

Orkney Islands Council Pension Fund

2020/21 Annual Audit Report



 AUDIT SCOTLAND

To Members of the Orkney Islands Council Pension Fund Sub-Committee and the
Controller of Audit

November 2021

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Key messages

2020/21 annual accounts

- 1 Our audit opinions on the annual accounts of the Fund are unmodified.
- 2 Covid-19 led to delays in the auditing timetable for the 2020/21 annual accounts. Submission of the audited annual accounts is in line with revised government timescales.

Financial management

- 3 The Fund has appropriate and effective financial management arrangements.
- 4 The Fund has had a strong investment performance in 2020/21 and the value of investments has recovered from the prior year which was impacted by the Covid-19 pandemic.

Financial sustainability

- 5 The triennial valuation as at March 2020 assessed the Fund as having sufficient assets to cover its liabilities, consequently contribution rates remained the same.
- 6 The Fund reviewed its investment strategy following the triennial valuation and will continue to diversify the investment structure to support income generation.

Governance and transparency

- 7 The governance arrangements introduced in response to the pandemic are appropriate and operated effectively.
- 8 There is effective scrutiny, challenge and informed decision making.

Best Value

- 9 The pension administration function has performed well against targets despite added pressures from the Covid-19 pandemic.
- 10 Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year.
- 11 The Fund has effective arrangements in place for monitoring investment performance and scrutinising investment management expenses.

Introduction

1. This report is a summary of our findings arising from the 2020/21 audit of Orkney Islands Council Pension Fund (the Fund).
2. The scope of our audit was set out in our Annual Audit Plan presented to the May 2021 meeting of the Pension Fund Sub-Committee. This report comprises:
 - an audit of the Fund's annual accounts
 - consideration of the wider dimensions of financial management, financial sustainability, governance and transparency, and value for money, that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#)
3. The main elements of our audit work in 2020/21 have been:
 - an audit of the Fund's 2020/21 annual accounts including the issue of an independent auditor's report setting out our opinions
 - a review of the Fund's main financial systems
 - consideration of the four audit dimensions of financial management, financial sustainability, governance and transparency and value for money.

Added Value

4. We add value to the Fund through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

5. Orkney Islands Council is the administering authority for the Orkney Islands Council Pension Fund. The council delegates this responsibility to the Pension Fund Sub-Committee. The Sub-Committee is responsible for establishing effective governance arrangements and ensuring that financial management is

effective. The Sub-Committee is required to review the effectiveness of internal control arrangements and approve the annual accounts.

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements
- suitability and effectiveness of corporate governance arrangements and financial position
- arrangements for securing financial sustainability.

8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £21,490 as set out in our Annual Audit Plan remains unchanged.

13. This report is addressed to both the members of the Pension Fund Sub-Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts of the Fund are unmodified.

Covid-19 led to delays in the auditing timetable for the 2020/21 annual accounts. Submission of the audited annual accounts is in line with revised government timescales.

Our audit opinions on the annual accounts are unmodified

15. The annual accounts for the year ended 31 March 2021 were approved by the Pension Fund Sub-Committee on 24 November 2021. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

The annual accounts were signed off in line with the timescales permitted to reflect Covid-19

16. As a result of the continuing impact of Covid-19 the submission deadlines for the Pension Fund audited annual accounts and annual audit reports have been set at 30 November 2021.

17. The unaudited annual accounts were received on 29 June 2021 in line with our agreed audit timetable. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

18. The completeness and accuracy of accounting records and the extent of information and explanations that we required were not affected by the Covid-19 pandemic.

19. Despite the pressures on the 2020/21 audit process the annual accounts were signed off in line with our planned timetable and the requirements of the Scottish Government.

There were no objections raised to the annual accounts

20. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for the Fund was published on the website of the administering authority (Orkney Islands Council) and complies with the regulations. No objections were received in relation to the Fund accounts.

Overall materiality is £5.2 million

21. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

22. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the financial statements. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

23. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£5.2 million
Performance materiality	£3.4 million
Reporting threshold	£100 thousand
Specific materiality	£1.1 million
Specific performance materiality	£0.7 million

Source: Audit Scotland

Conclusions on audit work to address risks of material misstatement

24. Our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks identified in our Annual Audit Plan are included in [Appendix 2](#). These risks influence our overall audit strategy, the allocation of staff resources to the audit, and indicate how the efforts of the audit team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

We have no significant findings to report on the annual accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no issues to report from the audit.

We did not identify any misstatements above our reporting threshold

26. It is our responsibility to request that all misstatements above the reporting threshold are corrected. There were no misstatements above our reporting threshold to report from the 2020/21 audit.

Some progress was made on prior year recommendations

27. The Fund has made some progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

The Fund has appropriate and effective financial management arrangements.

Systems of internal control operated appropriately and effectively in 2020/21.

The Fund has had a strong investment performance in 2020/21 and the value of investments has recovered from the prior year which was impacted by the Covid-19 pandemic.

Financial systems of internal control operated effectively

28. The Interim Executive Director of Finance, Regulatory, Marine and Transportation Services for Orkney Islands Council is the Proper Officer responsible for the Fund. The Fund uses the financial systems of the administering authority, Orkney Islands Council (the Council). The main council systems used by the Fund are the general ledger system and the payroll system.

29. Our review of the controls in operation within these systems has been conducted as part of our audit of the Council. We have also considered and tested the specific pension fund systems of pensions administration and investments. We have not identified any control weaknesses from these reviews.

The Fund has had a strong investment performance in 2020/21 and recovered from the significant impact of the Covid-19 pandemic on investment values last year

30. When considering the investment performance of the Fund during 2020/21, it is important to recognise the impact of Covid-19 on financial markets and investments. Asset values had reduced significantly at the start of 2020/21 and have increased by £144 million over the year to a position of £521 million at 31 March 2021.

31. The global impact of the pandemic has significantly increased market volatility however as noted asset values have recovered during 2020/21. The Fund's performance in 2020/21 is summarised in [Exhibit 2](#).

Exhibit 2**Assets, funding level and investment performance**

Increase in net assets	Funding level	Estimated Past Service Liabilities	Investment performance
£520.8 million	146%	£355 million	13.7%
Closing net assets as at 31 March 2021 (+38.3%)	Net assets vs promised retirement benefits 31 March 2021	Closing liabilities as at 31 March 2021 + £36 million +11%	Average annual return on investments over 5 years
£376.6 million	118%	£319 million	38.3%
Opening net assets at 1 April 2020	Net assets vs promised retirement benefits 31 March 2020	Opening liabilities as at 1 April 2020	Return on investments 2020/21

Source: 2020/21 Orkney Islands Council Pension Fund unaudited annual report and accounts

32. The Fund's actuary undertakes a valuation of the Fund's liabilities to pay future retirement benefits. This is calculated in line with International Accounting Standards (IAS) 19 every year using the same base data as the triennial funding valuation.

33. Hymans Robertson estimated that pension liabilities had increased by 11% from £319 million as at 31 March 2020 to £355 million at 31 March 2021 (£36 million increase). The value of the Fund's assets rose by £144 million over the same period and therefore the funding level increased from 118% to 146%.

34. In addition to the liability the actuary calculates the promised retirement benefits which have been estimated at £496 million at 31 March 2021 (2019/20-£353 million) showing a 40% increase. This estimate uses assumptions in line with IAS 26 requirements, for the purposes of the Fund's financial statements. It is not directly comparable to the liability measures on a funding basis.

Financial management arrangements were appropriate and effective

35. The financial regulations of the Council, as administering authority, apply to the Fund. We consider these to be comprehensive, and current, and promote good financial management.

36. Investment and administration performance reports are submitted to the Pension Fund Sub-Committee on a quarterly basis. Reports are comprehensive, covering analysis of fund managers, review of asset allocation and a review of the markets. Also, through our attendance at the

Pension Fund Sub-Committee, we have observed a good level of review and scrutiny by members.

37. Overall, the Fund has appropriate and effective financial management arrangements in place. This includes comprehensive reporting of investment performance.

Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate

38. The Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

39. The risk profile of public bodies during 2020/21 has been significantly affected by the Covid-19 pandemic. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner.

40. The Fund relies on the Council's arrangements for the prevention and detection of fraud and corruption. We have reviewed the arrangements put in place by the Council to address any heightened risks and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

Main judgements

The triennial valuation as at March 2020 assessed the Fund as having sufficient assets to cover its liabilities, consequently contribution rates remained the same.

The Fund reviewed its investment strategy following the triennial valuation and plan to continue to diversify the investment structure to support income generation.

The results of the triennial valuation at March 2020 demonstrate that the fund remains fully funded

41. A full triennial valuation of the Fund was carried out at 31 March 2020 and reported to the Pension Fund Sub-Committee in February 2021. One of the main purposes of the triennial valuation is to inform the setting of pension contribution rates for the forthcoming 3 years and to inform a review of funding and investment strategies to ensure the continued payment of members' pension benefits as they fall due.

42. The March 2020 triennial funding valuation reported that the fund assets were sufficient to meet 118% of its liabilities. This is a slight increase from 112.7% in the 2017 valuation. The employer's contribution rate was set at 17% until 2023/24.

Financial planning arrangements are appropriate and effective

43. There is considerable volatility in pension funding and the results of the triennial valuation are in effect a snapshot of the Fund at 31 March 2020. Following each triennial valuation, it is standard practice to review the Funding Strategy Statement which is a summary of the Fund's approach to funding liabilities. Given the fully funded status reported in the triennial valuation the Fund did not deem it necessary to conduct a review of the Funding Strategy Statement and instead focused on its investment strategy.

44. The investment strategy outlines the types of investment to be held and the balances between the different types of investment. The investment strategy is set for the long-term but is monitored continually and reviewed every three years using asset-liability modelling to ensure that it remains appropriate to the profile of the Fund's liabilities.

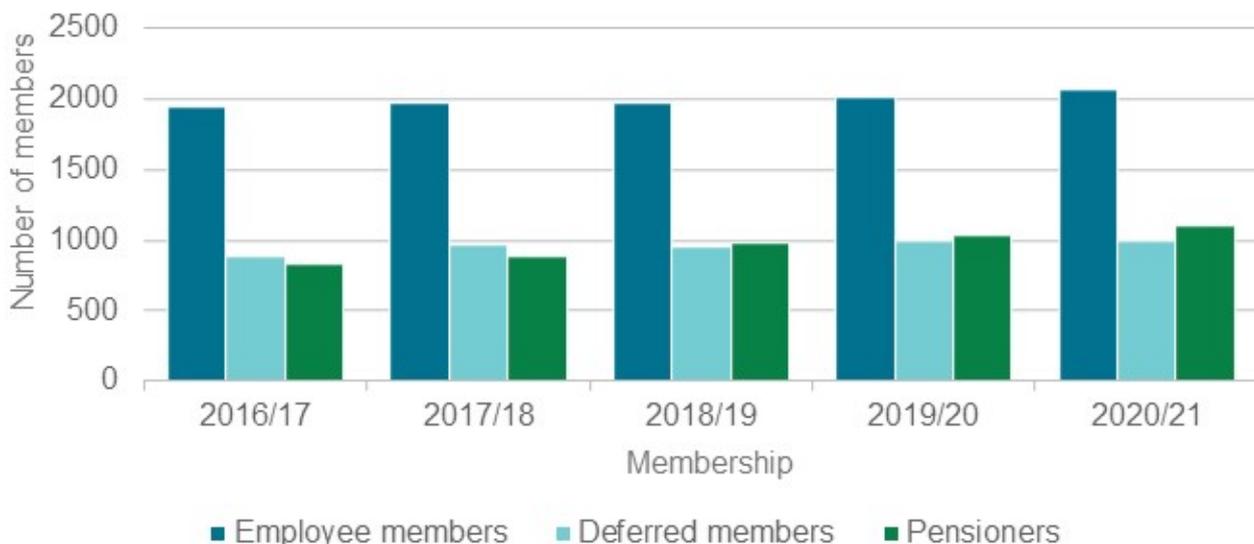
45. The last review was carried out in 2021 after the results of the triennial valuation. The revised investment strategy reflects the Fund's decision to focus on income generation to build capacity to fund annual benefits should they move to a net withdrawals position. The investment strategy therefore reflects a continued divestment in equities.

Fund membership levels continue to increase but the ratio of active members to pensioners is reducing

46. The Fund is a multi-employer fund with members from four admitted bodies in addition to members employed by Orkney Islands Council. This is a reduction from five admitted bodies in 2019/20 due to the transfer out of Visit Scotland members to the Lothian Pension Fund. The current membership profile is shown at [Exhibit 3](#). The number of active members continues to outweigh the number of pensioners.

47. The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each members' life. It is important that the fund maintains the capacity to meet the current and future pension entitlement of its members.

Exhibit 3 Orkney Islands Council Fund Membership



Source: Orkney Islands Council Pension Fund 2020/21 unaudited financial statements

48. Membership of the fund increased by 119 to 4,167 members at 31 March 2021, an increase in membership of 2.9%. The impact of auto-enrolment continues to contribute to the increase in employee members.

49. In 2020/21 the number of pensioners receiving a pension from the Fund increased by 63 and the number of pensioner members continues to increase

steadily each year. The number of active members continues to outweigh the number of pensioners.

50. Cash flows received from dealings with members continue to be positive as the contributions received in year exceed the amount paid out in benefits.

51. Future membership numbers are difficult to predict with any certainty as they are dependent on a number of factors including employer budgets, recruitment decisions, and promotion of the pension scheme.

52. With most employers still open to new membership and with continuing support from auto enrolment, the recent trend of growth in membership seems likely to continue for the foreseeable future.

Future rates of employer contributions have remained stable

53. Following the triennial valuation in 2020, the actuary agreed employer contribution rates with individual employers from 1 April 2021. For all member bodies the employer rate has remained at 17%. The approximate split of all contributions received in year is set out at [Exhibit 5](#).

Exhibit 4 Contributions in 2020/21

	Orkney Islands Council £m	Admitted bodies £m	Total £m
Employer contributions	6.906	0.763	7.669
Employee contributions	2.500	0.291	2.791
Strain Contributions	0.097	0.000	0.097

Source: Orkney Islands Council Pension Fund 2020/21 unaudited financial statements

54. The majority of Scottish Local Government Pension Schemes pay out more in pension benefits than they receive in pension contributions. The Fund is not yet in this position. This demonstrates a relatively good position in terms of financial sustainability as the Fund is not reliant on investment income to support annual payments to pensioners.

55. Nevertheless, the continued growth in pensioner numbers within the Fund's membership makes funding pension payments increasingly challenging. The Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets.

4. Governance and transparency

The effectiveness of scrutiny and oversight and the transparent reporting of information

Main Judgements

The governance arrangements introduced in response to the pandemic are appropriate and operated effectively.

There is effective scrutiny, challenge and informed decision making.

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

56. The Fund has made changes to its governance arrangements in response to the pandemic. The most significant change has been the move of the Sub-Committee meetings to be held remotely.

57. We reported last year that openness and transparency of the meetings could be improved by providing audio recordings via the Council website. The Fund considered this recommendation but felt the costs of audio-casting would outweigh the potential benefits.

58. The Sub-Committee papers are published on the Council website and the press attend meetings for publicly available items.

59. We have concluded that overall, the Fund has appropriate governance arrangements in place which support effective scrutiny, challenge and decision-making. We are satisfied that the approach to openness and transparency is appropriate for the needs of stakeholders.

There are effective arrangements for complying with the Pensions Regulator Public Service Code

60. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

61. The Fund conducts a compliance review against the code on a regular basis and reports annually as part of the Annual Accounts through the Governance Compliance Statement. This provided assurance that the Fund is in compliance with the regulations.

62. There were no breaches of the code that required to be reported to the Pensions Regulator in 2020/21. In 2019/20 we identified that the Fund did not maintain a breaches register which heightens the risk that systematic issues are not identified by management. We understand that management are considering this recommendation and a breaches register is in development ([Appendix 1](#)).

Performance reporting was of a good standard

63. Management Commentaries included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

64. The Fund's 2020/21 management commentary is of good quality and is written with the stakeholder in mind. It presents some complex areas in an understandable style which increases transparency in reporting the financial performance and financial position.

5. Best Value

Using resources effectively and continually improving services

Main judgements

The pension administration function has performed well against targets despite added pressures from the Covid-19 pandemic.

Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year.

The Fund has effective arrangements in place for monitoring investment performance and scrutinising investment management expenses.

The pension administration function's performance against targets has been affected by added pressures from the pandemic, but performance in priority areas remained high

65. The Pension Fund Sub-Committee meets on a quarterly basis and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance. Performance of the administration of the fund is summarised in [Exhibit 5](#) below.

Exhibit 5

Administration Performance

	Performance Standard (days)	Percentage processed within standard 2019/20	Percentage processed within standard 2020/21	Relative performance compared to prior year
Pension estimates	10	99.0 per cent	92.8 per cent	↓
Retirements	5	100.0 per cent	100 per cent	→
Transfers in	10	97.7 per cent	100 per cent	↑
Transfers out	10	100.0 per cent	100 per cent	→
Refunds	5	100.0 per cent	94.1 per cent	↓

Source: Orkney Islands Council Pension Fund 2020/21 unaudited financial statements

66. Service levels were maintained in the majority of areas; however they did fall in processing refunds and pension estimates as a result of additional pressure on staff due to Covid-19. It should be noted that the relatively small size of the fund and transactions involved mean that even small numbers of records not being processed can make significant percentage differences.

Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year

67. The Fund has appointed three external investment managers. Individual investment manager performance is reviewed regularly by the Pension Fund Sub-Committee.

68. Financial markets have largely recovered from last year's exceptional volatility, when returns against most asset classes, especially equities, reduced significantly due to the impact of the Covid-19 pandemic.

69. [Exhibit 6](#) shows that over the year, the Fund generated a return of 38.3% against a benchmark of 24.2%. Equity portfolios were the most significant contributor to this increase.

Exhibit 6

Fund investment performance



Source: Orkney Islands Council Pension Fund 2020/21 unaudited financial statements

70. Investment management outcomes are required to be considered over the longer term due to the range of factors which can influence returns including the risk appetite, asset allocation and general market performance.

71. As shown in [Exhibit 6](#) the Fund has exceeded the three and five year benchmarks which provides assurance that the investment portfolio is being managed appropriately.

Performance of investment managers is subject to scrutiny

72. The Fund used three fund managers during the course of 2020/21, Baillie Gifford, Legal and General Investment Management and Barings.

73. Investment manager performance is reported on a quarterly basis to the Pension Fund Sub-Committee and the Fund's external investment advisor attends the meetings in an advisory capacity when required.

74. The performance summaries presented to each meeting of the Sub-Committee include details of performance of individual mandates against benchmark for each quarter of the current year, and over the last three and five years. This allows members of the Sub-Committee to scrutinise investment performance and to question officers on the reasons for any under-performance.

75. In addition, the Finance team carry out reviews including consideration of internal controls for each of the fund managers. Due to the revised investment strategy 2.9 per cent of the Fund's asset value is not based on observable inputs. This makes it harder to validate the information provided by the fund managers.

76. We recommended in 2019/20 that the Fund conducted additional work to assure themselves that the asset valuations provided by the fund managers were reasonable and in line with expectation. From discussion with officers there has been limited progress with this recommendation in year ([Appendix 1 point 4](#)). We conducted procedures on the competence, capability and objectivity of fund managers to provide sufficient assurance on the figures in the financial statements.

The Fund adequately scrutinises investment management expenses

77. There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the Council and oversight and governance costs.

78. Investment management expenses have increased from £1.663 million in 2019/20 to £1.905 million in 2020/21. Investment manager expenses can vary due to a number of factors including actual returns on investments and the nature of investment assets held. The main reason for this increase in expenses relates to the 38.3% increase in asset value.

79. The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

80. Administrative expenses have increased by £0.01 million in 2020/21 to £0.32 million. The workload of the pension administration section

continues to grow, primarily due to the introduction of the career average pension scheme (CARE) from 1 April 2015. Other factors impacting on the administration workload include auto enrolment, freedom of choice, and work arising from the Guaranteed Minimum Payment Reconciliation.

National performance audit reports

81. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, we published reports which may be of interest to the Fund. These are outlined in [Appendix 4](#) accompanying this report.

Appendix 1

Action plan 2020/21

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Whistleblowing policy</p> <p>A revised whistle blowing policy was approved by the Human Resources Sub-Committee, however, the contact information for Audit Scotland was out of date.</p> <p>Risk</p> <p>Whistle blowers would be unable to contact Audit Scotland using the information within the whistleblowing policy.</p>	<p>We recommend the whistleblowing policy is updated with the correct Audit Scotland contact information.</p>	<p>Complete</p> <p>We reviewed the Whistleblowing Policy and the contact details have now been updated.</p>
<p>2. Audio casting of the Pension Fund Sub-Committee</p> <p>Minutes of all Pension Fund Sub-Committees are published on the Orkney Islands Council website. There is scope to improve transparency by including access to audio casting.</p> <p>Risk</p> <p>There is a risk that the business of the Pension Fund Sub-Committee is not seen to be transparent.</p>	<p>We recommend that the Fund considers using audio casting for meetings of the Pension Fund Sub-Committee to improve openness and transparency.</p>	<p>Complete</p> <p>The Fund considered this recommendation but felt the costs of audio-casting would outweigh the potential benefits.</p> <p>However, as a result of the impact of Covid-19 on all committee meetings of the Council a review of audio casting of Council meetings has been undertaken and will be reported to the Policy and Resources Committee on 23 November 2021 and will recommend that audio casting provision be extended to include meetings of the Pension Fund Sub-committee, together with Pension Board where they</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Breaches register</p> <p>There is no register held by the Fund detailing the breaches of the Pensions Regulator Public Service Code in year.</p> <p>Risk</p> <p>There is a risk that an issue is not raised with management which requires to be reported</p>	<p>We recommend the Fund creates a register of all breaches to inform the decision over whether to report issues to the Pensions Regulator.</p>	<p>are held in the Council Chamber.</p> <p>In progress</p> <p>The Register of Breaches will be created by the Pension and Payroll Manager by the end of November.</p>
<p>4. Validation of fund manager valuations</p> <p>Barings provided a valuation of investments held at 31 March 2020. From our review of the document it was not possible to identify the Fund's share of assets. No work has been conducted by the Fund to validate the valuation provided by Barings.</p> <p>Risk</p> <p>There is a risk that a misstatement in the valuation is not noticed by the Fund on a timely basis.</p>	<p>We recommend the Fund conducts work to assure themselves that asset valuations provided by the fund manager are reasonable and in line with expectation.</p>	<p>Outstanding</p> <p>The Fund receives regular Net Asset Valuation statements from the Fund Manager detailing both the number of units held and the current market value of those units. Being a pooled fund, individual investors hold multiple units in the Fund rather than a direct share of the fund's assets themselves. Assurance regarding the valuation of fund assets was taken from the actions of the Fund Manager during the year to outsource the valuation of the fund assets to an external valuer during the year.</p> <p>It is also considered that the regular preparation of the performance reports by Investment Advisers provides assurance that the asset valuations provided by the fund manager are reasonable and in line with expectation.</p>
<p>5. Altair access rights</p> <p>The access rights to the Altair system are generic and are</p>	<p>We recommend that Altair system rights are tailored to</p>	<p>Complete</p> <p>Access has been reviewed, however due to the small size</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>the same for all those within the pensions team. We did not identify any issues in relation to access rights as part of our audit testing.</p> <p>Risk</p> <p>There is a risk of fraud or error arising from inappropriate user permissions</p>	<p>the needs of the individual user.</p>	<p>of the pensions team no significant changes to access rights have been made.</p> <p>We are satisfied that the risk associated with the access levels is low.</p>
<p>6. Pension and payroll reconciliations</p> <p>Our testing found that there is no reconciliation between the pensions system and the payroll system on a regular basis. Our testing did not find a significant variance at the year end between the systems.</p> <p>Risk</p> <p>There is a risk that payments made to pensioners via payroll are not in line with the calculated amounts on the pension system</p>	<p>We would recommend that reconciliations between the payroll system and the pensions system are carried out on a monthly basis.</p>	<p>Complete</p> <p>A monthly reconciliation between the Payroll System and General Ledger is part of existing Payroll procedures. Completion of the reconciliations had slipped but has now been brought up to date.</p>
<p>7. Payments to overseas pensioners</p> <p>The fund currently has procedures for identifying deceased pensioners living in the UK but there are no such procedures for pensioners who live abroad. There are currently only 7 members who do not live in the UK.</p> <p>Risk</p> <p>There is a risk that overpayments are made due to the failure to identify a deceased member.</p>	<p>We recommend procedures are in place to mitigate overpayments relating to pensioners living abroad.</p>	<p>Complete</p> <p>Procedures to confirm 'proof of life' for pensioners living abroad have been introduced. Letters were sent to all overseas pensioners.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<p>1. Management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and judgements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We have not identified any instances of management override from our testing.</p>
<p>2. Estimation, judgements and Classification</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments. Investments include level 3 investments such as pooled funds and other unquoted investments.</p> <p>Investments of this nature are based on judgements taken by investment managers and are complex and difficult to value.</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500, for fund managers with significant unquoted investments.</p> <p>Confirmation of valuations to valuation reports and/ or other supporting documentation.</p> <p>Sample testing of investments to independent pricing sources.</p>	<p>We gained appropriate assurance over the competence, capability and objectivity of the fund managers, the custodian and the actuary.</p> <p>The valuations were agreed to valuation reports provided by the custodian and the fund managers. A sample of investments were agreed back to third party information.</p> <p>The assumptions used by the actuary were compared to benchmark information and we concluded that these were reasonable.</p>

Audit risk	Assurance procedure	Results and conclusions
		There were no issues arising from our work on estimates and we have concluded there is sufficient assurance to support our audit opinions.

Appendix 3

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Orkney Islands Council Pension Fund

2020/21 Annual Audit Report

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