

Shetland Islands Council Pension Fund

2025/26 Annual Audit Report



Prepared for Shetland Islands Council Pension Fund and the Controller of Audit
September 2026

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Summary of audit opinions and conclusions

Audit of the annual report and accounts

- 1 All audit opinions stated that the annual report and accounts were free from material misstatement.
- 2 An adjustment to correct the financial statements disclosures was processed by the Fund, which reduced purchases and sales of investment assets by £260 million each.
- 3 A misstatement resulting from the timing difference between accounts preparation and investment fund managers issuing year end valuation reports was not corrected in the financial statements. Investments were understated by £1.0 million and cash overstated by £1.2 million. We are content that the value of the Fund's Net Assets is not materially misstated.

Wider scope and Best Value audit

- 4 Shetland Islands Council Pension Fund has effective and appropriate arrangements in place for Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- 5 The value of the Pension Fund increased by 12.2 per cent to £880 million during 2025/26 but overall investment returns underperformed against the benchmark for the year by 2 per cent.
- 6 Fund membership continues to grow, but the ratio of active members to pensioners continues to decline. However, the current funding level of 120 per cent shows that the Fund remains financially healthy, and appropriate arrangements are in place to manage risks to financial sustainability.
- 7 Shetland Islands Council, the administering authority for the Pension Fund, has effective and appropriate arrangements in place for securing Best Value.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2025/26 audit of Shetland Islands Council Pension Fund annual report and accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to Shetland Islands Council Pension Fund, hereafter referred to as 'the Fund,' and the Controller of Audit and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Rachel Browne, of Audit Scotland, has been appointed as external auditor of the Fund for the period from 2023/24 until 2026/27. As reported in the Annual Audit Plan, Rachel Browne as engagement lead and the audit team are independent of the Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the Fund, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the Fund and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope, responsibilities, and fee

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Management Commentary, Annual Governance Statement and Governance Compliance Statement.
- Conclusions on the Fund's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the Fund's arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the Fund and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on the Fund's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the Fund from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The Fund's responsibilities

10. The Fund has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual report and accounts, comprising financial statements for the Fund that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit Fee

11. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £41,640. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

National performance audit reporting

12. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the Fund and Shetland Islands Council Pension Fund Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 3](#).

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

There were two key audit matters to report:

An adjustment to correct the financial statements disclosures was processed by the Fund, which reduced purchases and sales of investment assets by £260 million each.

A misstatement resulting from the timing difference between accounts preparation and investment fund managers issuing year end valuation reports was not corrected in the financial statements. Investments were understated by £1.0 million and cash overstated by £1.2 million. We are content that the value of the Fund's Net Assets is not materially misstated.

Audit opinions on the annual report and accounts

13. The Fund's annual report and accounts were approved by Shetland Islands Council Pension Fund Committee on 21 September 2026 and certified by the appointed auditor on the same day. The Independent Auditor's Report is included in the Fund's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

14. The unaudited annual report and accounts and all working papers were received on 30 June 2026 in accordance with the agreed audit timetable. The unaudited accounts and working papers presented for audit were of a high standard and management and finance staff provided good support to the team during the audit process. This enabled the annual report and financial statements to be certified in line with the agreed audit timetable.

Materiality

15. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

16. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of the Fund were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated and the revised figures can be seen in [Exhibit 1](#).

Exhibit 1 2025/26 Materiality levels for the Fund

Materiality	Amount
Materiality – set at 2% of investment assets	£17.5 million
Performance materiality – set at 65% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£11.4 million
Reporting threshold – we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount	£0.35 million

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the Fund is Shetland Islands Council Pension Fund Committee.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the

auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

21. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Purchases and sales each overstated by £260 million An audit adjustment was required because transactions that did not represent genuine purchases or sales had been incorrectly recorded in both sales and purchases on 31 March 2026. Although the net impact on the financial statements was nil, the sales and purchases balance were each overstated by £260 million.	Note 13a in the audited accounts has been amended to reduce the value of both purchases and sales during the year by £260 million. This change does not impact any other notes to the accounts or the total value of investment assets shown in the Net Assets Statements.
Permira valuation report timing issue The unaudited financial statements were prepared using the most recent valuation reports from the fund managers. At that time, the most recent valuation report available from one fund manager, Permira, was the valuation as at 31 December 2025. During the audit, the valuation report for Permira as at 31 March 2026 was received and reviewed. The valuation position showed that investments were understated by £1.041 million and cash overstated by £1.202 million, resulting in a net overstatement of investment assets in the Net Assets Statement of £0.161 million.	Management have not adjusted for this misstatement. We have reviewed the value, nature, and circumstances of this uncorrected misstatement and concluded that it arose due to the timing of the receipt of year end reports from the investment fund manager. The issue is isolated and identified in its entirety and does not indicate further systemic error. We did not need to revise our audit approach. We are content that the value of investments is not materially misstated.

Source: Audit Scotland

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the Fund's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by the Fund was assessed as part of the audit. These were considered to be appropriate to the circumstances of the Fund, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in number of areas in the Fund's financial statements, including the valuation of investment assets and the actuarial valuation of promised retirement benefits. Audit work considered the process management of the Fund has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in [Exhibit 4, \(page 13\)](#).

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as the valuation of level 3 investments and the actuarial valuation of promised retirement benefits.

Significant matters discussed with management

27. All significant matters identified during the audit and discussed with the Fund's management have been reported in the Annual Audit Report.

Audit adjustments

28. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £0.350 million are outlined in [Exhibit 3](#).

Exhibit 3 Audit adjustments

Details	Financial statements lines impacted	Pension Fund Account		Net Assets Statement	
		Dr	Cr	Dr	Cr
Audit adjustments to financial statements		£m	£m	£m	£m
Purchases and sales overstatement (see Exhibit 2)					
	Purchases during the year				260
	Sales during the year			(260)	
Net impact on financial statements					0

Source: Audit Scotland

29. In addition to the corrected misstatements outlined in [Exhibit 3](#), there were other misstatements identified greater than the reporting threshold. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

30. Management of the Fund has not processed any audit adjustments to correct these misstatements. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, although the final decision on making the correction lies with the Pension Fund Committee as those charged with governance, considering advice from senior officers, and materiality.

31. Details of the uncorrected misstatements can be seen in [Appendix 2](#).

Significant risks of material misstatement identified in the Annual Audit Plan

32. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 4, \(page 13\)](#).

Exhibit 4**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate 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. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant transactions outside the normal course of business were identified. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. Conclusion: no evidence of fraud caused by management override of controls was identified.

Risk of material misstatement	Planned audit response	Outcome of audit work
Estimation of level three investment assets The Fund held £272 million of level three investments at 31 March 2026 (£174 million at 31 March 2025). There are no observable inputs available for level three investments and therefore the valuation of these investments involves a significant degree of subjectivity, and valuations are estimated using specialist assumptions. Changes in the assumptions can result in material changes to the valuation of investments.	The audit team will: • Evaluate the design and implementation of controls over the valuation of level three investments. • Evaluate the competence, capabilities, and objectivity of the investment managers. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Agree year-end valuations to valuation reports, or equivalent, prepared by investment managers. • Review the appropriateness of the key data and assumptions used by management for the valuation of level three investments, and challenge these where required. • Review investment managers' controls reports to identify if there are any issues that impact on the planned audit procedures.	Audit work performed found: • The design and implementation of controls over the valuation of level three investments were appropriate. • The investment manager had sufficient competence, capability, and objectivity to perform their work. • Management is involved in the estimation process and has an appropriate level of oversight. • Year-end valuations agreed to valuation reports. • The data and assumptions used in the estimation process were appropriate. • Substantive analytical procedures on level three investments concluded year-end valuations were reasonable. • Review of investment managers' controls reports did not identify any significant issues that impacted on the planned audit procedures. Conclusion: The valuation of level three investments is not materially misstated.

Source: Audit Scotland

Prior year recommendation

33. The Fund has implemented the agreed prior year audit recommendation as outlined in [Appendix 1](#).

Wider scope and Best Value audit

Audit approach to wider scope and Best Value

Wider scope

34. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

35. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the Fund has in place for each of these is reported in this chapter.

Best Value

36. The Fund is a pension fund that is administered by Shetland Islands Council. As pension funds are not local authorities or separate bodies that fall within section 106 of the Local Government (Scotland) Act 1973, the statutory responsibility for securing Best Value for pension funds lies with the administering local authority, Shetland Islands Council.

37. Therefore, consideration of the arrangements the Fund has put in place to secure Best Value has been carried out as part of the Shetland Islands Council audit, and a conclusion on the arrangements and any matters relating to the Fund are reported in this chapter.

Conclusions on wider scope audit

Financial Management

Conclusion

The value of the Pension Fund increased by 12.2 per cent to £880 million during 2025/26 but overall investment returns underperformed against the benchmark for the year by 2 per cent.

Appropriate and effective financial management arrangements are in place and systems of internal control have been operating effectively during the year.

The value of the Pension Fund's investment assets increased by £96 million in-year, 2 per cent below the benchmark return

38. The Fund's performance in 2025/26 is summarised in [Exhibit 5](#). The Fund's net investment assets increased by £96 million during 2025/26, rising from £782 million to £878 million at 31 March 2026. The Fund achieved an absolute return on investments of 11.9 per cent during the year, compared to its benchmark return of 14.3 per cent.

39. In assessing the Fund's investment performance, it is important to consider the wider economic and market environment during 2025/26. Financial markets experienced volatility during the year, with geopolitical tensions and broader global economic uncertainties adversely affecting investor sentiment and equity market performance, particularly towards the year end.

Exhibit 5

Net assets, funding level and investment performance

Net assets	Funding level	Investment performance	Investment assets
£880 million Closing net assets at 31 March 2026 (+12.2%)	The triennial funding valuation as at 31 March 2026 is not yet available (due by 31 March 2027)	11.9% Return on investments 2025/26 (Benchmark 14.3%)	£878 million Total investment assets at 31 March 2026
£784 million Opening net assets at 1 April 2025	120% As at 31 March 2023 (based on results of 2023 triennial valuation)	7.8% Average annual return on investments over five years (Benchmark 9.6%)	£782 million Total investment assets at 31 March 2025

Source: Shetland Islands Council Pension Fund 2025/26 Annual Report and Accounts

Appropriate and effective financial management arrangements are in place

40. Shetland Islands Council's Interim Director of People & Resources is the Proper Officer responsible for the Fund. The financial regulations of Shetland Islands Council, as administering authority, apply to the Fund.

We consider these to be comprehensive and support good financial management.

41. The Shetland Islands Council Pension Fund Committee receives quarterly administration and performance reports to support scrutiny by those charged with governance. We are recommending that additional detail is provided to committee members to support more robust scrutiny (see [paragraph 72.](#) and [Recommendation 2](#)).

Financial systems of internal control operated effectively during 2025/26

42. As part of our audit, we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

43. Our work in 2025/26 covered the key controls over the systems used for pension administration activity and the pension fund's investments. The Fund uses the financial systems of the administering authority, Shetland Islands Council. The main council systems used by the Fund are the general ledger system and the payroll system.

44. Our review of the controls in operation within these systems was conducted as part of our audit of Shetland Islands Council. Our review of the systems used by the Fund and the administering authority did not identify any significant 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.

The Fund has adequate arrangements in place to prevent and detect fraud, error and irregularities, bribery, and corruption

45. The Fund relies on the administering authority's arrangements for the prevention and detection of fraud and corruption. These include a Code of Conduct for members and officers, Whistleblowing Policy and an Anti-Fraud Strategy. Our overall conclusion is that the administering authority has adequate arrangements in place to prevent and detect fraud, error and irregularities, bribery, and corruption.

Internal audit has given a satisfactory opinion on the administering authority's governance, risk management and control framework for 2025/26

46. 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 Shetland Islands Council's Audit Committee in June 2026. Their overall opinion was that reasonable assurance could be placed upon the adequacy and effectiveness of the

governance and control environment which operated in Shetland Islands Council during 2025/26.

Financial Sustainability

Conclusion

The Fund remains in a healthy net asset position and we have no concerns regarding its financial sustainability or the viability of its funding strategy.

The medium to long term financial planning arrangements at the Fund are appropriate and effective.

Overall pension fund membership has increased in-year. The number of pensioners receiving pension benefits continues to rise year-on-year.

The 2023 triennial valuation reported a funding level of 120 per cent

47. Financial sustainability arrangements of the Pension Fund are informed by the triennial actuarial valuation, which assess the financial health of the Fund, the long-term funding position and informs the employer contribution rates for the subsequent three-year period, and the associated Investment Strategy review.

48. The latest valuation, as at 31 March 2023, assessed the Fund as having a funding level of 120 per cent, with a surplus of assets over liabilities such that the fund assets were sufficient to meet 120 per cent of its liabilities. As a result, the employers' common contribution rate was reduced to 19.6 per cent for the three-year period 2024/25 to 2026/27.

49. While the reduction in employer contribution rates lowers contribution income over the three-year period, we do not consider this to present a risk to the Fund's long-term financial sustainability.

50. The next triennial valuation will take place during 2026/27 based on data as at 31 March 2026. The results of this are due to be presented to the Pension Fund Committee by 31 March 2027. The Funding Strategy Statement will then be reviewed, with the revised version coming into effect from 1 April 2027.

Medium to long term financial planning arrangements are appropriate and effective

51. The Fund's funding position is subject to market and economic volatility, and the most recent triennial actuarial valuation provides a snapshot of its financial position as at 31 March 2023. The outcomes of

the valuation are used to inform funding and investment decisions and provide assurance on the Fund's long-term financial health.

52. The Fund's investment strategy is fully reviewed every five years and monitored continually. Following the 2023 actuarial funding valuation, the Fund's investment advisers undertook a review of the investment strategy. The revised strategy was approved by the Pension Fund Committee in June 2024 and maintains a growth strategy while reducing the level of equity risk.

53. During 2025/26, the Fund continued to restructure its portfolio to align to the new strategic asset allocation in the revised investment strategy. This restructure may take several years to fully complete: further details are in [paragraph 68](#). This alignment towards the new investment strategy aims to support the medium to long-term goals of the Fund and steady progress has been made in 2025/26.

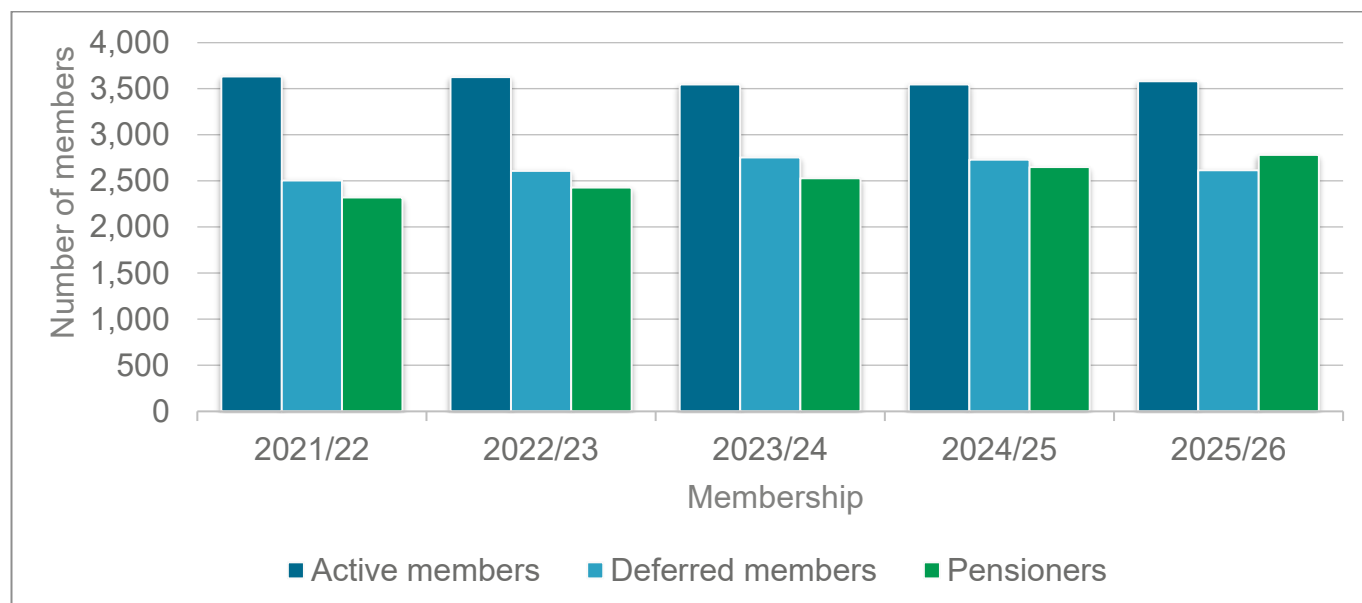
Overall fund membership levels continue to increase but the ratio of active members to pensioners has decreased

54. The Fund is a multi-employer fund with Shetland Islands Council and eight other admitted and scheduled bodies. Membership of the fund increased by 50 to 8,980 members by 31 March 2026. The current membership profile is shown in [Exhibit 6](#).

55. In 2025/26, the number of individuals receiving a pension from the Fund increased by 130. The number of pensioner members continues to increase steadily each year. The ratio of active members to pensioners also continues to decrease each year. This, combined with increasing life expectancy over this period, places additional pressure on the Fund. However, this does not present any immediate risk to the financial sustainability of the Fund.

Exhibit 6

Shetland Islands Council Pension Fund membership



Source: Shetland Islands Council Pension Fund Annual Report and Accounts 2025/26

There was a positive cash flow from dealing with members in 2025/26

56. There was a net cash inflow from dealings with members in 2025/26 of £0.376 million. This was not sufficient to cover management expenses (primarily fund manager fees) incurred in operating the Fund, resulting in net withdrawals from the pension fund of £4.37 million in 2025/26, as detailed in [Exhibit 7](#).

Exhibit 7

Member transactions 2025/26

	2023/24 £m	2024/25 £m	2025/26 £m
Contributions	(24.769)	(23.538)	(24.871)
Transfers in from other pension funds	(1.539)	(2.149)	(1.229)
Other income	0	(0.001)	0
Benefits payable	20.209	22.677	22.862
Payments to and on account of leavers	1.702	3.083	2.852
Other payments	0.006	0.023	0.010
Management expenses	3.144	3.955	4.742

Net withdrawals	1.247	4.050	4.366
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Source: Shetland Islands Council Pension Fund 2023/24 to 2025/26 Annual Report and Accounts

Vision, Leadership and Governance

Conclusion

Governance arrangements in place are adequate to support good governance and accountability, and scrutiny of decision-making.

The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to detect and prevent corruption.

The arrangements for ensuring compliance with The Pensions Regulator's General Code of Practice are effective.

Members' attendance at Pension Fund Committee and Pension Board meetings and training sessions should be improved to support effective scrutiny and good governance as required by The Pensions Regulator.

Governance arrangements are appropriate and operate effectively

57. Shetland Islands Council as the administering body of the pension fund has delegated responsibility for the Fund's governance to the Shetland Islands Council Pension Fund Committee. The Committee is supported by the Pension Board, which comprises of four trade union representatives and four scheme employer representatives. The Committee is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme. The Committee and Board work within the overarching governance framework of Shetland Islands Council.

58. The Fund's governance arrangements have been set out in the Annual Governance Statement and Governance Compliance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that governance arrangements are adequate to support scrutiny, challenge and decision making, except for a number of key governance documents in the administering authority that are overdue for review. This governance review will be monitored through the Shetland Island Council's audit.

The Fund conducts its business in an open and transparent manner

59. Openness and transparency means that the public have access to understandable, relevant and timely information about how the Fund uses resources and makes decisions.

60. The Pension Fund Committee and Pension Board meetings are held in public and the minutes of all meetings are available on the administering authority's website (with exempt papers where appropriate). Key governance documentation and administration and investment performance information is available on the administering authority's website. This transparency allows the public to see the basis for, and impact of decisions made by the Fund.

The arrangements for ensuring compliance with the General Code of Practice from The Pensions Regulator are effective

61. The Pensions Regulator (TPR) issued a General Code of Practice in March 2024 which sets out the expectations of conduct and practices that pension funds should meet to comply with their duties in pensions legislation.

62. The Fund's management has developed a detailed action plan to address the requirements of TPR's General Code of Practice. This proactive approach to skills development and governance is considered good practice. We have concluded that the Pension Fund is working well towards full compliance with TPR's expectations and best practice.

Members' attendance at Pension Fund Committee and Pension Board meetings and training sessions should be improved to support effective scrutiny and good governance as required by The Pensions Regulator.

63. Pension Fund Committee and Pension Board members received presentations from investment fund managers and other service providers at their meetings during 2025/26. Other training events were also available to members. The Pensions Regulator requires members to have sufficient knowledge and understanding of pensions, investment and funding matters to enable them to critically assess information presented, provide appropriate challenge, and robust decision-making.

64. We noted that attendance at Pension Fund Committee and Pension Board meetings was variable during 2025/26, with some members attending only a small number of scheduled meetings. Two Board members attended no meetings; one Committee member attended one meeting. As a result, these members may not have received all relevant training and updates provided during the year to support them in their scrutiny role. This increases the risk that members do not maintain the knowledge and understanding necessary to effectively scrutinise reports, challenge recommendations and fulfil their governance responsibilities.

Recommendation 1

The Fund should strengthen arrangements for member attendance at meetings to ensure good governance is exercised, and engagement with training sessions to ensure appropriate knowledge is maintained. A formal process should be implemented to monitor attendance and completion of required training. Management should establish minimum training requirements for Committee and Board members to ensure they possess the knowledge and skills to fully discharge their duties, facilitating effective scrutiny and good governance.

Use of Resources to Improve Outcomes

Conclusion

2025/26 was a positive year for Scottish Local Government Pension Schemes overall. All funds reported positive movements in investment returns during the year, although only one fund reported an above benchmark return.

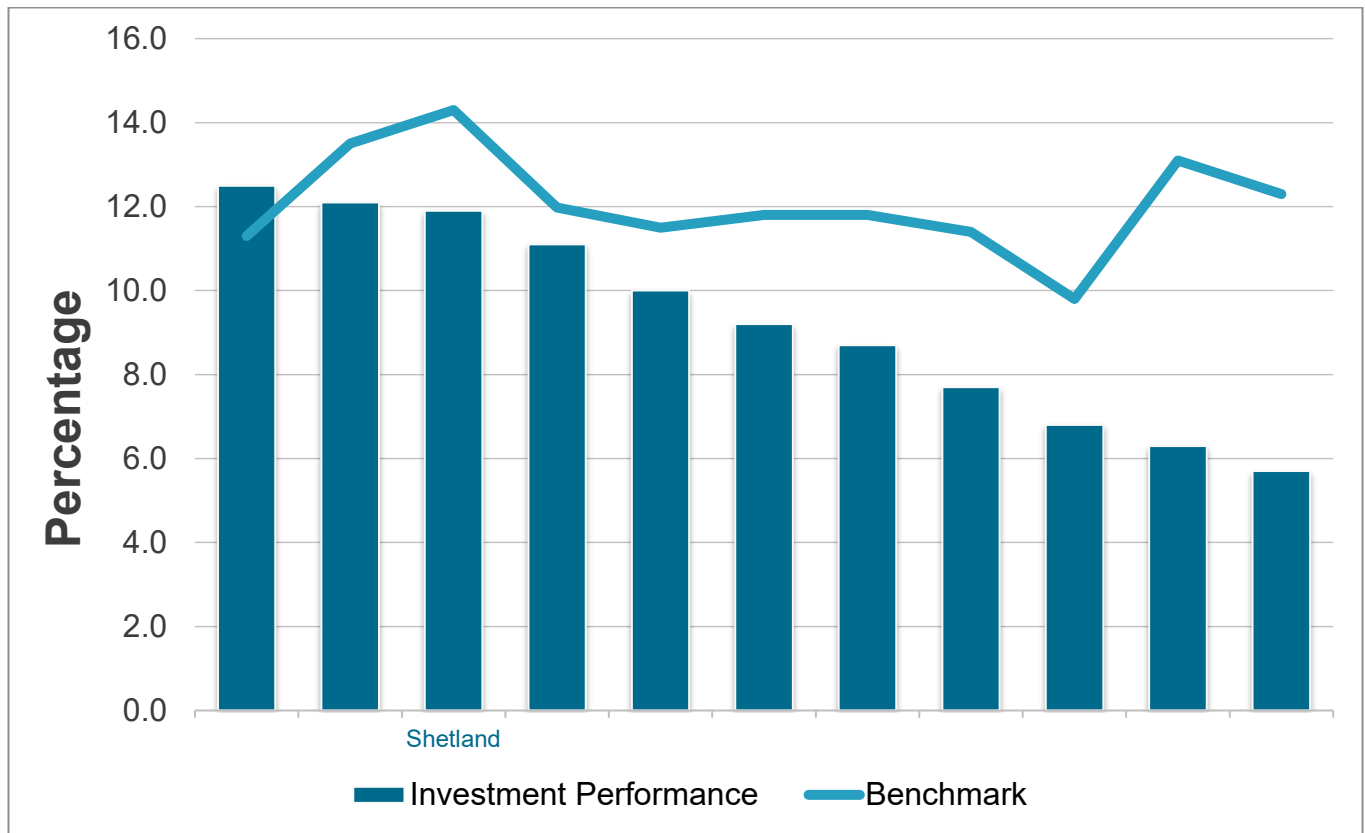
The total Shetland Islands Council Pension Fund performance in 2025/26 was below the benchmark return. Investment performance has fallen short of benchmark targets over the last 12 months, three years and five years.

The Fund's administration function met the 31 October 2025 deadline for the national pensions dashboard connection and increased the number of key performance indicators reported.

The administering authority has appropriate arrangements in place for securing Best Value at the Fund.

In 2025/26, all eleven Scottish Local Government Pension Schemes reported absolute increases in pension fund assets during the year, with one fund reporting an above benchmark return.

65. 2025/26 was a more positive year for Scottish Local Government Pension Schemes than previous years. As shown in [Exhibit 8](#), all funds reported positive movements in investment returns during the year, with investment performance ranging from 5.7 per cent to 12.5 per cent (compared to returns ranging from -0.7 per cent to 4 per cent in 2024/25). The Fund achieved investment returns of 11.9 per cent against a benchmark return of 14.3 per cent.

Exhibit 8**Scottish LGPS pension funds' net return on investment against benchmark return**

Source: 2025/26 Scottish LGPS pension funds unaudited annual report and accounts

The Fund has failed to achieve benchmark returns across the last 12 months, three years and five years

66. As detailed in [paragraph 52. - 53.](#), work has been ongoing to restructure the portfolio to align to the new strategic asset allocation. Following a period of underperformance of active equities and property, the Fund's new strategy involves a reduction to equities and increasing investment into the steadier returning asset class of infrastructure equities.

67. As at 31 March 2026, the majority of the Fund's investment assets were held in active and passive equities. This restructure will see an increase in infrastructure equity and private credit with a disinvestment in property. The objective of holding these investments is to generate long-term income and diversification benefits, supporting the Fund's ability to meet funding requirements and member obligations.

68. While this restructure has begun with the appointment of Fishers as a new investment fund manager in 2025/26, the disinvestments from the property investment fund and ending the Schroders mandate may take several years to complete. Despite this, the Fund intends to have all asset allocations of the latest Investment Strategy funded by end of 2026/27.

Exhibit 9

Longer-term Fund investment performance



Source: Shetland Islands Council Pension Fund 2025/26 Annual Report and Accounts

The total Fund performance over the last 12 months was below the benchmark return. Half of the investment portfolios managed for 2025/26 achieved returns above their respective benchmarks

69. The Fund used six external investment fund managers as at 31 March 2026. Independent investment advice is provided by Isio, who produce ad hoc reports and reviews for the Fund. Management present quarterly reports to the Pension Fund Committee and Pension Board, providing an overview of external investments and summarising each manager's performance. In addition, fund managers are invited to attend quarterly meetings on a rotating basis to give presentations on their investment performance and mandate activity, and provide quarterly audited performance review reports and monthly valuation reports.

70. While these reports provide timely information on investment performance and valuation changes, they contain limited trend analysis and market commentary. As a result, members may not have sufficient context to assess whether performance movements are consistent with prevailing market conditions, represent short-term volatility, or indicate longer-term concerns that warrant further scrutiny.

71. Benchmarking against good practice observed at other pension funds indicates that enhanced periodic performance reviews from the Fund's investment advisor could provide additional insight into investment performance, governance arrangements and operational integrity. Greater analysis would strengthen members' ability to evaluate fund manager performance and better understand the relationship between strategic asset allocation decisions and mandate outcomes.

72. Enhanced reporting would support members understanding of market developments, improve transparency over fund manager performance and facilitate more robust challenge and scrutiny. It would also provide additional assurance over the valuation of Level 3 investments and

support informed decision-making by the Pension Fund Committee and Pension Board.

Recommendation 2

Management should enhance investment decision-making and scrutiny through improved quarterly performance reporting to Pension Fund Committee members which includes trend analysis, market commentary, benchmark comparisons and periodic independent performance reviews from the Fund's investment advisor. This would provide greater context for performance results, strengthen members' oversight arrangements and support informed scrutiny of investment manager performance and investment asset valuations.

The Fund's administration function met the 31 October 2025 deadline for the national pensions dashboard connection and increased the number of key performance indicators reported

73. Following the introduction of automatic enrolment and an increase in the number of people saving for retirement, it can be harder to keep track of pension information, especially for those who have worked across different employers. The UK Government introduced pension dashboards to improve the way people can see and interact with their pensions, through the Pensions Dashboards Regulations 2022. Pensions dashboards are an online communications service intended to be used by individuals to access information about their pensions securely, and all in one place.

74. As a pension provider, the Pension Fund is legally required to have a pension dashboard. The deadline for the Pension Fund's work was 31 October 2025, and it was met. The UK wide dashboard system is expected to be launched by the Money and Pensions Service in 2027/28 to support the public in accessing pension information in one place.

75. For the year 2025/26, 58% of casework KPIs achieved 100% against target. Three KPIs were not reported due to capacity restraints. Comparative data was not reported due to data collection only commencing in October 2025. Additional staff are being recruited to assist with the delivery of the digitisation and new legislative changes and regulation. With this increased capacity, the Fund should continue to monitor performance of KPIs and provide trend analysis to allow for more effective performance tracking of the Fund's administration.

The administering authority has appropriate arrangements in place for security Best Value at the Fund

76. The administering authority, Shetland Islands Council, has responsibility for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that

public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value, which are subject to audit.

77. The outcome of audit work on the administering authority's Best Value arrangements is reported in the Shetland Islands Council annual audit report. No findings directly applicable to the Fund have been communicated to us by the auditor of Shetland Islands Council.

Appendix 1

Action plan 2025/26

2025/26 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Low committee meeting and training attendance by members We have noted that attendance at Pension Fund Committee and Pension Board meetings is variable with some members attending one or no meetings in 2025/26. As a result, these members may not have received all relevant training, presentations and updates providing during the year. Risk – members may not maintain the knowledge and understanding necessary to effectively scrutinise Pension Fund reports, challenge recommendations and fulfil their governance responsibilities as required by TPR. Consequently there is an increased risk of weak governance, ineffective oversight and poor decision-making.	The Fund should strengthen arrangements for member attendance at meetings to ensure good governance is exercised, and engagement with training sessions to ensure appropriate knowledge is maintained. A formal process should be implemented to monitor attendance and completion of required training. Management should establish minimum training requirements for Committee and Board members to ensure they possess the knowledge and skills to fully discharge their duties, facilitating effective scrutiny and good governance.	Accepted Agreed action: Pension Fund Committee and Board members are provided with regular training opportunities to support the effective discharge of their responsibilities. Management recognises that low attendance at meetings and training events may impact members' ability to maintain the knowledge and skills necessary to fulfil their governance and scrutiny roles effectively. As part of the work to review and update the Council's suite of governance documents, management will review the minimum training requirements for Pension Fund Committee and Board members, with a view to establishing a formal framework that ensures members maintain the necessary knowledge and skills to perform their scrutiny role. Responsible officer: Director-Governance Timing: July 2027

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
2. Investment performance reporting and scrutiny The Fund's overall investment performance was below benchmark for 2025/26. While members receive regular performance and valuation reports, these contain limited trend analysis, market commentary and independent assessment of fund manager performance. Risk – members may not have sufficient information to effectively challenge investment managers or identify emerging performance concerns.	Management should enhance investment decision-making and scrutiny through improved quarterly performance reporting to Pension Fund Committee members which includes further trend analysis, market commentary, benchmark comparisons and periodic independent performance reviews from the Fund's investment advisor. This would provide greater context for performance results, strengthen members' oversight arrangements and support informed scrutiny of investment manager performance and investment asset valuations.	Accepted Agreed action: Analysis will be carried out of comparable reports with a view to ensuring that updates can be included that add value to members, without creating large additional costs or time burden. Responsible officer: Interim Director of People & Resources. Timing: June 2027.

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
1. Management assurances over Level 3 investment valuations As part of management's current arrangements for gaining assurance over Level 3 investments valuations, the Fund relies on its investment consultant to raise concerns about a fund manager's performance or management. However, the Fund does not currently seek positive confirmation when no issues are reported. Risk - potential issues with investment fund managers may go unnoticed or unreported.	Recommendation: Fund should enhance its assurance arrangements over Level 3 investments by formally documenting management's considerations in arriving at the valuation of Level 3 investments. Arrangements should include introducing a formal process for obtaining written confirmation from its investment consultants at year-end to confirm that the consultant has reviewed the performance, governance, and operational integrity of all investment fund managers and has no concerns to report. Agreed action: As part of draft audit submission, officers will undertake and document further checking and analysis of Level 3 investments, including discussion with investment advisors to ensure additional external scrutiny. Responsible officer: Executive Manager (Finance) Agreed date: June 2026	Implemented The agreed management actions are now carried out. Our 2025/26 recommendation No.2 builds on this improvement, recommending enhanced reporting to support more robust scrutiny of investment fund managers' performance.

Appendix 2

Summary of uncorrected misstatements

Details	Financial statements lines impacted	Pension Fund Account		Net Assets Statement	
		Dr	Cr	Dr	Cr
Uncorrected misstatements		Dr	Cr	Dr	Cr
		£m	£m	£m	£m
1. Permira investment Q4 valuation					
Investments				1.041	
Cash					(1.202)
Net impact on financial statements				1.041	(1.202)

Appendix 3

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2025/26	22 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025
Delivering for the future: Responding to the workforce challenge	7 August 2025
Flooding in communities: Moving towards flood resilience	28 August 2025
Adult Disability Payment	18 September 2025
Scotland's colleges 2025	2 October 2025
Improving care experience: Delivering The Promise	8 October 2025
Local government performance: Spotlight on culture and leisure services	23 October 2025
Financial sustainability and taxes	13 November 2025
NHS in Scotland 2025: Finance and performance	4 December 2025
Delayed discharges: A symptom of the challenges facing health and social care	8 January 2026
Community health and social care: Performance 2025	8 January 2026
Administration of Scottish income tax 2024/25	16 January 2026
Local Government in Scotland: Financial bulletin 2024/25	29 January 2026
The Scottish Budget 2026/24: Supplement to the Financial bulletin 2024/25	12 February 2026
Integration Joint Boards: Finance bulletin 2024/25	26 February 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	12 March 2026

Shetland Islands Council Pension Fund

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