

CIPFA Pensions Network - Edinburgh workshop 2016

Tim Bridle – 14 September 2016

New audit appointments & code

Overview of other 'stakeholder' activity

The annual reports and accounts 2015-16

Audit issues arising 2015-16



Audit appointments

5 years from 2016/17

Pension Fund	Outgoing auditor	Incoming auditor
Strathclyde	Audit Scotland	Audit Scotland
Lothian	<i>Audit Scotland</i>	<i>Scott-Moncrieff</i>
North East	Audit Scotland	Audit Scotland <i>(KPMG are auditor of Aberdeen)</i>
Tayside	<i>KPMG</i>	<i>Audit Scotland</i>
Fife	Audit Scotland	Audit Scotland
Falkirk	<i>Audit Scotland</i>	<i>Ernst and Young</i>
Highland	<i>Audit Scotland</i>	<i>Grant Thornton</i>
D&G	<i>PWC</i>	<i>Grant Thornton</i>
Scottish Borders	<i>KPMG</i>	<i>Audit Scotland</i>
Shetland	<i>Audit Scotland</i>	<i>Deloitte</i>
Orkney	Audit Scotland	Audit Scotland

Audit

Code of audit Practice

Code of audit practice

2016



“Stronger new code for auditors”

Wider audit dimensions:

Four audit dimensions to be used when planning and reporting the audit



New audit appointments & code

Overview of other 'stakeholder' activity

The annual reports and accounts 2015-16

Audit issues arising 2015-16



Local Government and Regeneration Committee

About The Committee



Published 30th November 2015
SP Paper 840
5th Report, 2015 (Session 4)
Web

Local Government and Regeneration Committee

Report on Pension Fund Investment in Infrastructure and City Deal Spend

Background to investment in infrastructure in Scotland

Transparency and consistency of information on investments

18. When preparing for this inquiry, infrastructure investment by LGF recently been possible to see an invested in Scotland - almost hal in UK equities, with little investm there to be greater transparency outlining one of the few current v through the use of freedom of inf

Pooling of pension funds

44. The UK Chancellor recently announced 89 LGPS in England and Wales³⁶ are to be pooled into six British Wealth Funds to enable them to invest more in infrastructure and to minimise fees and costs. We also note the potential for the second Markets in Financial Instruments Directive to restrict smaller pension funds ability to invest in infrastructure. We would find it helpful to know what discussions the Scottish Government has had with the UK Government to safeguard opportunities for smaller Scottish pension funds to invest in infrastructure.
45. We agree investment in infrastructure is vital to a successful economy, but we are less attracted to the UK's formal pooling arrangements for Scottish pension funds. During our inquiry we heard how informal collaborations worked well because there was a willingness to work together for a shared vision and benefit. Strathclyde, Falkirk and Lothian and a few others are already working with other funds to increase their investment options. This is to be applauded and we encourage funds to seek out opportunities to work collaboratively to benefit from shared expertise in identifying suitable infrastructure investment and to reduce investment costs such as management fees. Being proactive in this regard has particular importance given the potential changes to investment rules.

Development of expertise in infrastructure investment

46. We would like to see Scottish LGPS investigating how they can grow their expertise to open up new investment opportunities and to assist in supporting long-term investment strategies, as well as saving on fees and costs. We recommend the SAB should provide a focus and forum to assist Scottish local government pension funds to share expertise and to form working collaborations.



[Board Members »](#) [News](#) [Guidance](#) [Bulletins](#) [Meetings](#) [Related Websites](#)

“ **The purpose of the Local Government Pension Scheme (Scotland) Advisory Board is to provide advice to the Responsible Authority,**
at the Responsible Authority's request, on the desirability of changes to scheme design and
the implication of other policy issues. ”

Scheme Advisory Board

Latest Agendas from the Pension Board

[Notes for Employers](#)

[Agenda: 25th May 16](#)

[Agenda: 25th February 16](#)

Guidance

Guidance articles

Home

Guidance

Notes for Employers

Posted on Jun 30, 2016

September 2015 Freedom and Choice – Transfers from LGPS to Defined Contribution Schemes Your employees are members of the LGPS and therefore are members of a public sector Defined Benefit...

Fiduciary Duty Guidance

Posted on Jun 30, 2016

The SAB agreed at its meeting on 25th May to issue a legal opinion from Pinsent Masons on Fiduciary Duty responsibilities for Scottish Pension Funds. The Legal Opinion is available along with a covering...

Bulletin items of interest to auditors:

- Structural review including consideration of CIVs
- Data collection and Annual report – cost transparency
- Commitment to substantial review of investment regulations
- SPPA governance review to report Feb 2017
- Cessation valuations
- Employer cost cap

Scheme Advisory Board – E & W

Investment fees – Code of transparency

The Local Government Pension Scheme Advisory Board

[Welcome](#)[About the Board](#)[Board Committees](#)[Board Publications](#)[Scheme Developments](#)[Scheme Information](#)[Contact us](#)

Investment fees - Code of Transparency



The move toward investment fee transparency and consistency is seen by the Board as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the government's criteria for pooling investments.

To assist LGPS funds in obtaining the data they require in order to report costs on a transparent basis the Board is working to develop a voluntary Code of Transparency for LGPS asset managers.

The Template

The core of the Code is a template (**PDF 266k** or **Excel 38k**) for completion by asset managers. This template was drafted and tested with the help of the West Midlands Pension Fund, Dr Chris Sier (who has worked extensively with the Dutch pension schemes in this area) and the Investment Association.

Useful Links

- [LGPS 2014 members site](#)
- [DCLG website](#)
- [Local Government Association](#)
- [The Pensions Regulator](#)
- [LGPS regs and guides](#)
- [Scottish Public Pensions Agency](#)

Scheme Advisory Board – E & W

Investment management costs template

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X		
1	Asset Manager:																								
2	Investment Mandate:																								
3	Investment Management Costs					2014 – 2015 (FULL YEAR)																			
4																									
5																									
6																									
7																									
8	All currency figures to be denoted in GBP					Opening Assets					Closing Assets														
9																									
10																									
11																									
12																									
13	Investment Management																								
14	Matching Portfolio																								
15	Interest Rate Risk Hedge																								
16	Government Bonds Domestic																								
17	Government Bonds other																								
18	Inflation Linked Government Bonds																								
19	LDI																								
20	Matching Overlay																								
21	Cash & Cash Equivalents																								
22	Return Portfolio																								
23	Fixed Income																								
24	Domestic																								
25	Sovereign & Corporate																								
26	Overseas																								
27	Sovereign & Corporate																								
28	High Yield Europe																								
29	High Yield US																								
30	Emerging Markets Bonds																								
31	Equity																								
32	Overseas Equity																								
33	Emerging Market																								
34	European Equity (non-Domestic)																								
35	Far East Equity																								
36	Japanese Equity																								
37	North American Equity																								
38	Pacific Equity																								
39	US Equity																								
40	Domestic Equity																								
41	Domestic Equity - Large Cap																								
42	Domestic Equity - Small Cap																								
43	Undefined																								
44	Real Estate & Infrastructure																								
45	Domestic Direct Real Estate																								
46	Overseas Direct Real Estate																								
47	Alternative Investments																								
48	Commodities																								
49	Hedge Funds																								
50	Multi Asset																								
51	Infrastructure																								
52	Pooled Investment Vehicles																								
53	Overseas Equity																								
54	Domestic Equity																								
55	Equity Mix																								
56	Overseas Fixed Income																								
57	Domestic Fixed Income																								
58	Fixed Income Mix																								
59	Overseas Real Estate																								
60	Domestic Real Estate																								
61	Real Estate Mix																								
62	Commodities																								

ASSET MANAGER COST COLLECTION TEMPLATE										For use with segregated portfolio management mandates									
All figures in GBP unless specified																			
Asset Manager																			
Portfolio name																			
Period of report										Start: End:									
Investment return										1 year 3 years 5 years 10 years Since formation									
Gross return (% pa)																			
Net return (% pa)																			
Investment activity										Total Equity Bonds Property Pooled funds Other (specify)									
Opening assets										0									
Closing assets										0									
Purchases										0									
Sales										0									
Turnover (% pa)										% % % % % % %									
Management fees										Total									
Invoiced fees (less rebates)																			
VAT (if applicable)																			
Payments for research																			
Other charges (specify)																			
Performance fees																			
Total										0									
Indirect fees																			
Fees paid from NAV of pooled funds																			
Transaction costs										Total Equity Bonds Property Pooled funds Derivatives Foreign exchange Other (specify)									
Transaction taxes										0									
Broker commission										0									
Market spread cost										0									
Market impact cost										0									
Entry/exit charges										0									
Indirect transaction costs										0									
Exchange fees										0									
Other transaction costs (specify)										0									
Total										0 0 0 0 0 0 0 0									
Stock lending (if applicable)																			
Gross income																			
Less: income shared (name recipient)																			
Less: other costs																			
Income retained by client										0									
Ancillary services (if provided by manager)																			
Custody charges																			



Government
Actuary's
Department



Public service pensions:

actuarial valuations and the
employer cost cap mechanism

Local Government Pension Scheme (Scotland)

Actuarial valuation as at 31 March 2014

Report by the scheme actuary

1.3 The key result of the valuation is as follows:

Proposed employer cost cap: 15.5% of pensionable pay

Date: 4 January 2016

LGPS ENGLAND AND WALES

Section 13 Dry Run Report

LGPS ENGLAND AND WALES

Section 13 Dry Run Report

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LGPS ENGLAND AND WALES

Section 13 Dry Run Report

4 Consistency between valuations under the scheme regulations

We found inconsistencies in the following areas, and recommend the four actuarial firms agree an approach to ensuring each is more readily comparable following 2016 and subsequent valuations.

- > The interpretation of the common contribution rate (CCR) disclosed in the valuations
- > Average actual contributions vs CCR
- > The assumption concerning the amount of commutation
- > The assumption for expected pensioner mortality
- > The derivation of discount rates used for the valuations
- > The assumption used for real earnings growth

LGPS ENGLAND AND WALES

Section 13 Dry Run Report

5 Solvency

A number of amber flags were raised under this heading for the open funds. We may have engaged with some of these administering authorities to discuss the reasons behind these flags. However, none were red-flagged.

The Pensions Regulator

[Back to main site](#)

Search



Public service home

Understanding your role

Scheme management

Further resources



Public service schemes

This section of our website is for anyone involved in the governance and administration of public service pension schemes. This includes scheme contacts, scheme managers, pension board members, administrators and professional advisers.

Initially these will be the schemes for civil servants, armed forces, health service workers, teachers, judiciary, police, firefighters and local government workers. In due course it may also include some public body schemes.

Public Service toolkit

Use our Public Service toolkit to learn about managing public service pension schemes and to increase your knowledge and understanding:

[Log in or sign up to use the Public Service toolkit](#)

Public service employers

Read our guidance on ongoing automatic enrolment duties and running your pension scheme.

[Employers](#)

What's new

Use our new guide and checklist to help you prepare annual benefit statements.

[Benefit statement help](#)

Understanding your role



Scheme management



Pension scams



If you're involved in governing and administering public

The areas of governance and administration you need to

Find guidance on how you can

Reporting to the Pensions Regulator

Pensions Act 2004

70 Duty to report breaches of the law

- (1) Subsection (2) imposes a reporting requirement on the following persons—
- (a) a trustee or manager of an occupational or personal pension scheme;
(aa) a member of the pension board of a public service pension scheme;
 - (b) a person who is otherwise involved in the administration of ***an occupational or personal pension scheme;***
 - (c) the employer in relation to an occupational pension scheme;
 - (d) a professional adviser in relation to such a scheme;
 - (e) a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

Reporting to the Pension Regulator

Judging what is of 'material significance' to the regulator

253. In deciding whether a breach is likely to be of 'material significance' to the regulator. It would be advisable for those with a statutory duty to report to consider the:

- cause of the breach
- effect of the breach
- reaction to the breach, and
- wider implications of the breach.

Public Service toolkit downloadable
Module: **Reporting breaches of the law**

To help you work offline, at a time and place convenient to you, we have created this downloadable version of the e-learning module. The module includes:

- Tutorial (technical background to the topic)
- Case study (here you will work through scenarios related to the topic of this module by answering questions and receiving feedback)

Once you have completed the module you may wish to try the assessment. This can only be completed online and is accessed from the **Reporting breaches of the law** course page.

Learning objectives
By the end of this module you will better understand:

- who must report breaches of the law
- the legal requirements for reporting breaches of the law
- how to judge whether a breach must be reported
- how to submit a report
- the importance of adequate procedures
- how to use the regulator's traffic light framework to help decide whether to report a breach

You can also download other activities from the course page including:

- Extra resource: 'Example breaches of the law and the traffic light framework'
- Exercise (can be completed individually or as a group): 'Traffic light framework'
- Check your scheme worksheet (to help you apply the learning from this module to your own scheme)

The Pensions Regulator

Code of practice no. 14

Governance and administration of public service pension schemes

April 2015

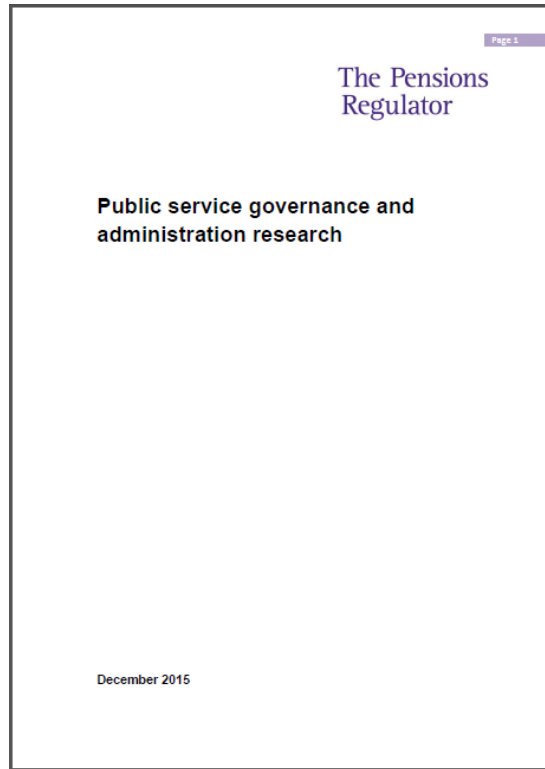
The Pensions
Regulator

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tPR Code

Research findings



Public pension schemes 'failing to fully engage' with new governance requirements, says regulator

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New audit appointments & code

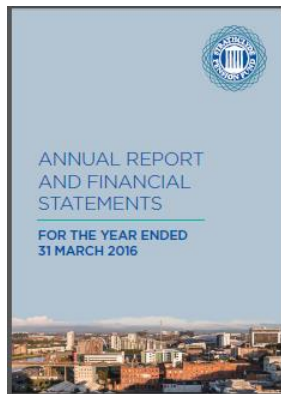
Overview of other 'stakeholder' activity

The annual reports and accounts 2015-16

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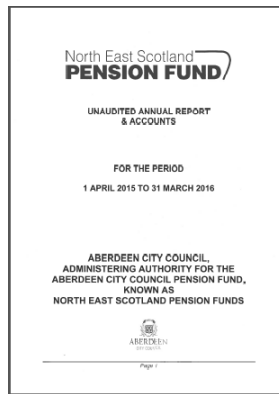
Annual reports and accounts



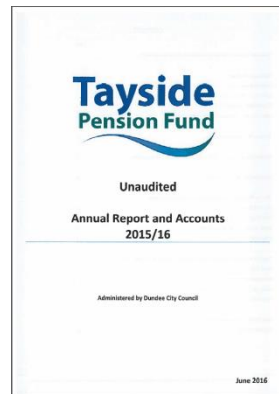
124 pages



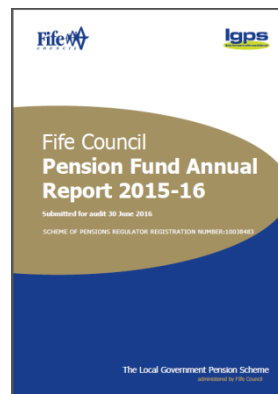
135 pages



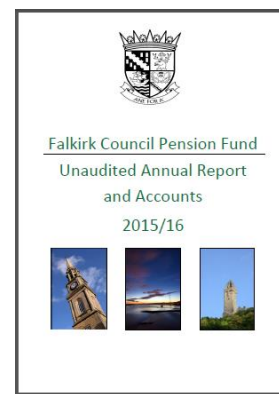
120 pages



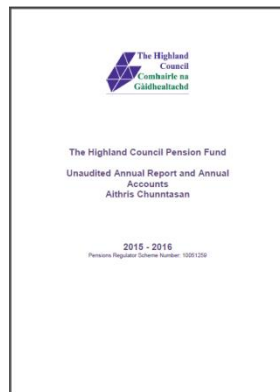
44 pages



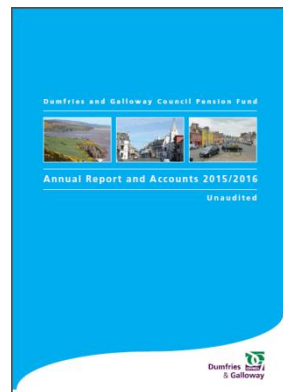
65 pages



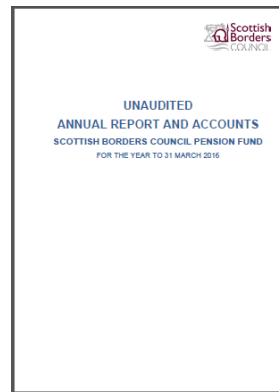
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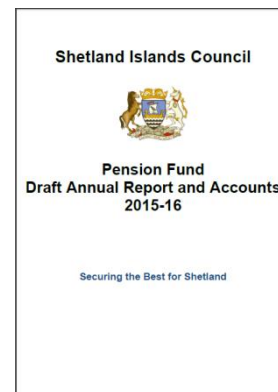
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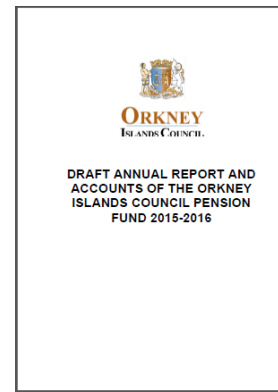
84 pages



58 pages



53 pages



51 pages

How things looked this year – content

- More prominence for infrastructure investments
- Many funds now clearer about unfunded liabilities and include agency disclosures
- Still greater scope for transparency around deficit recovery periods and employer contribution rates!
- Difficult to compare investment strategies.
- Coverage of administration cost still less good – budget actual, unit costs?
- Employer cost cap generally not covered

Towards transparency – would a table like this help?

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net assets b/f													
Forecast return from dealing with members													
Forecast return from investments (specify %age)													
Forecast net assets C/F													
Pv of promised retirement benefits (unwound)													
Forecast net funding position													

Annual report & accounts

Administration story

LGPS 2015

Severance

Freedom & Choice

Auto enrolment – transitional delay periods

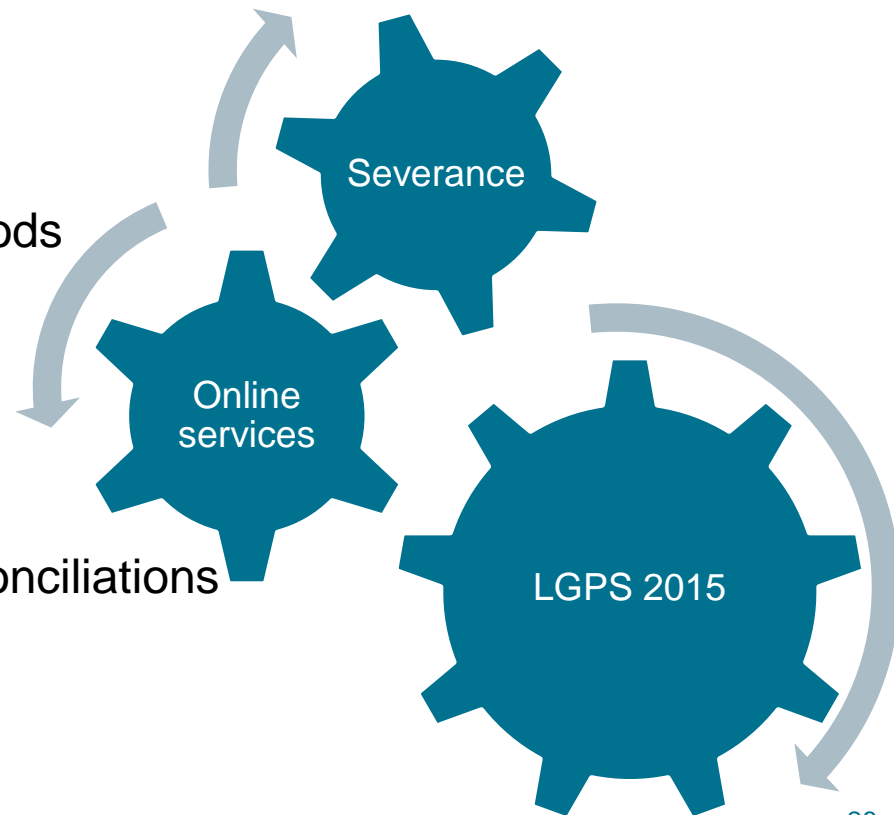
Heywood's – ALTAIR – factor tables

Incomplete data – frozen refunds

Reports to tPR

Compliance with tPR code

Outlook – Life time allowance, GMP reconciliations

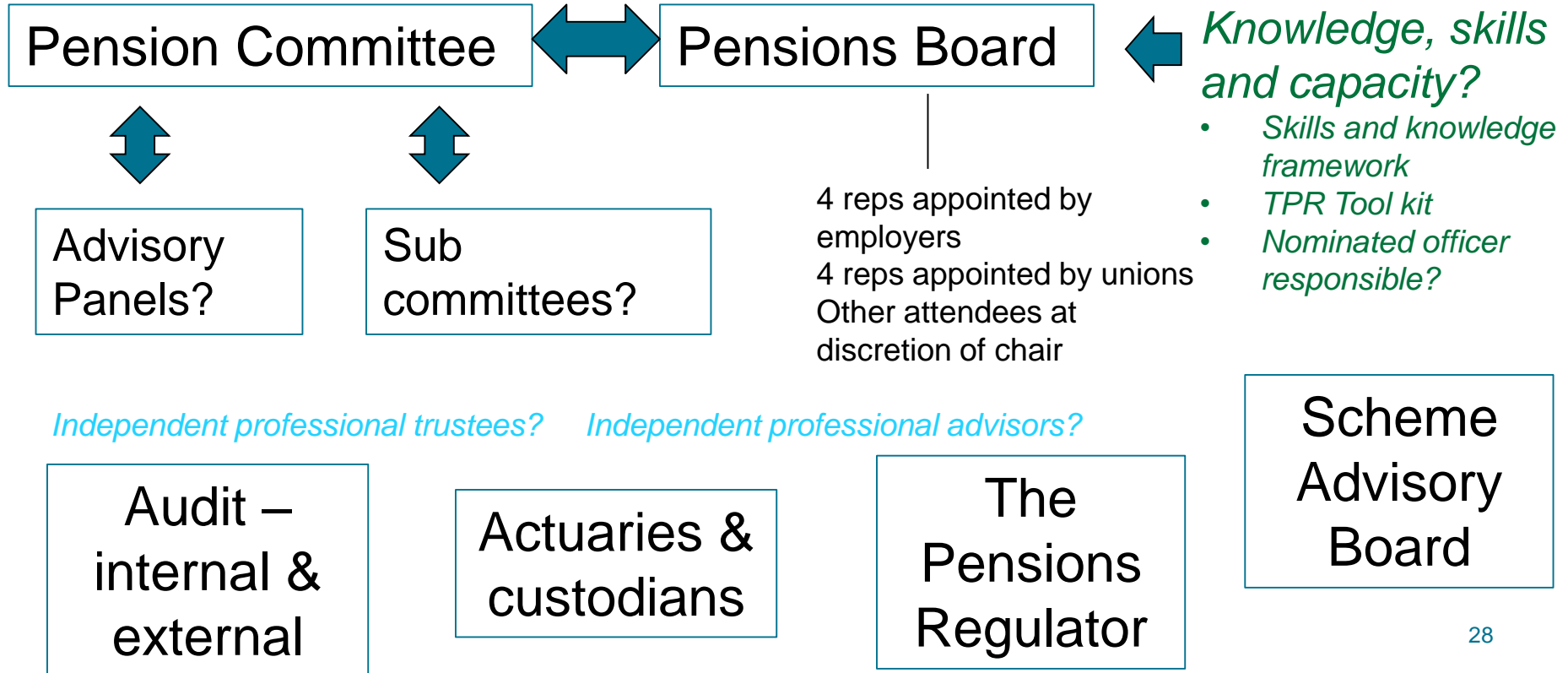


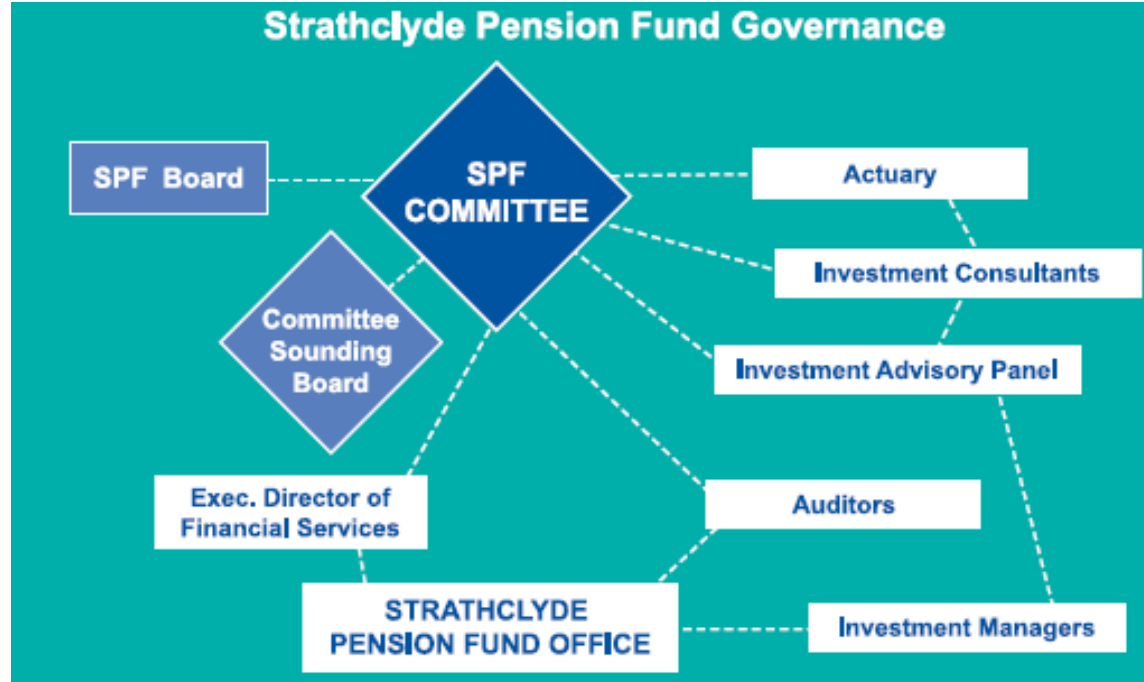
Issues identified in annual reports

Pension Fund	Issues identified in annual report
Strathclyde	LGPS 2015 - Minor teething problems – factor tables affected transfers – resource required had some detrimental affect on day to day processing times. Retiral processing behind target.
Lothian	Increased awareness of freedom and choice led to more requests for transfers. GMP initial analysis showed 54% matching with reconciliation underway. New companies set up for administration of investments. Joined the Pension Administration Association.
North East	Streamlining and integration, use of online services, automation efficiencies from large employers using 'I-Connect'. First customer satisfaction survey.
Tayside	Online self-services for employers and employees. Successful introduction of CARE scheme.
Fife	LGPS 2015 has had adverse effect on performance standards. I-Connect initiative in 2015-16 will result in efficiencies. Benchmarking of direct costs similar to other authorities – higher indirect costs. Audit against tPR code.
Falkirk	Altair introduced March 2015. Online services planned for 2016-17. Cost increased as a result of CARE administration compliant system and the loss of income for administering police and fire.
Highland	Transfers within target time? Online estimates of benefits for severance scheme.
D&G	First council to be on board with DWP Tell Us Once initiative
Borders	Successful implementation of the new LGPS. Successful admission of new bodies to fund.
Shetland	Customer feedback positive. Performance monitoring arrangements.
Orkney	Manual records currently being transferred to ALTAIR. Viewing access to the payroll system although amendments require formal request to payroll.

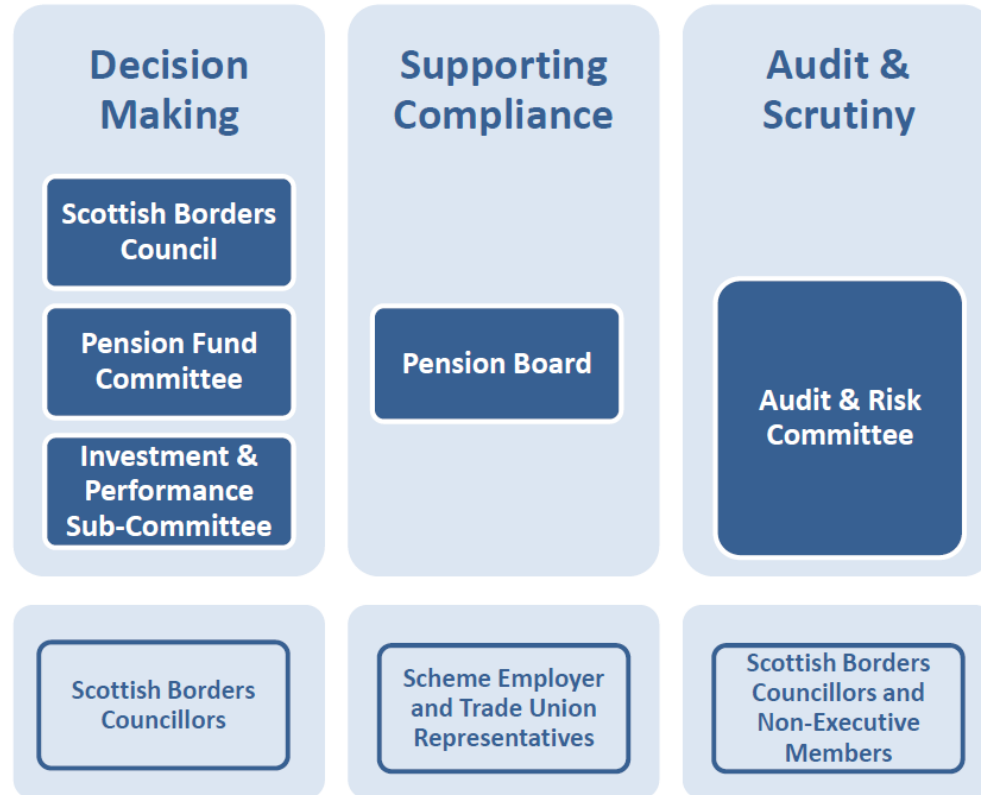
Annual report & accounts

Governance overview

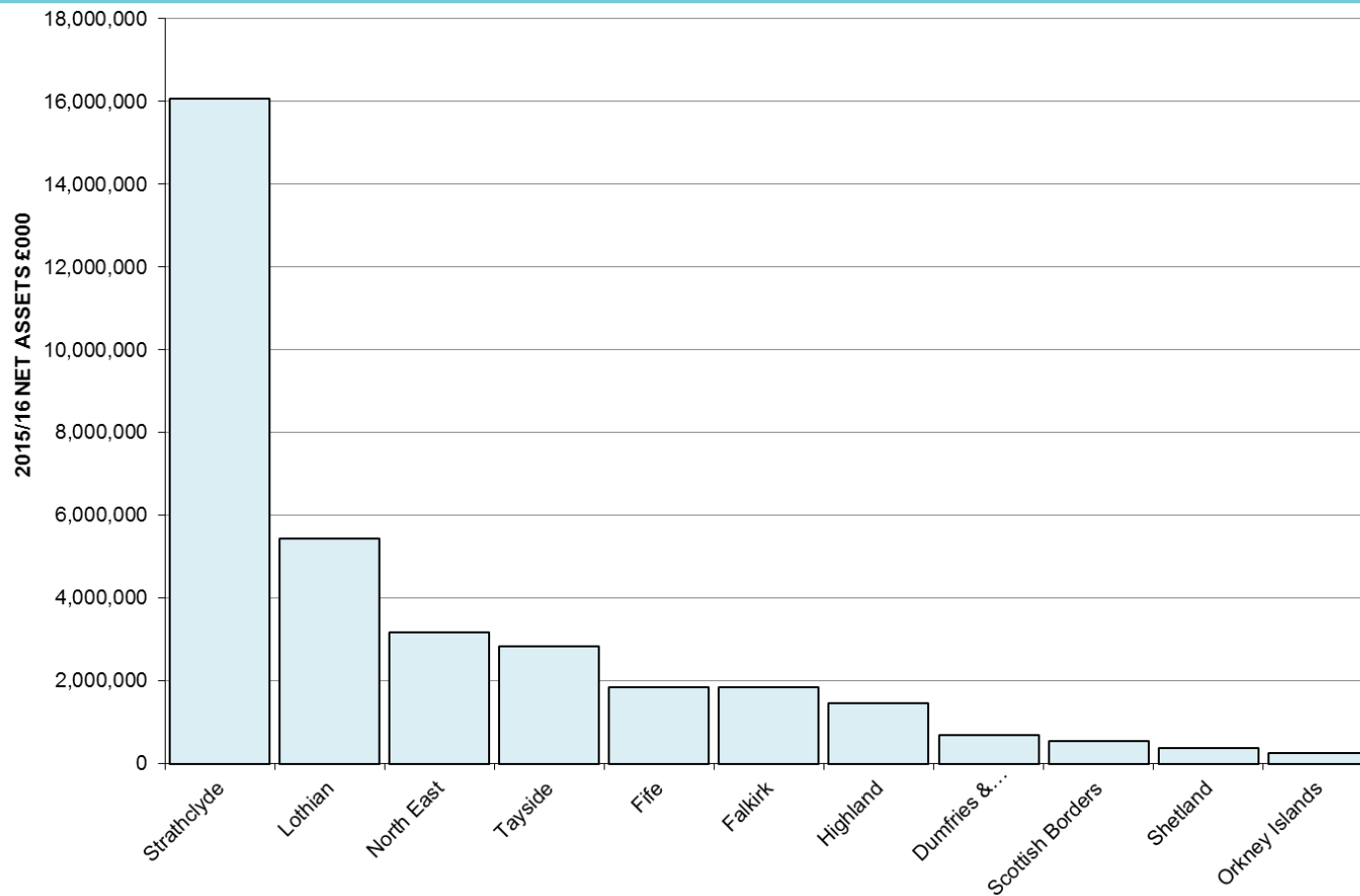




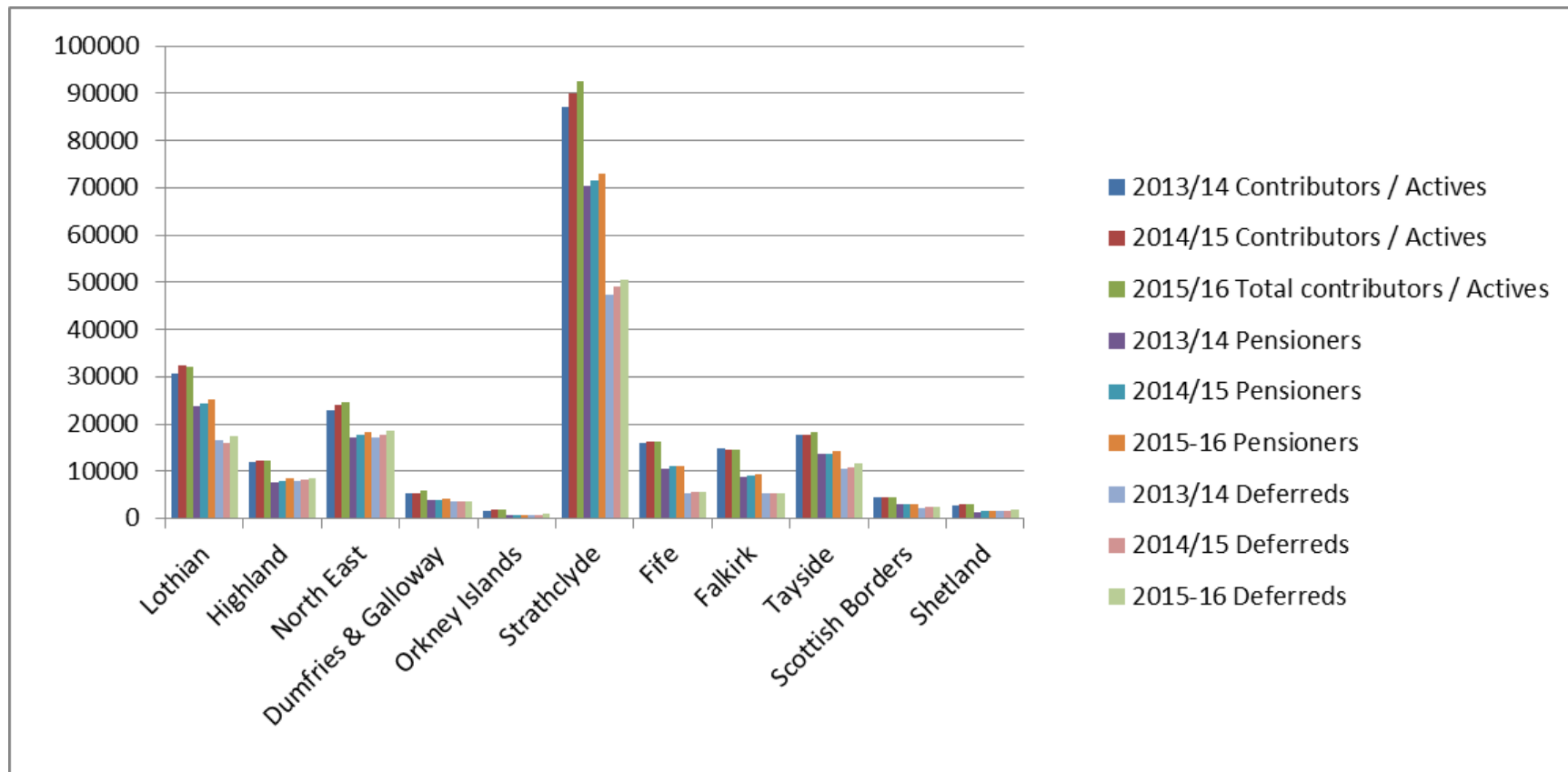
Governance Scottish Borders



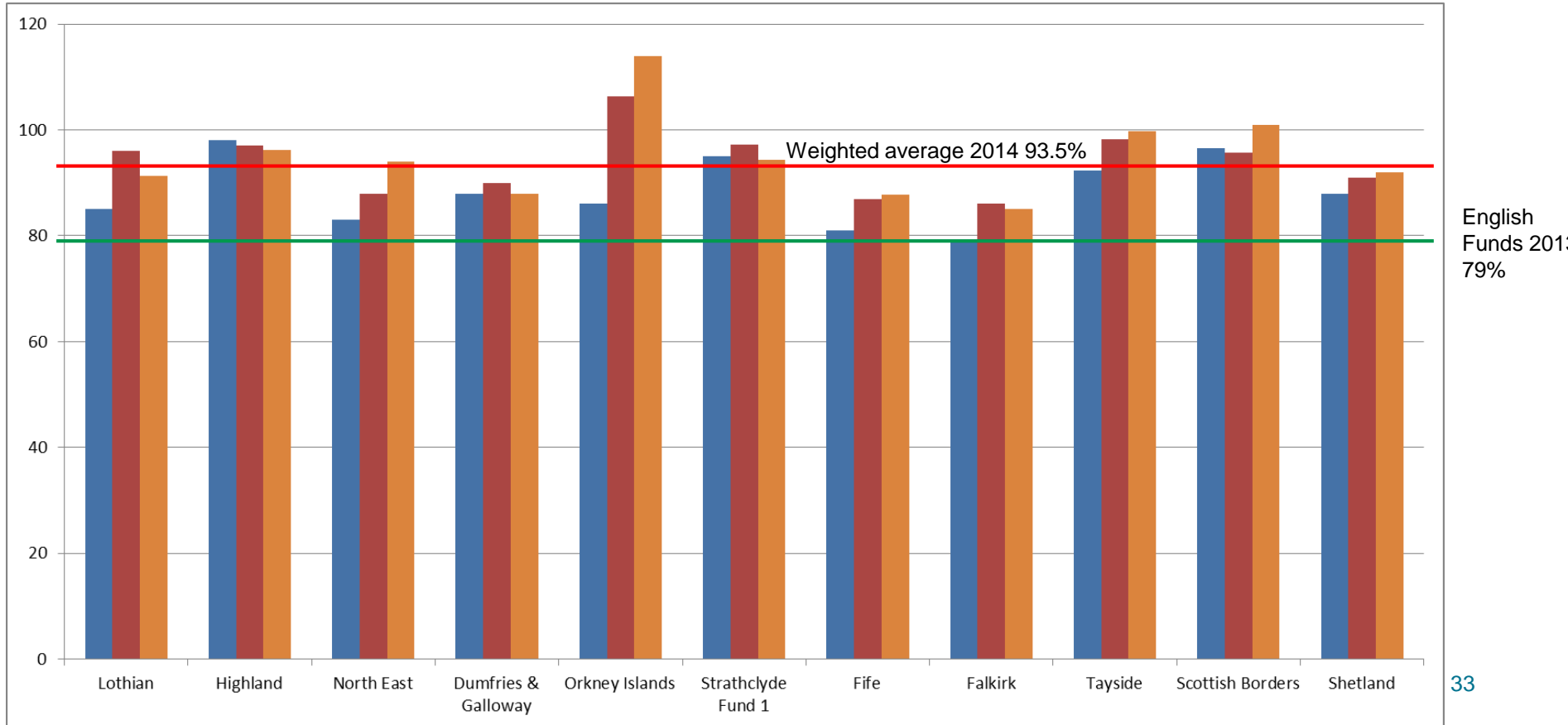
Net Assets 31 March 2016



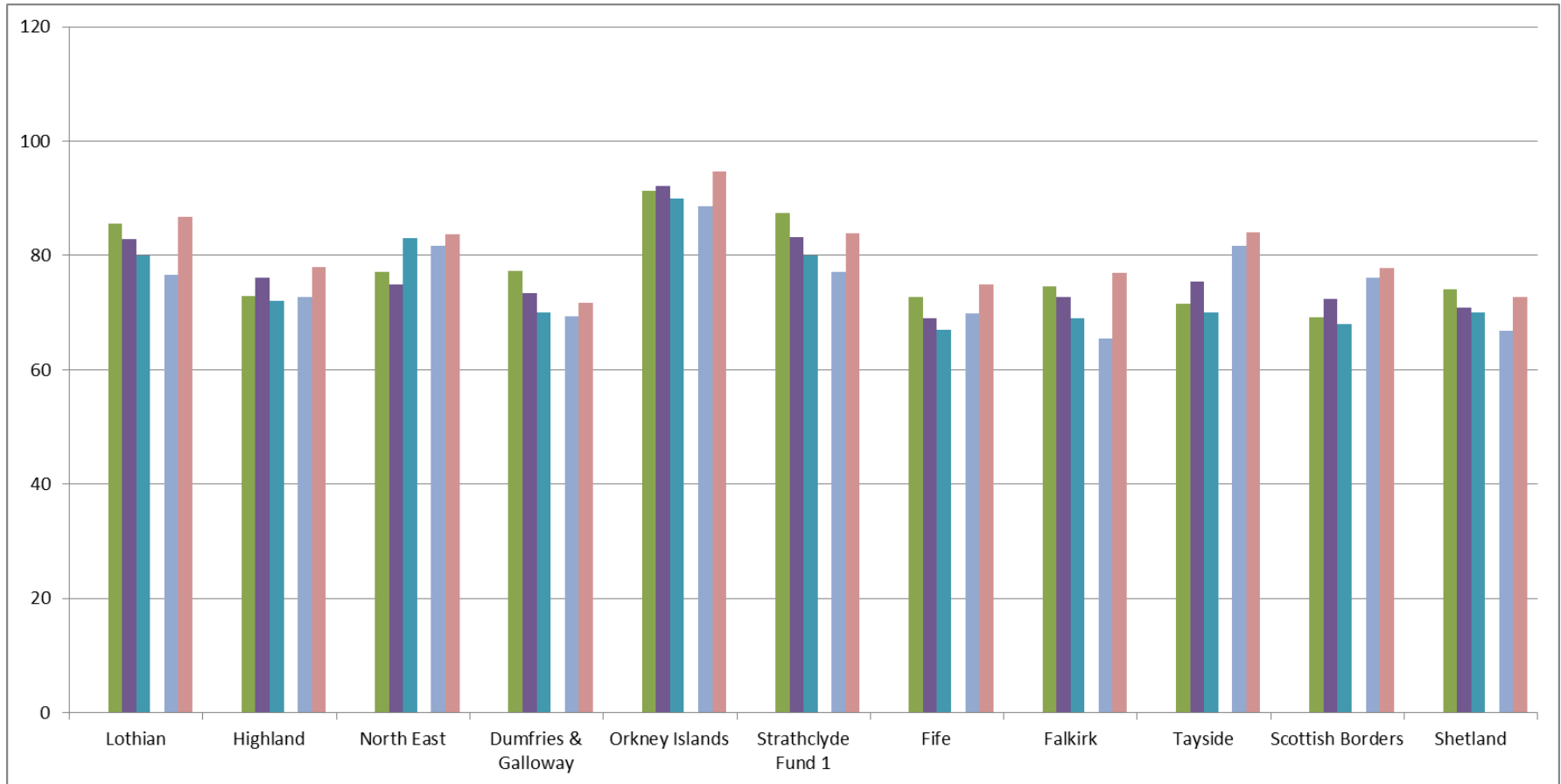
Fund Membership 3 year trend



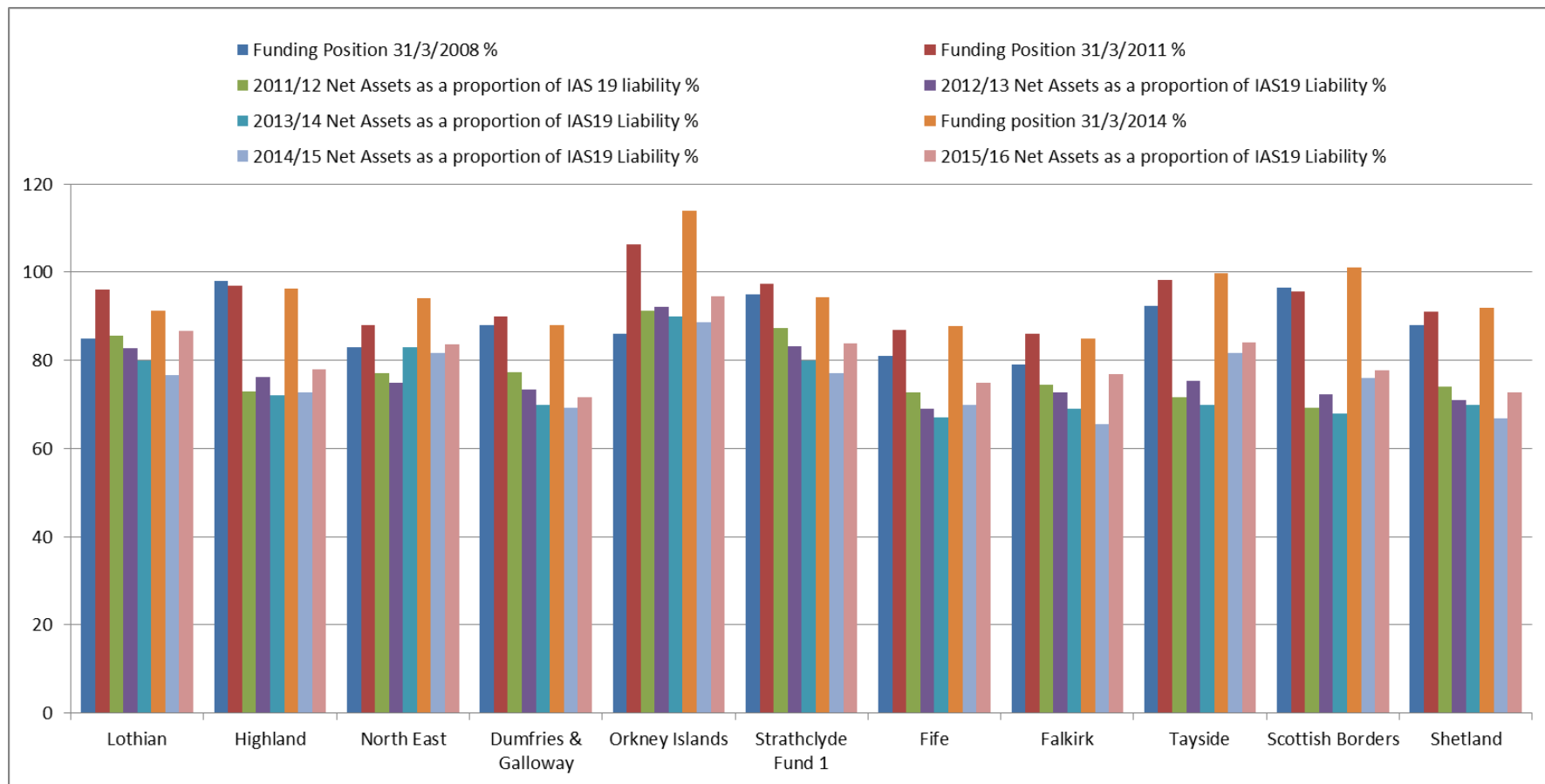
Funding valuations 2008, 2011, 2014



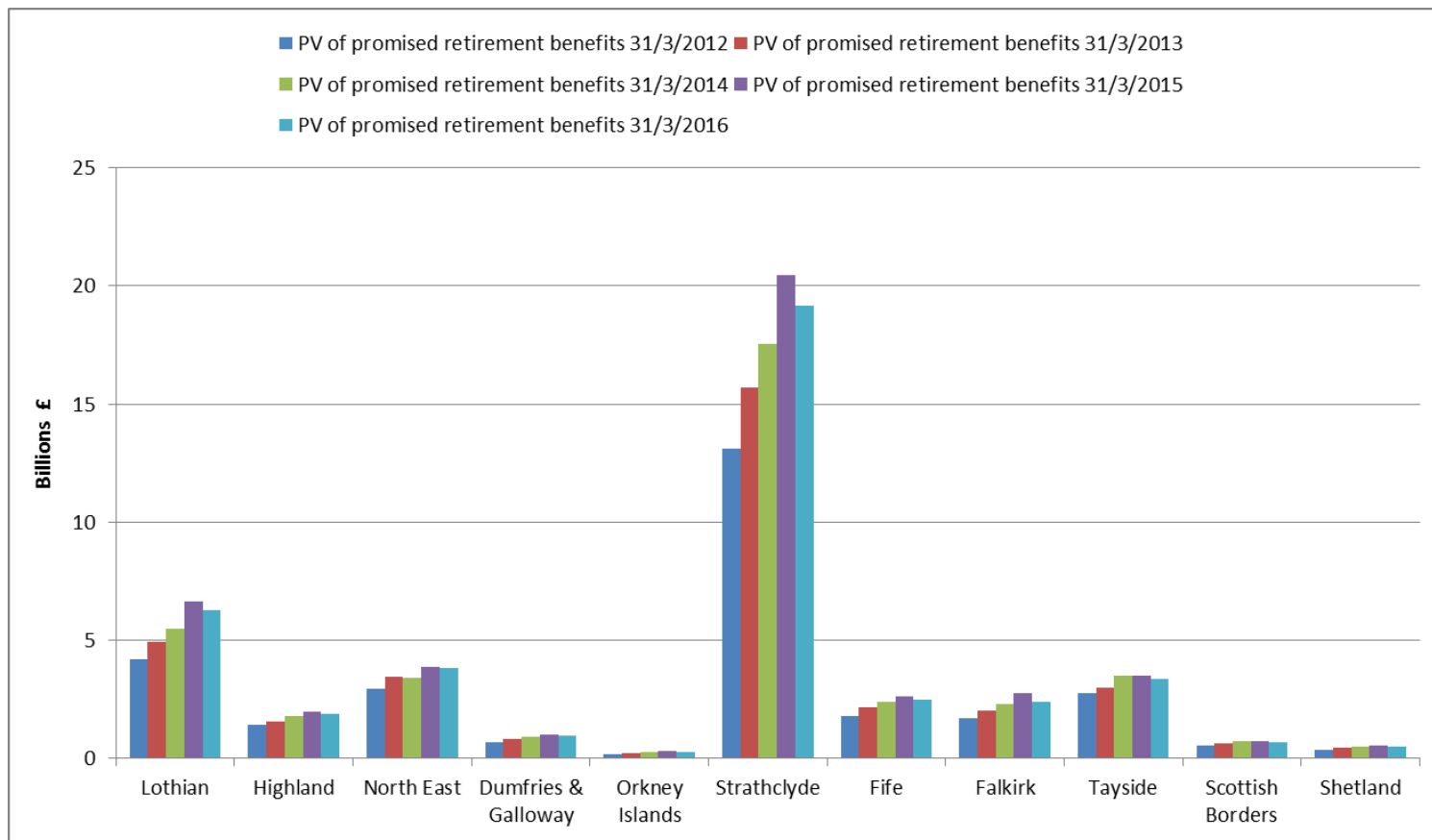
Net assets as a proportion of the PV of promised retirement benefits - 5 years



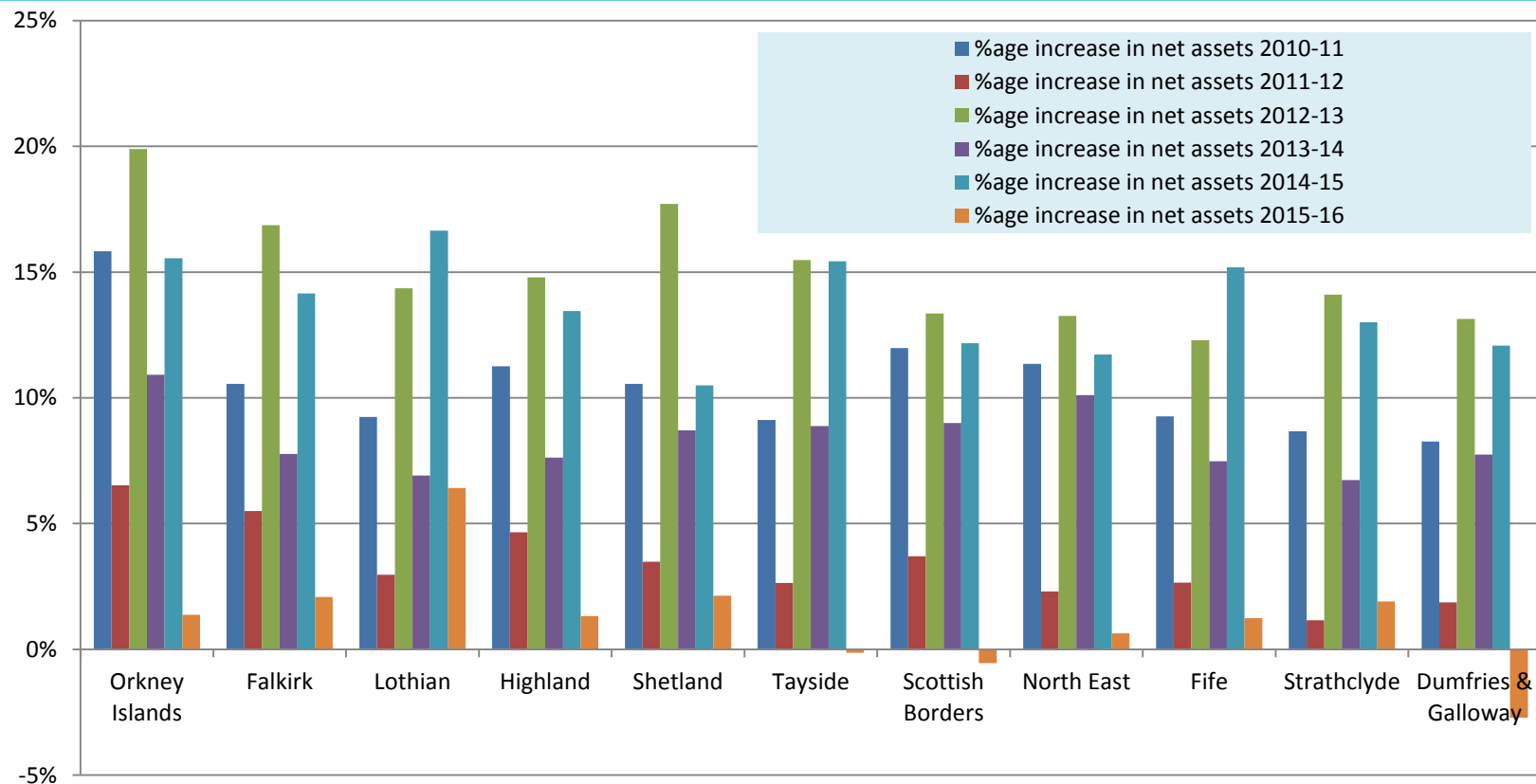
Positions over time – funding basis & accounting basis compared



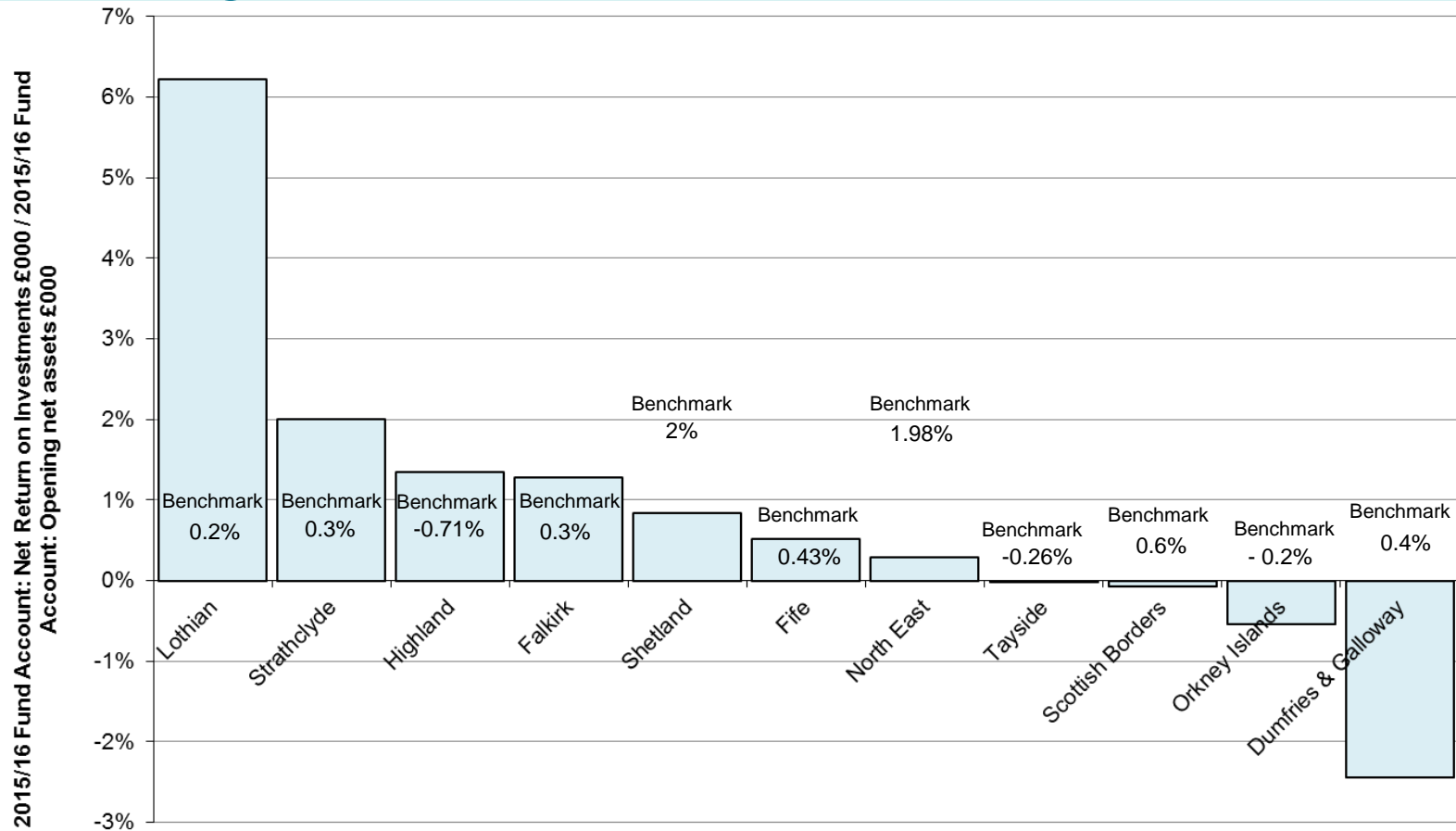
PV of promised retirement benefits



Year on year movements in net assets



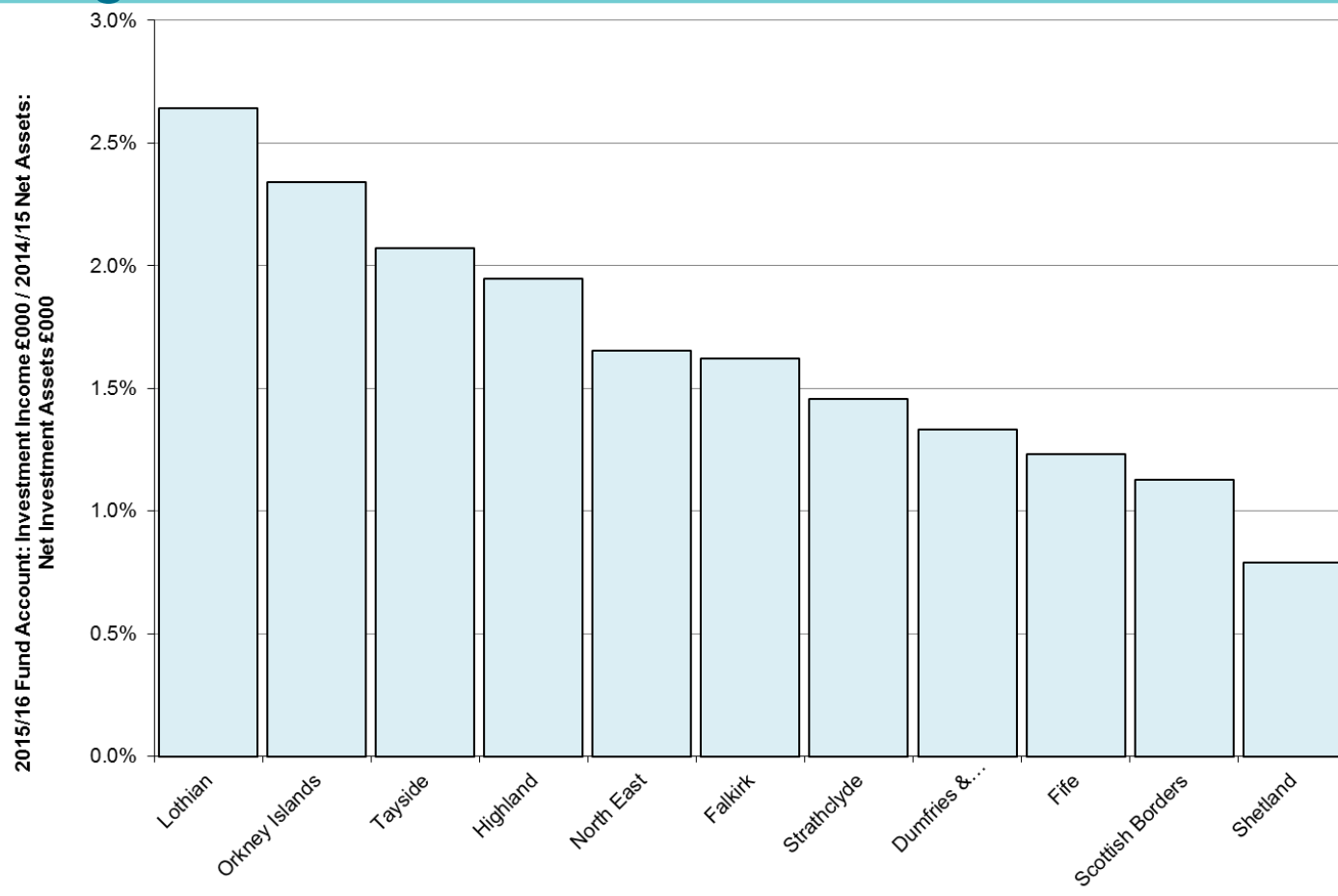
Net return on investments as a proportion of opening investments 2015-16



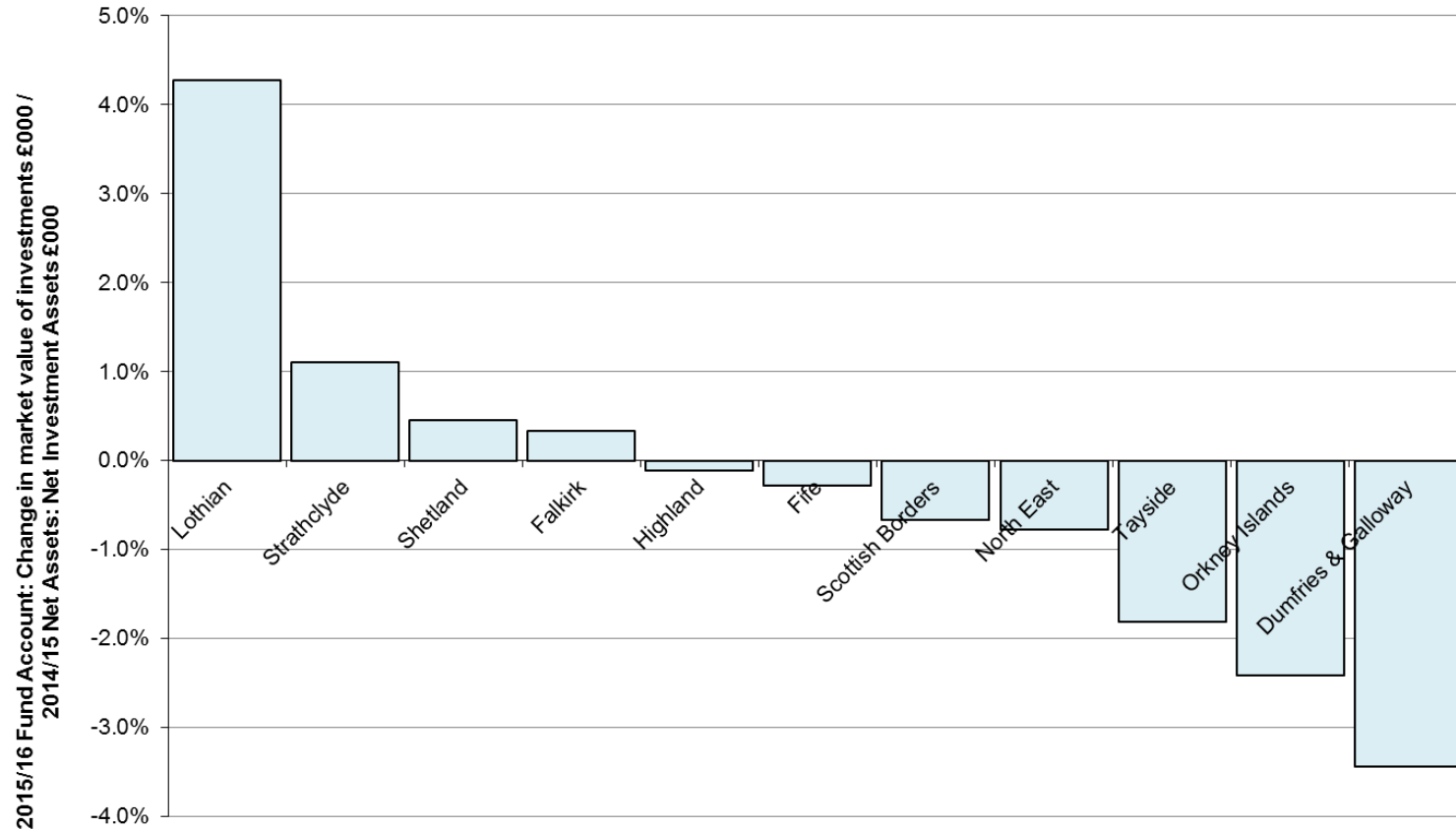
Investment strategy

Pension Fund	Brief details	Equities
Strathclyde	Current target allocation: Equity 72.5%, Hedging/Insurance 4.5%, Credit 3%, ST Enhanced Yield 7.5%, LT Enhanced Yield 12.5%. Proposals to reduce exposure to equity in favour of broader asset base. Strategic allocations during the year to private debt (£300m) and multi-asset credit (£450m). The theme of bank-replacement investment activity through its Strathclyde Direct Investment Portfolio with 10 new investment commitments totalling some £300m.	72.6%
Lothian	LT strategic allocation: Equities 65%, Index linked assets 7%, Alternatives 28%. Low-cost, lower-risk investment strategy, targeting stable, income generating global equities. Reduced equity allocations and new commitments to alternative assets and in index-linked government bonds. Infrastructure investments represented 8% of Fund at 31 March 2016. The majority of investments managed internally.	67%
North East	Current allocation: Equity 70%, Alternative (including private equity) 10%, Bonds 10%, Property 10%. The Fund continues to rebalance assets in line with its investment strategy, reducing its exposure to equities and increasing alternatives and bonds. Planned move from Growth assets to Income/Protection assets. Expanded Alternative program with Private Equity and Diversified Growth Funds.	78.8%
Tayside	New asset allocation: 65% equities, 13% bonds, 12% property and 10% alternatives.	69.2%
Fife	Current allocation: 80% growth assets (equities, property etc) and 20% non growth (bonds).	57.2%
Falkirk	Strategic allocation: Equities 60% , Bonds 10%, Property 10%, Diversified Growth 10%, Social housing 2%, other alternatives 8%	62%
Highland	Target allocation: UK equities 30.7%, Global equities 30.3%, Private equity 5%, Property debt 5%, Property 10%, Bonds 20%	68.5%
D&G	Strategic allocation: Equities 62%, Bonds 15%, Property 10%, Alternatives 13%	62%
S Borders	Strategic allocation: UK equity 19%, Global Equity 46%, Bonds 13%, Multi Asset fund 17%, Property 5%	65.5%
Shetland	Allocation: UK equity 18%, Global equity 40%, Property 12%, Alternative bonds 10%, Diversified growth 20%	59%
Orkney	Allocation: UK equities 22%, Global Equities 35.7%, Pooled and index linked bonds 18.1%, Pooled 8.4%, Alternative 9.6%, Cash 3.2%, Pooled multi asset 3%.	69.7%

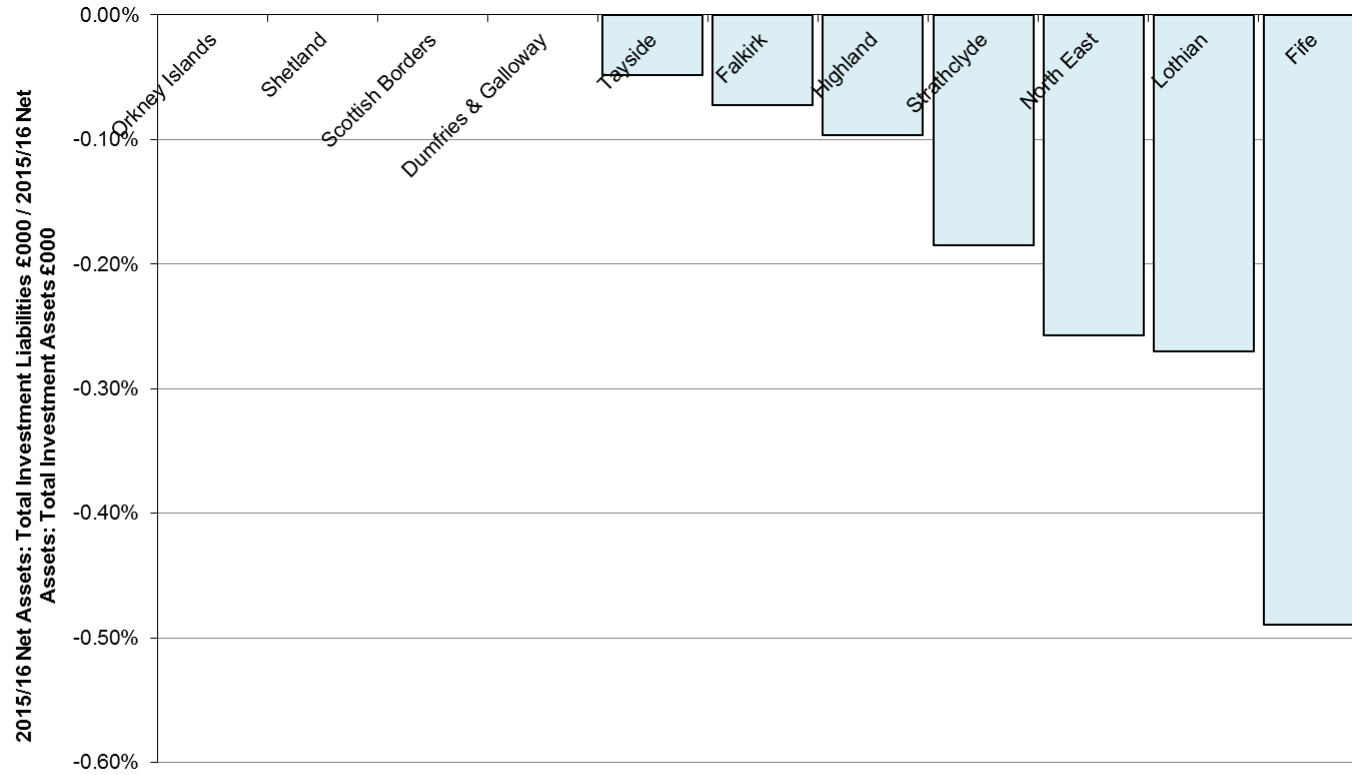
Investment income as a proportion of opening investments 2015-16



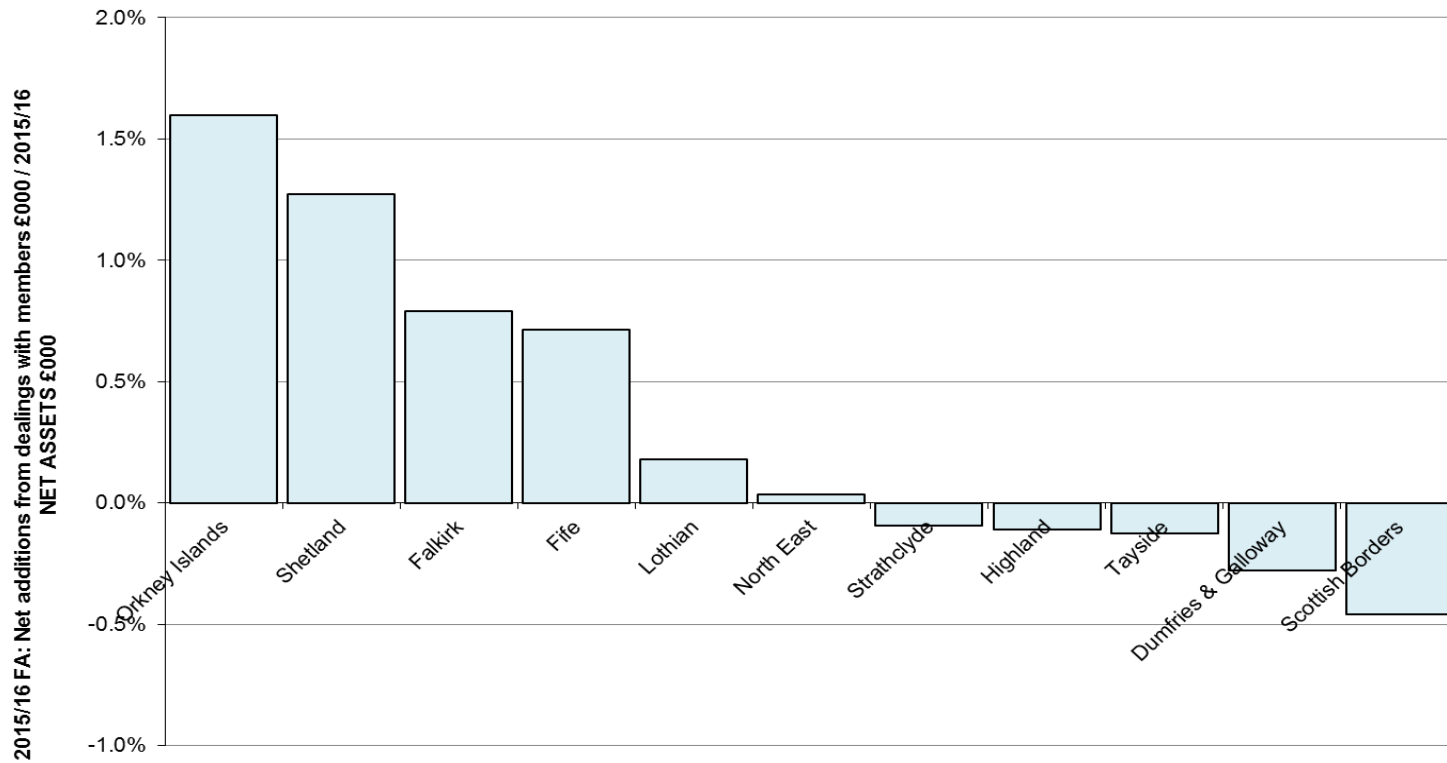
Change in market value of investments 2015-16



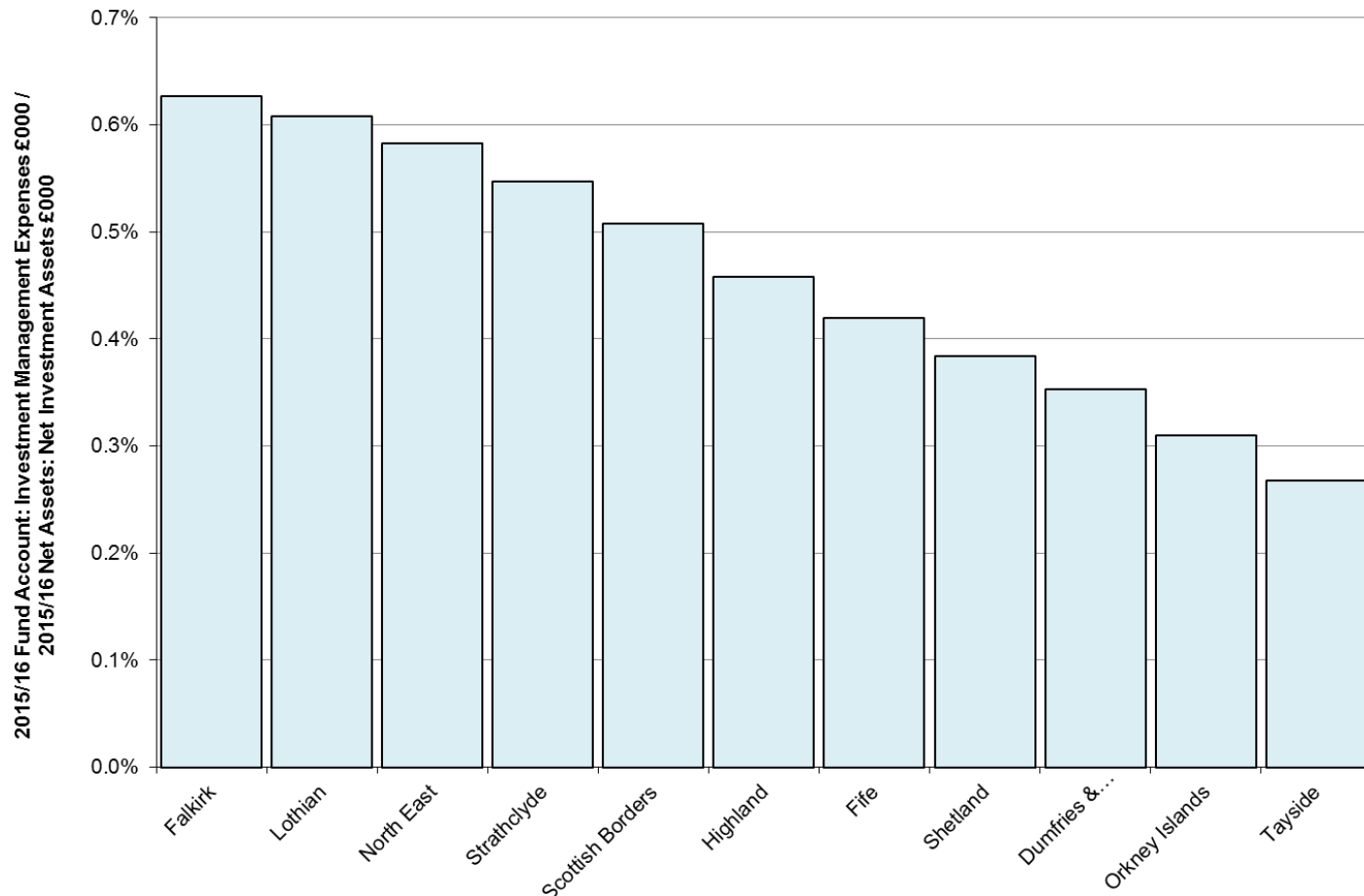
Investment liabilities as a proportion of investment assets 2015-16



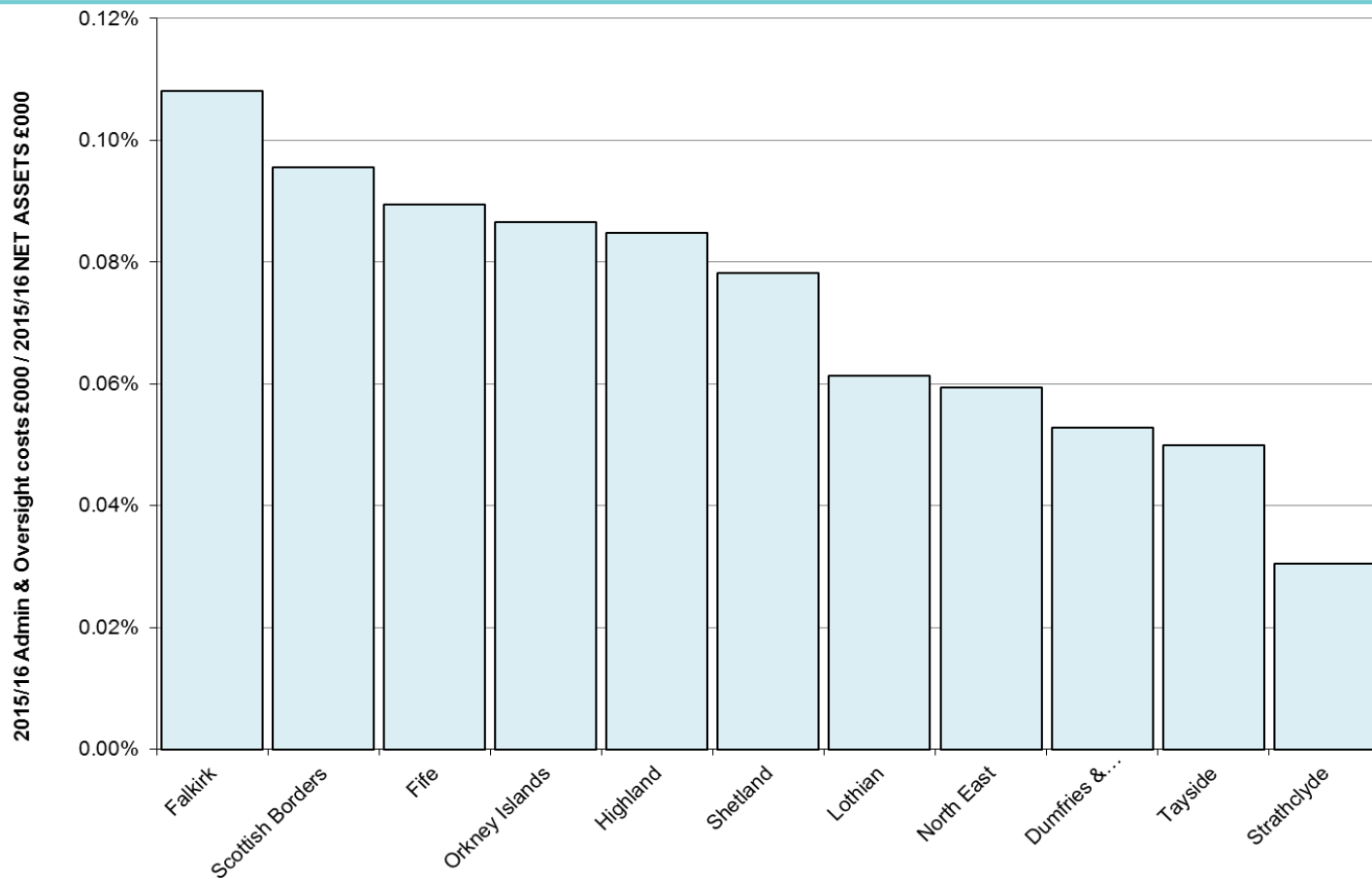
Net additions from dealing with members as a proportion of net assets 2015-16



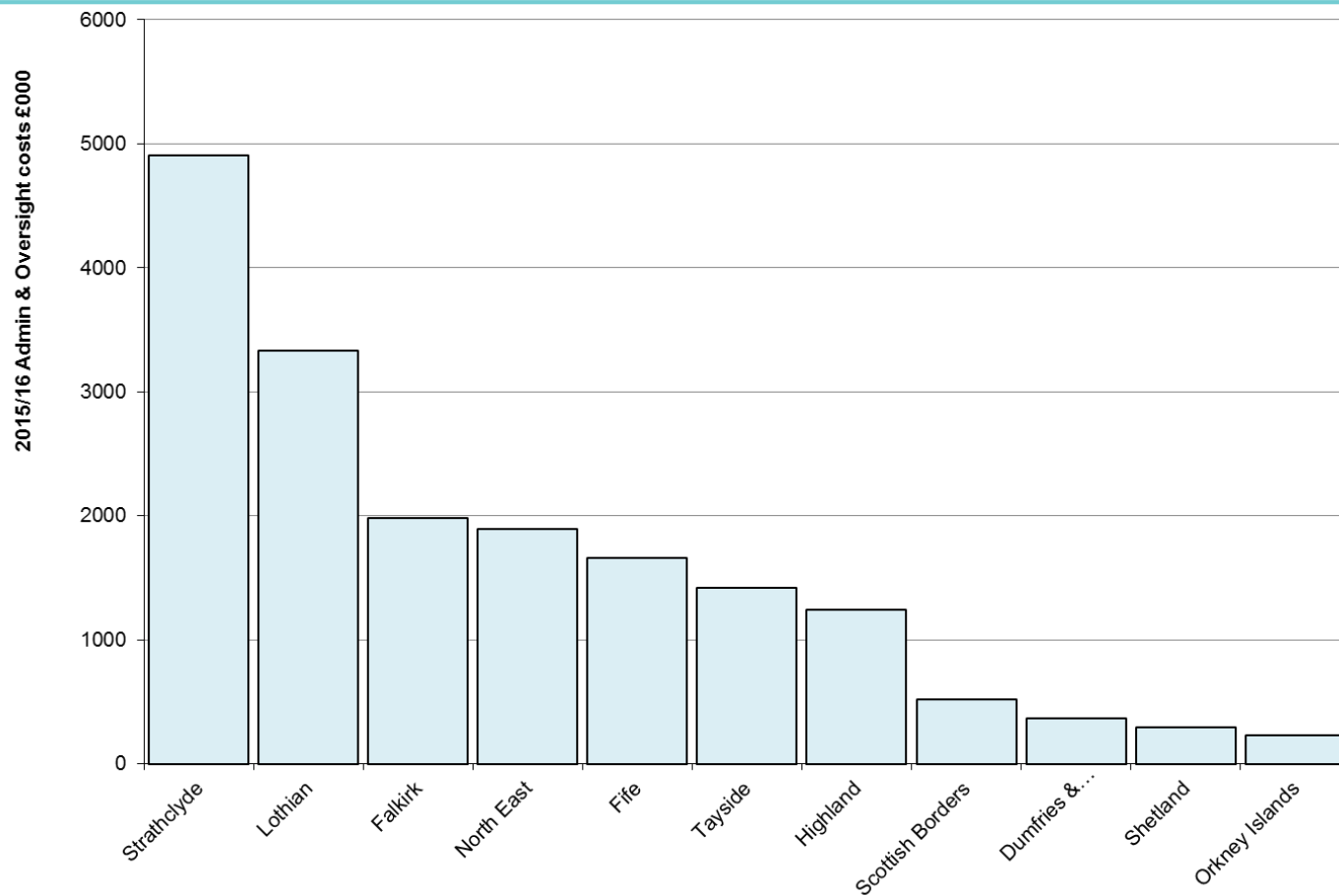
Investment management expenses as a proportion of investment assets 2015-16



Admin and oversight costs as a proportion of net assets 2015-16



Admin and oversight costs 2015-16



New audit appointments & code

Overview of other 'stakeholder' activity

The annual reports and accounts 2015-16

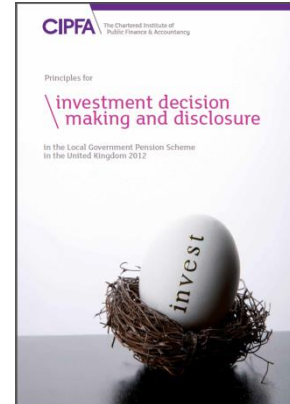
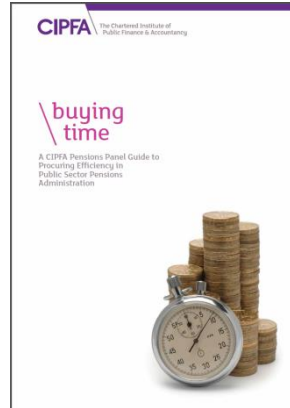
Audit issues arising 2015-16



Audit issues 2015-16

Issues raised during the year

- Investment thresholds
- Appointment periods for investment managers
- Actuarial and investment services with the same company
- Group accounts
- Investment management expenses
- BrExit



SCHEDULE 1
LIMITS ON INVESTMENTS

Regulation 14(1)

PART 1
Table

	Column (1) <i>Limits under regulation 14(2)</i>	Column (2) <i>Increased limits under regulation 14(3)</i>
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	15%
4. The sum of— (a) all loans (but see paragraph 14 of Part 2); and (b) any deposits with— (i) any local authority; or (ii) any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act (exemption orders).	10%	—
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding (but see paragraphs 15 and 16 of Part 2).	10%	—
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	—
8. All sub-underwriting contracts.	15%	—
9. All investments in units or shares of the investments subject to the trusts of unit trust schemes managed by any one body (but see paragraph 16 of Part 2).	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%
11. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 16 of Part 2).	25%	35%
12. Any single insurance contract.	25%	35%
13. All securities transferred (or agreed to be transferred) by the administering authority under stock lending arrangements.	25%	35%

Increase of limit on investment in partnerships

2. For the figure "15%" in row 3 (all contributions to partnerships) of Column 2 in Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010(1) substitute the figure "30%".

Audit issues 2015-16

Final accounts findings so far!

Pension Fund	Issues identified by auditors
Strathclyde	Investment management expenses. LGPS 2015 introduction (transfer factors, negative CPI, need to do manual calculations for changes) Assurance report on Custodian does not cover business continuity. Employee benefit statements.
Lothian	Group accounts with inclusion of LPFE and LPFI. Investment management expenses.
North East	No major issues. Early adopted of CIPFA 2016-17 guidance with prior year adjustment.
Tayside	?
Fife	No major issues. Management costs. Cash balance high. Annual benefits statements. Pension Board established and training arrangements established.
Falkirk	Year end data returns from employers late – needs better engagement. Employee benefits statements. Records – addresses. Staff resources. Policy on retendering of services. Admin performance indicators in need of updating. Formalisation of training records.
Highland	Strain on the fund for severances before year end. Investment management expenses – performance fees identified. Derivatives accounting.
D&G	?
Borders	?
Shetland	Budgeting. Improved transparency for the fund via the council website. Internal audit on the pension fund control systems. Assessment of investment management expenses.
Orkney	Inconsistencies and presentational errors. Internal audit assurance – no specific PF work. Transparency of information – no separate webpage. Computerisation of records.

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