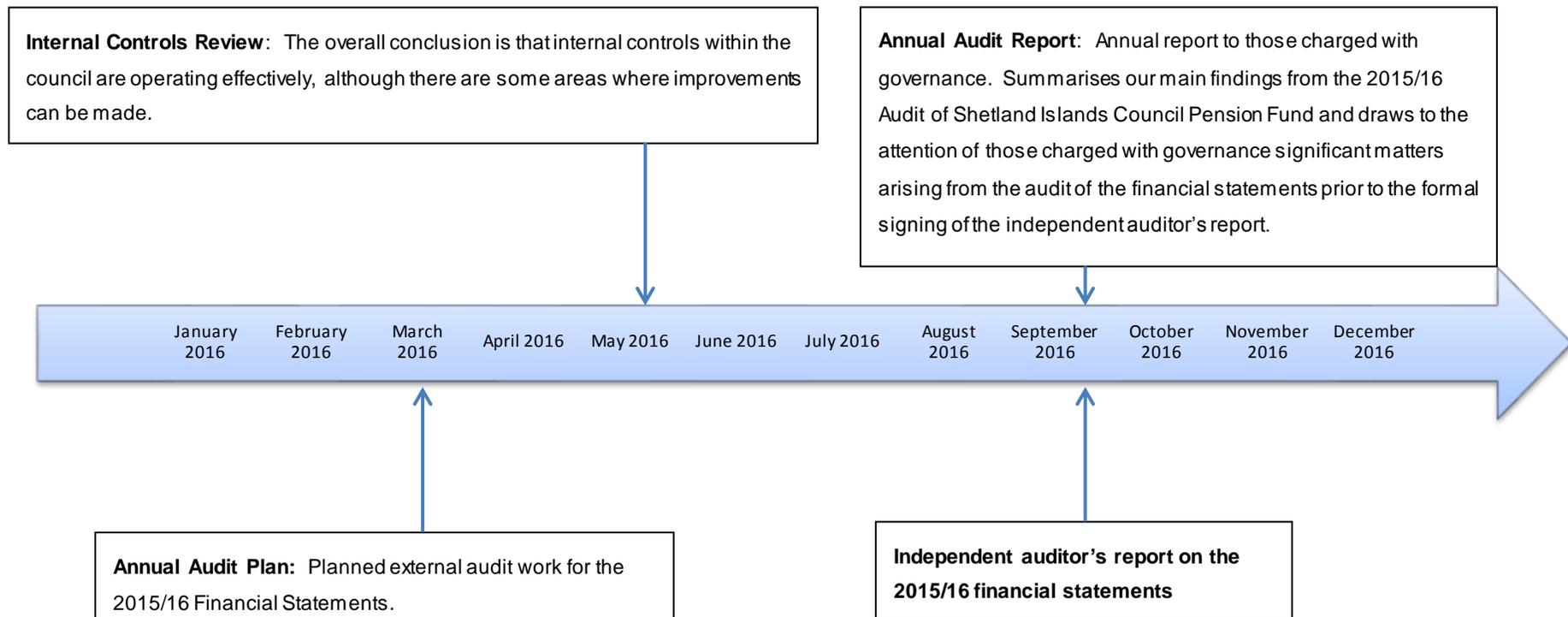
Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Financial statement issues and risks		
<p>Risk of management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk</p> <p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates • Evaluating significant transactions that are outside the normal course of business • Focused testing of accruals and prepayments 	<p>We did not identify any issues to be reported.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Pension Scheme Benefits Calculations</p> <p>The Public Service Pension Act 2013 and associated regulations replaced a final salary scheme with a career average revalued earnings (CARE) scheme from 1 April 2015</p> <p>Risk</p>	<ul style="list-style-type: none"> • Review of control procedures in place to ensure the review and accuracy of calculations of pension benefits • Review of pension fund administration team capacity to 	<p>From the reviews undertaken we conclude that the pension fund administration team had the required capacity, experience, and controls in place to meet the demands of the change to the CARE system.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Increased demand on the workload of fund administration to accommodate the increased complexity in performing benefits payable calculations</p>	<p>accommodate the move to the CARE system.</p>	
<p>Pension Fund Governance Arrangements</p> <p>Financial Regulations have not been subject to review since 2012, while the Scheme of Administration & Delegation contains outdated reference to the former committee arrangement.</p> <p>Risk</p> <p>Without updating the governance policies, they may not remain relevant to the pension fund.</p>	<p>Review of progress by Shetland Islands Council, as Administering Authority, in delivering revised policies and regulations, through review of committee minutes, and attendance at meetings.</p>	<ul style="list-style-type: none"> • The Financial Regulations have been updated and are due to be approved by the Council on 2 November 2016 • The Scheme of Administration & Delegation is also in the process of being updated and will be reported to the Council on 2 November 2016.
<p>Pension Board</p> <p>The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 required the Pension Fund to establish a Pension Board to assist it in complying with scheme regulations</p> <p>Risk</p> <p>The Pension Board may not have the required skills and experience to provide sufficient scrutiny and assistance.</p>	<ul style="list-style-type: none"> • Review the operation of the Pension Board through review of minutes of meetings held. • Attendance at meetings to assess the contribution made by pension board members • Assessment of training provision and attendance by members 	<ul style="list-style-type: none"> • From review of committee minutes and attendance at pension fund meetings, we found evidence of pension board members participating in the scrutiny of reports presented. • Adequate training has been provided for the new pension board members, and this was well attended.

Appendix II: Summary of Shetland Islands Council Pension Fund local audit reports 2015/16



Appendix III: Action plan

No.	Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	11/45	<p>Issue</p> <p>The Pension Fund has revised its budget process in 2016/17, to include elements of income and expenditure not previously accounted for.</p> <p>Risk</p> <p>The revised budget setting process may still provide inaccurate estimates of expenditure and income due to the unpredictability of costs and income.</p> <p>Recommendation</p> <p>The accuracy of budgets should be closely monitored to ensure Management are informed as early as possible if actual outturn is expected to vary significantly from the budgeted outturn.</p>	Pension Fund budgets are monitored monthly and forecasts are reported quarterly to the Pension Fund Committee and Board.	Jonathan Belford, Executive Manager – Finance Ongoing

No.	Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	14/64	<p>Issue</p> <p>Financial Regulations have not been updated since 2012, and the Scheme of Administration and Delegation contains outdated references.</p> <p>Risk</p> <p>Governance policies may not be relevant to the activities of the pension fund.</p> <p>Recommendation</p> <p>Governance policies should be revised to ensure they are relevant to the activities of the pension fund.</p>	<p>The Financial Regulations and Scheme of Administration and Delegation are due to be reported to the Council on 2 November 2016.</p>	<p>Jonathan Belford, Executive Manager – Finance</p> <p>Jan Riise, Executive Manager – Governance and Law</p> <p>November 2016</p>

No.	Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	14/67	<p>Issue</p> <p>Internal audit did not carry out any specific work on the Pension Fund during the year.</p> <p>Risk</p> <p>Insufficient assurance may be provided over the operation of systems of internal control without more targeted work.</p> <p>Recommendation</p> <p>Internal audit should undertake specific work on pension fund systems to supplement the general controls currently assessed.</p>	<p>Internal Audit undertake their audit work taking account of a number of risk factors. With regard to an audit of Payroll and Pensions, this was last undertaken in 2013/14 and controls in place were satisfactory at that time. Taking account of available Internal Audit resource, stability of staff and systems within Payroll & Pensions, previous positive audit findings and previous discussion with Audit Scotland, at this time it is intended that a further audit in this area will be undertaken in financial year 2017/18.</p>	<p>Crawford McIntyre, Executive Manager – Audit, Risk and Improvement</p>

No.	Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	17/86	<p>Issue</p> <p>Investment performance reporting does not currently include an appraisal of value in relation to the investment management expense incurred.</p> <p>Risk</p> <p>There is a risk that the increase in investment management expenditure does not result in an increase in investment returns.</p> <p>Recommendation</p> <p>The pension fund should monitor investment management expenses to assess whether these are providing value for money for members.</p>	<p>Fund manager fees are calculated quarterly and are based on a % of the value of the investments at that point in time.</p> <p>Every three years the Pension Fund Investment Strategy is reviewed following the tri-annual valuation. At this point the performance of the strategy, fund managers and the level of fees being paid is assessed to ensure that the strategy and value for money is being achieved.</p>	<p>Jonathan Belford, Executive Manager – Finance</p> <p>Tri-annually</p>