

Shetland Islands Pension Fund

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Shetland Islands Pension Fund Committee and the Controller of Audit

November 2023

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Key messages

Audit of the 2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.

Financial management and sustainability

- 2 The £660 million value of the Fund's assets has not changed during 2022/23.
- 3 The overall funding position indicated by the IAS19 assessment on 31 March 2023 is 120 percent. The triennial valuation at 31 March 2023 is currently being conducted. This will provide an updated assessment of the Fund's position and determine future funding strategy.
- 4 The Fund has appropriate and effective financial management arrangements in place, with investment performance against targets reported in the annual investment review. Reporting of fund managers' performance against targets could be enhanced within the annual report and accounts.
- 5 The Fund concluded a review of its investment strategy in 2022 with identified changes currently being implemented.
- 6 The ratio of active members to retired members is reducing and the Fund is increasing investment in income generating assets.

Vision, leadership, governance and use of resources to improve outcomes

- 7 The Fund should consider whether an environmental, social and corporate governance (ESG) partner should be appointed.
- 8 Fund administration performance levels in 2022/23 were in line with applicable benchmarks.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Shetland Islands Pension Fund (the Fund). The scope of the audit was set out in an annual audit plan presented to the Pension Fund Committee on 16 May 2023. This Annual Audit Report comprises:

- significant matters arising from an audit of the Fund's annual accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#): - financial management; financial sustainability; vision leadership and governance; and use of resource to improve outcomes.

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

3. We would like to thank committee members, management, and staff of the administering authority, particularly those in finance, for their cooperation and assistance in this year's audit and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

4. The administering authority of the Fund, Shetland Islands Council, has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts for the pension fund that are in accordance with proper accounting practices. The administering authority is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

5. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

6. 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 of administering authority from its responsibility to address the issues we raise and to maintain adequate systems of control.

7. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

8. 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 2022/23 audit fee of £35,170 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

9. We add value to The Fund by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Our audit opinions on the annual report and accounts are unmodified.

Audit opinions on the annual report are unmodified

10. The Pension Fund Committee approved the annual accounts for the Fund for the year ended 31 March 2023 on 13 November 2023. As reported in the independent auditor's report:

- 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 consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £13 million

11. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

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

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£13 million
Performance materiality	£7.8 million
Reporting threshold	£250 thousand

13. The overall materiality threshold for the audit of the annual accounts of the Fund was set with reference to gross investment assets, which we judged as the figure most relevant to the users of the financial statements.

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting a low history of previous errors, medium degree of estimation within the accounts and a high degree of planned testing.

15. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Performance materiality was separately assessed for benefits expenditure, administrative & governance costs and contribution income

16. We assessed that benefits expenditure, administrative & governance costs and contribution income could reasonably be expected to influence the economic decisions of users of the annual accounts, despite the comparatively small value of these areas in relation to overall materiality. In line with International Standards on Auditing (UK) 320, we therefore set a specific materiality value for these areas based on total additions to the Fund as outlined in [Exhibit 2](#).

Exhibit 2

Specific materiality values for benefits expenditure, administrative & governance costs and contribution income

Materiality level	Amount
Specific Performance materiality	£1.5 million

Our audit work responded to the risks of material misstatement we identified

17. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant and other risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in the International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The following procedures were undertaken as part of our audit:</p> <ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. 	<p>Results</p> <p>No significant control weaknesses identified through audit work.</p> <p>Journal testing of a sample higher risk transactions at year-end and other transactions through the year did not identify any issues.</p> <p>No issues identified relating to unusual journal activity.</p> <p>No significant transactions outside normal course of business.</p> <p>No changes were made to methodology or assumptions used to prepare accounting estimates in year.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focused testing of accounting accruals and prepayments. 	<p>Conclusion: Satisfactory, no evidence of management override of controls</p>

Other risks of material misstatement in the annual accounts

<p>2. Actuarial valuation of pension liability</p> <p>The annual accounts include a disclosure note setting out the Fund's liability for future retirement benefits. This information is provided by the Fund's actuary. The actuary's valuation depends on a range of financial and demographic estimations about the future. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Assess the competence, capabilities, and objectivity of the actuary in line with ISA 500. Review the information provided to the actuary by the Fund. Review the assumptions used by the actuary to reach the valuation of future retirement benefits. Review officers' arrangements for ensuring the completeness and accuracy of professional estimations for pensions. 	<p>Results</p> <p>No issues were identified in our assessment of the actuary as a management expert.</p> <p>Arrangements for provision of data to the actuary were deemed satisfactory.</p> <p>The assumptions used within the actuarial valuation were within expected ranges.</p> <p>Management considerations in relation to the actuary were reviewed and considered reasonable.</p> <p>Conclusion: Satisfactory, no issues identified with the valuation of disclosed pension liability</p>
<p>3. Level 3 investment assets valuation</p> <p>These investments represent 11 per cent of the Fund's investments and are not based on observable market data but rely on</p>	<ul style="list-style-type: none"> Assess the competence, capabilities, and objectivity of the Fund Managers in line with ISA 500. Review previous auditor work on balances brought forward. Review post year end valuation reports. 	<p>Results</p> <p>No issues identified in our assessment of fund managers as management experts.</p> <p>Review of balances brought forward completed satisfactorily.</p> <p>Investment valuations in the accounts agreed to supporting</p>

Audit risk	Assurance procedure	Results and conclusions
<p>investment manager valuations involving significant application of judgement which might be impacted by delays in valuation data and reaction to environmental factors.</p> <p>The subjectivity involved represents increased risk of material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Carry out focused valuation testing on a sample of investments examining the valuation methodology. 	<p>valuation reports. We identified that there is scope for improved documentation of management considerations noted in paragraph 21.</p> <p>Schroders valuation methodology reviewed and compliance with IFRS13 agreed.</p> <p>Conclusion: Satisfactory, no significant issues identified but housekeeping point raised</p>

We have no significant issues to report from the audit

18. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the Fund, including our view about the qualitative aspects of Shetland Islands Pension Fund's accounting practices.

19. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. We have no significant issues to report from the audit.

We did not identify any misstatements within the financial statements

20. Our audit identified no misstatements above our reporting threshold.

The unaudited annual accounts were received in line with the agreed audit timetable, but there is scope to improve one aspect of management review

21. The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023. The quality of working papers received was generally good although there is scope to improve the documentation of management considerations in the reconciliation between ledger, custodian reports and fund manager valuations. Investment valuation differences of £3 million were noted between custodian and fund manager reports at year-end. These arise primarily due to custodian and fund managers using valuations at slightly different times of the day on 31 March. We are satisfied that the valuation estimate included in the financial statements is reasonable, but there was no evidence provided in working papers of management's consideration of this matter.

Recommendation 1

Management consideration of the reasonableness of valuation differences in the custodian and fund manager reconciliation should be documented

Good practice

22. We noted a point of good practice around presentation of financial performance in the accounts. This includes reporting performance against budget data for total income and expenditure and analysis of any variance. This provides information to the reader of how the Fund has performed against expectations and is not a commonplace disclosure that we are aware of in other pension fund accounts.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

The £660 million value of the Fund's assets has not changed during 2022/23.

The overall funding position indicated by the IAS19 assessment at 31 March 2023 is 120 percent.

The Fund has appropriate and effective financial management arrangements in place with investment performance against targets reported in the annual investment review. Reporting of fund managers' performance against targets could be enhanced within the annual report and accounts.

The value of the Fund's assets has not changed during 2022/23

23. In 2022/23 Covid-19 and the conflict in Ukraine had an impact on financial markets and investments. The Fund's performance in 2022/23 is summarised in [Exhibit 4](#).

Exhibit 4

Assets, funding level and investment performance

Change in net assets	IAS 19 Funding level	Investment performance
£660 million	120%	7.4%
Closing net assets as at 31 March 2023	Net assets vs promised retirement benefits as at 31 March 2023	Average annual return on investments over 5 years
£660 million	80%	-0.5%
Opening net assets at 1 April 2022	Net assets vs promised retirement benefits as at 31 March 2022	Return on investments 2022/23

Source: 2022/23 Shetland Islands Pension Fund unaudited annual report and accounts

24. The Fund has faced a volatile year in 2022/23. The net assets of the Fund remained stable between 31 March 2022 and 31 March 2023 at £660 million. The Fund's overall investment return was a decline of 0.5 per cent.

25. The performance of the Fund's investments was poorer in the first half of 2022/23. This reflected global concerns regarding the conflict in Ukraine and the resultant impact on global energy and food costs. This caused a steep rise in inflation and interest rates. The second half of the year saw a recovery of Fund values, as inflation and interest rates were perceived to be reaching their peak.

The overall funding position indicated by the IAS19 assessment at 31 March 2023 is 120 percent.

26. Each year the Fund's actuary, Hymans Robertson, estimates pension liabilities at the accounting date as required by International Accounting Standards (IAS) 26 requirements and calculated in line with IAS 19 requirements. This estimate uses assumptions in line with IAS 19 requirements. It is not directly comparable to the liability measured on a funding basis, which will be recalculated at 31 March 2023 and notified to the Fund soon. It is this funding information which will inform future contribution rates.

27. The promised IAS19 retirement benefits (fund liabilities) at 31 March 2023 were estimated at £549 million. At the previous year-end (31 March 2022) these were higher at £829 million). This is a 34 per cent decrease in the liabilities over 2022/23. The large reduction is driven mainly by an increase in the assumed discount factor, which is based on high quality bond yields. These have changed significantly between financial years.

The Fund has appropriate and effective financial management arrangements in place.

28. The Executive Manager (Finance) of Shetland Islands Council is the Proper Officer responsible for Shetland Islands Pension Fund. The financial regulations of Shetland Islands Council, as administering authority, apply to the Fund. We consider these to be current, comprehensive and support good financial management.

29. The Pension Fund Committee receives administration and performance reports at its quarterly meetings. From attendance at the Committee, we observed and concluded that reports presented to members are subject to appropriate review and scrutiny.

Reporting of investment performance in the annual accounts could be improved by reporting fund managers' performance against target.

30. The Fund appoints fund managers with separate investment mandates. This includes expectations around investment returns to be achieved. These investment targets are set against benchmark returns for the appropriate investment type – for example FTSE All share index. However, the target return for each mandate will also depend on how the fund manager manages the fund.

Where this management is “active” then the target will generally exceed the benchmark return.

31. Reports presented to committee include fund performance trends, investment manager performance against benchmarks and any specific targets set, and movements in asset allocations. However, the annual report and accounts does not currently include details of fund manager performance against target.

Recommendation 2

Current investment reporting within the annual report and accounts should be expanded to include analysis of the fund manager level of performance against targets as well as benchmark, as appropriate.

The Fund has appropriate financial control arrangements in place

32. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and the testing the operating effectiveness of specific controls, we did not identify any internal control weaknesses which could affect the Fund’s ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

33. We identified one area where existing controls could be improved. Bank account user access checks were undertaken on an ad-hoc basis as staff join or leave. Implementing an additional annual check would ensure any mistakes in the exit process for staff are discovered and rectified in a timely manner.

Recommendation 3

Review of bank account user access should be undertaken annually to confirm system access permissions are appropriate.

Internal audit reviews on the Fund’s systems were satisfactory

34. The Fund’s internal audit function is carried out by Audit Glasgow as part of their contract with Shetland Islands Council. Audit Glasgow presented their Annual Audit Report to the Shetland Islands Council’s June 2023 Audit Committee meeting. Their overall opinion was that limited assurance could be placed on the council governance and control environment due to a number of issues in council specific areas. However, they concluded that a reasonable level of assurance could be placed on the control environment around the Fund’s investments and within the Altair pensions system.

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

35. The Fund relies on the Council's arrangements for the prevention and detection of fraud and corruption. Based on our audit work we have concluded the Fund has adequate arrangements in place for the prevention and detection of fraud.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

The next triennial valuation covering at 31 March 2023 is currently being conducted. This will provide an updated assessment of the Fund's position.

The Fund concluded a review of its investment strategy in 2022 with identified changes currently being implemented.

The ratio of active members to retired members is reducing and the Fund is increasing investment in income generating assets.

We have no concerns over the arrangements for financial sustainability

36. The results of the 2020 full triennial valuation of the Fund showed a funding level of 92 per cent. The most recent interim valuation did not provide a specific funding level but concluded there was an improvement in the funding position due to rising interest rates reducing the Fund's liabilities.

The Fund concluded a review of its investment strategy in 2022/23 with identified changes currently being implemented

37. The Fund completed a review of its investment strategy in conjunction with their investment advisor. A new five-year investment strategy was presented to committee in February 2022, covering 2022-2027. The strategy proposed an increase in equities to drive growth, an introduction of private credit funds to secure steady return and investments directly linked to inflation to provide protection against future changes. The Fund's new strategy has also led to some changes in fund managers. The transition of investments is due for completion in 2024/25.

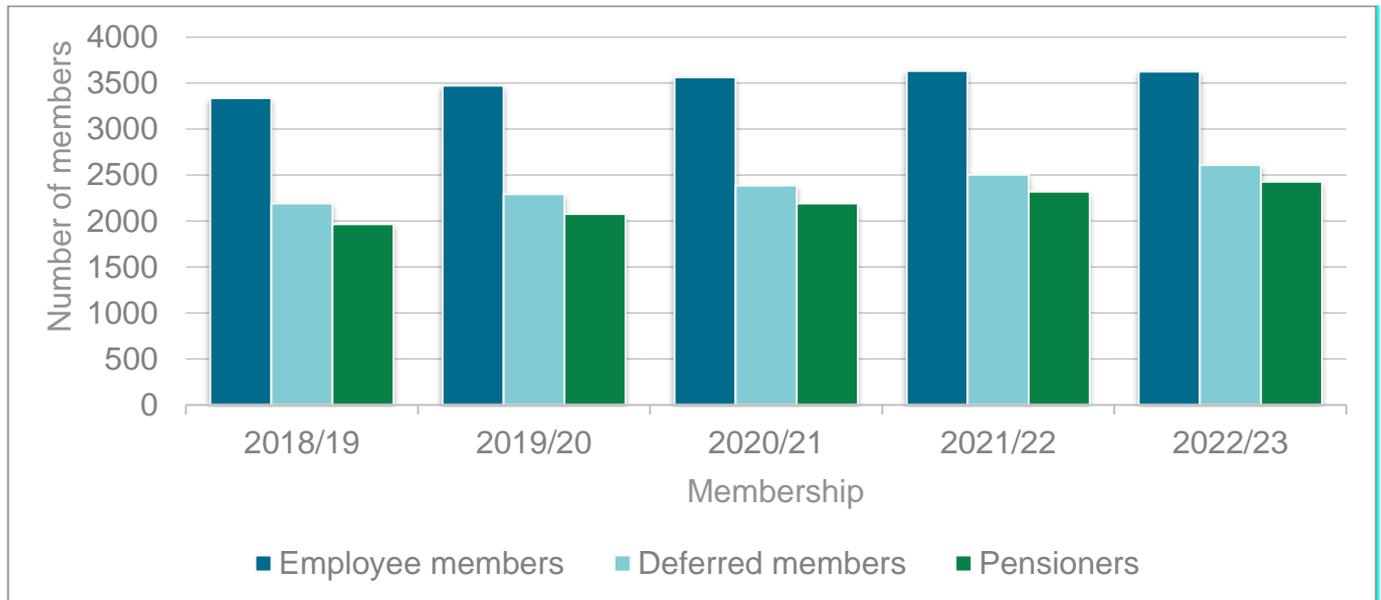
The 2023/24 budget predicts net income of £6.3 million

38. The 2023/24 budget has predicted a net income of £6.3 million which represents 0.95 percent of net assets as at 31 March 2023. This is a positive outlook for the Fund, as it represents a return to fund growth in the short term.

The ratio of active members to retired members is reducing and the Fund is increasing investment in income generating assets

39. Shetland Islands Pension Fund is a multi-employer fund with 10 employers in the scheme at 31 March 2023. The current membership profile is shown at [5](#).

Exhibit 5 Shetland Islands Pension Fund membership



Source: Shetland Islands Pension Fund Annual Report and Accounts 2018/19 to 2022/23

40. Membership of Shetland Islands Pension Fund increased by 204 to 8,662 members at 31 March 2023; an increase in membership of 2.4 percent from 31 March 2022. The impact of auto-enrolment continues to contribute to the increase in employee members. The ratio of active members to pensioners has reduced over the past five years. Shetland Islands Pension Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets.

There are positive cashflows from dealing with members

41. Cash flows from dealings with members continue to be positive with more received in contributions than paid out in benefits. Over the long term, the cash flow position may impact on the investment strategy if the ratio of active to retired members continues to decrease. However, the current funding strategy is providing sufficient member contributions to cover pension payments. The next triennial valuation covering 2024-2027, which is currently in progress, will outline future recommendations for any changes to employer rates.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

Governance arrangements are appropriate and operate effectively.

The Fund should consider whether an environmental, social and corporate governance (ESG) partner should be appointed.

Governance arrangements are appropriate and operate effectively

42. Shetland Islands Council as the administering body of the pension fund has delegated responsibility for governance of the Fund to the Pension Fund Committee. The committee is supported by the Pension Board, which comprises trade union representatives and employer representatives. These groups work within the overarching governance framework of the Council.

43. The Pension Fund committee is responsible for preparing, publishing and maintaining key strategies and reports for the Fund. They are also responsible for the development and monitoring of investment strategy. The Pension Board is responsible for ensuring compliance with Pension Regulator rules and monitoring the work of the Pension Fund Committee.

44. We consider that governance arrangements are appropriate and support effective scrutiny, challenge and decision making.

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

45. The Public Sector Pensions Act 2013 provides 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.

46. The Fund has carried out a governance compliance review for 2022/23 and concluded they were compliant with The Code and have identified no significant

governance issues to be reported. Our audit work has not identified any issues with this assessment.

47. Our audit work has provided assurance over the controls in place at the Fund, including those responsible for ensuring accurate member and employer data is held. We have also reviewed the governance framework in place, and activities of the Pension Board and Pension Fund Committee and concluded there were no identified issues in 2022/23. We have also noted that the committee is regularly attended by fund managers' representatives which allows direct communication.

Reporting on climate change arrangements is present but has scope for improvement

48. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change. For the Fund, the responsibility for meeting these targets lies with the administering authority (Shetland Islands Council).

49. The Fund has included a brief narrative about climate change in relation to the Fund's investments. They have set out how climate change forms part of their investment fund manager tendering process and an overview of potential risks that climate change may pose to the value of investments. There is scope for improvement in the detail of reporting in line with what has been seen in other pension funds' annual accounts. For example, more detailed analysis of the potential future impacts broken down by investment sector. This could be based on having an environmental, social and corporate governance (ESG) investment partner reporting separately on the topic of climate change to the Pension Fund Committee.

Recommendation 4

The Fund should consider whether an ESG partner should be appointed.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Fund administration performance levels in 2022/23 were in line with applicable benchmarks.

The pension administration function has performed well against targets

50. The Shetland Islands Pension Fund 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.

51. The Pension administration function has performed within targets for all nine key performance indicators except processing of leavers (99 per cent achieved) and retirement estimates (96 per cent achieved). In 2021/22, during Covid-19 restrictions, four of the nine indicators were not achieved. The results evidence that the administration function performed well for 2022/23 by and improving its performance from the prior year.

The Fund scrutinises investment management expenses appropriately

52. 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.

53. Investment management expenses have increased from £1.857 million in 2021/22 to £2.520 million in 2022/23. The main reason for this increase in expenses relates to interest charges incurred by a new fund manager during the year.

54. We have considered the Fund's assessment of management expenses, including classification and disclosure within the financial statements. We have

concluded the Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

Appendix 1: Action plan

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Custodian and fund manager reconciliations</p> <p>Final accounts working papers do not currently document management assessment of the reasonableness of valuation differences in the reconciliation process between fund manager and the custodian.</p> <p>Risk – investment valuation estimates in the financial statements are not properly assessed and reported.</p>	<p>Management consideration of the reasonableness of valuation differences in the custodian and fund manager reconciliation should be fully documented, including the tolerances used in the assessment.</p> <p>Paragraph 21.</p>	<p>In line with the recommendation, the process of reconciling the custodian valuation to fund manager valuations, including agreed tolerances, will be documented.</p> <p>Responsible officer: Executive Manager - Finance</p> <p>Agreed date: June 2024</p>
<p>2. Investment performance reporting- Fund manager analysis</p> <p>The current method of performance reporting does not give sufficient detail to enable analysis of performance at a fund manager level. There is also no disclosure of targets agreed with fund managers.</p> <p>Risk – There is a risk that users of the accounts cannot make an informed judgement on investment performance without this level of detail around fund manager performance.</p>	<p>Current investment reporting within the annual report and accounts should be expanded to include analysis at the fund manager level of performance against targets and benchmark as appropriate.</p> <p>Paragraph 31.</p>	<p>Additional disclosure of Fund Managers' overall performance will be included in the 2023/24 annual accounts. The merit and structure of this is to be determined.</p> <p>Responsible officer: Executive Manager – Finance</p> <p>Agreed date: June 2024</p>
<p>3. Bank system user access</p> <p>Current checks on user access for the bank system</p>	<p>Review of bank account user access should be undertaken annually to confirm system</p>	<p>User access is checked on an ad hoc basis (when staff join, leave or change roles). In line with the</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>are only performed on an ad-hoc basis when staff join or leave.</p> <p>Risk – system access may not be limited to appropriate users.</p>	<p>access permissions are appropriate.</p> <p>Paragraph 33.</p>	<p>recommendation, an annual review will be carried out where required (if an ad hoc check has not been done within the previous 12 months).</p> <p>Responsible officer: Executive Manager – Finance</p> <p>Agreed date: March 2024</p>
<p>4. Climate change reporting</p> <p>The narrative included for climate change in the 2022/23 accounts could be improved by including a greater depth of analysis. This could include risk analysis based on sector of investment, or range estimates on future impact to the fund's investments.</p> <p>Risk –without adequate analysis of the potential risks faced by the fund from the climate emergency, medium- and long-term planning will become less effective.</p>	<p>The Fund should consider whether it needs to appoint an ESG partner to help it understand and report on climate change and other environmental, social and governance matters.</p> <p>Paragraph 48.</p>	<p>Discussions will be held with other Pension Funds and fund managers on their reporting of ESG considerations, to look at best practice in this area and how narrative about climate change in relation to the Fund's investments can be improved. Use of an ESG partner would incur additional costs on the Pension Fund, the value it adds would need to be taken into account when considering the use of an ESG partner.</p> <p>Responsible officer: Executive Manager – Finance</p> <p>Agreed date: June 2024</p>

Shetland Islands Pension Fund

2022/23 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk