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Dundee City Council  
Scrutiny Committee

22 September 2017

## Tayside Pension Fund 2016/17 Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2016/17 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified
2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 27 September 2017. The proposed report is attached at **Appendix A**. There are no anticipated modifications to the audit report.
3. In presenting this report to the Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
5. As part of the completion of our audit we seek written assurances from the Executive Director of Corporate Services on aspects of the financial statements and judgements and estimates made. A draft letters of representation under ISA580 is attached at **Appendix B**. This should be signed and returned by the Executive Director of Corporate Services with the signed financial statements prior to the independent auditor's opinion being certified.
6. There are a number of areas where we still require confirmation and these are identified below.
7. **Letter of representation:** The letter, otherwise known as the ISA 580 letter, is required immediately before the certification of the final accounts on 27 September 2017.

8. **Financial statements:** Receipt of final, revised set of financial statements incorporating agreed amendments for final review.

# APPENDIX A: Proposed independent auditor's report for Tayside Pension Fund

## Independent auditor's report to the members of Dundee City Council as administering authority for Tayside Pension Fund and Tayside Transport Pension Fund and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Report on the audit of the financial statements

#### Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Tayside Pension Fund and Tayside Transport Pension Fund for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the funds during the year ended 31 March 2017 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the Executive Director of Corporate Services for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director of Corporate Services is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the funds and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Corporate Services; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **Other information in the annual accounts**

The Executive Director of Corporate Services is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Report on other requirements**

#### **Opinions on other prescribed matters**

I am required by the Accounts Commission to express an opinion on the following matters.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

#### **Matters on which I am required to report by exception**

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight  
Assistant Director, Audit Services  
Audit Scotland  
4TH Floor, The Athenaeum Building  
8 Nelson Mandela Place  
GLASGOW  
G2 1BT

September 2017

## **APPENDIX B Letter of Representation (ISA 580)**

Fiona Mitchell-Knight  
Assistant Director, Audit Services  
Audit Scotland  
4th Floor, The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

27 September 2017

Dear Fiona

### **Tayside Pension Fund**

#### **Financial Statements 2016/17**

1. This representation letter is provided in connection with your audit of the financial statements of the Tayside Pension Fund for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the fund during the year ended 31 March 2017, and of the amount and disposition at that date of its assets and liabilities.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the relevant officers, the following representations given to you in connection with your audit of Tayside Pension Fund for the year ended 31 March 2017.

#### **General**

3. I acknowledge my responsibility and that of the Tayside Pension Fund for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the fund have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including Management Commentary, presents a balanced picture of the Tayside Pension Fund and is consistent with the financial statements.
5. I am not aware of any uncorrected misstatements.

#### **Financial Reporting Framework**

6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and in accordance with the requirements of Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the Tayside Pension Fund for the year ended 31 March 2017.

## **Accounting Policies & Estimates**

8. All material accounting policies adopted are as shown in the Summary of Significant Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

## **Contributions – Pension Strain**

10. All contributions due to the fund have been properly identified and accounted for. In particular the 'strain on the fund' costs have been properly recharged to relevant services and bodies.

## **Going Concern**

11. I have assessed Tayside Pension Fund's ability to carry on as a going concern and have concluded that it is appropriate to adopt a going concern basis for the preparation of the financial statements.

## **Related Party Transactions**

12. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

## **Events Subsequent to the date of the Net Assets Statements**

13. There have been no material events since the date of the Net Assets Statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
14. Since the date of the Net Assets Statements no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

## **Corporate Governance**

15. I acknowledge, as the officer with responsibility for the proper administration of the fund's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
16. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2017, which require disclosure.

## **Fraud**

17. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

## **Assets**

### **Investments**

18. For the year ended 31 March 2017, the amounts included in the net assets statement reflect investments managed externally by appointed fund managers and the global custodian on behalf of the fund. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2017. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

### **Banking and Cash Flow Arrangements**

19. The pension fund maintains a separate bank account and while these accounts form part of Dundee City Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

### **Other Current Assets**

20. On realisation in the ordinary course of the Fund's business, the other current assets in the Net Assets Statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

### **Liabilities**

21. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2017.

### **Actuarial Assumptions**

22. The pension assumptions made by the actuary in the IAS19 report as at 31 March 2017 and the 2014 triennial valuations have been reviewed and I confirm that they are consistent with management's own view.

### **Liabilities**

23. All liabilities have been provided for in the financial records, including the liabilities for all purchases to which title has passed prior to 31 March 2017.



## **Carrying Value of Assets and Liabilities**

24. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

## **Provisions**

25. There are no provisions included in the financial statements of the Tayside Pension Fund for 2016/17.

## **Commitments**

26. There are no significant commitments or obligations including financial guarantees and offers of financial support which might adversely affect the fund.

## **Other Matters**

27. Except as disclosed in the financial statements, the results for the period were not materially affected by:
- (i) transactions of a sort not usually undertaken by Tayside Pension Fund;
  - (ii) circumstances of an exceptional or non-recurrent nature;
  - (iii) charges or credits relating to prior periods; and
  - (iv) any change in the basis of accounting.

Yours sincerely

Gregory Colgan BAcc (Hons), ACMA, CGMA  
Executive Director of Corporate Services, Dundee City Council



# Tayside Pension Fund

2016/17 Annual Audit Report (proposed)



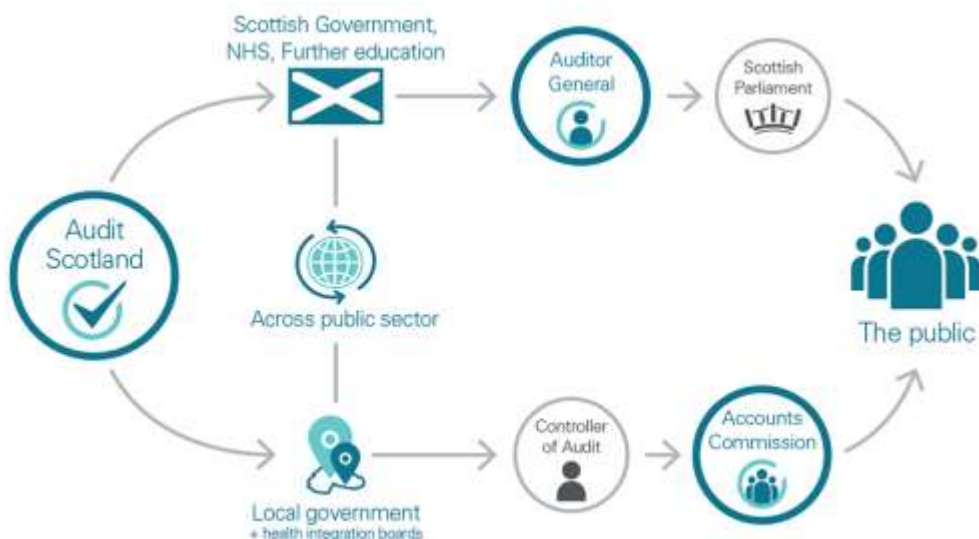
To Members of Dundee City Council as Administering Authority and the Controller of Audit

27 September 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2016/17 annual report and accounts

- 1 The financial statements give a true and fair view of the financial transactions of the funds during the year ended 31 March 2017 and of the amount and disposition at that date of their assets and liabilities.
- 2 Unqualified opinions on the financial statements, management commentary, annual governance statement and governance compliance statement.
- 3 Working papers were of a good standard and finance staff provided good support to the audit team.

## Financial management

- 4 The Fund has effective arrangements in place for financial management. This includes comprehensive reporting of investment performance.
- 5 The Fund had a good year in terms of investment performance. Net returns for the Main Fund were higher than most Scottish Local Government Pension Schemes.

## Financial sustainability

- 6 Funding levels remain good. The 2017 triennial valuation will provide an updated valuation and form the basis for future employers' contribution levels.
- 7 The continued increase in pension payments in excess of contributions received will make funding pension payments increasingly challenging. Cash flow projections show that the Fund will continue to rely on investment income to pay pensions.
- 8 The Transport Pension Fund has been repatriated to the Main Fund in 2017/18. An employer contribution rate of 40% has been calculated and although this cannot guarantee adequate funding to meet pension liabilities, the risk is not considered significant.

## Governance and transparency

- 9 The Annual Report and Accounts are considered and approved by the Council's Scrutiny Committee rather than the Pension Sub-committee. This is contrary to approved governance arrangements.
- 10 Although the Pension Sub-committee has delegated responsibility for the Fund's governance arrangements, its remit excludes audit arrangements for the Fund.
- 11 Decisions are transparent with Pension Sub-committee papers and detailed minutes of meetings of the Pension Sub-committee available on Dundee City Council's website.

## Value for money

- 12** The Fund's investment performance is subject to regular review and scrutiny by the Pension Sub-committee.
- 13** The Main Fund marginally underperformed against its benchmark in 2016/17 but outperformed benchmarks over the longer term. The Transport Fund has outperformed its one year and longer term benchmarks.
- 14** Some Fund Managers have failed to achieve their one year investment performance benchmark, with one, a property based portfolio, also failing to achieve the 3, 5 and 10 year benchmarks. The performance of this fund manager continues to be monitored.
- 15** There is scope for improvement in the mechanism for reporting administration performance.



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# Introduction

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1. This report is a summary of our findings arising from the 2016/17 audit of Tayside Pension Fund (the Fund). The audit covered the main Tayside Pension Fund and Tayside Transport Pension Fund.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Scrutiny Committee. This report comprises:

- an audit of the annual accounts
- consideration of the wider dimensions set out in the Code of Audit Practice (2016) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the fund's main financial systems and governance arrangements
- an audit of the fund's 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions.

4. Dundee City Council is the administering authority for the pension fund. It is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Council delegates this responsibility to the Pension Sub-committee.

- 5.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), and supporting guidance, and are guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide independent opinions on the annual accounts. We also review and report on the arrangements within the Fund to manage its performance and use of resources such as money and assets. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#).
- 8.** This report raises matters from the audit of the annual accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the members of the Scrutiny Committee and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

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# Part 1

## Audit of 2016/17 annual accounts

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### Main judgements

The financial statements of Tayside Pension Fund give a true and fair view of the financial transactions of the funds during the year ended 31 March 2017 and of the amount and disposition at that date of their assets and liabilities.

Unqualified opinions were issued on the 2016/17 annual accounts.

Working papers were of a good standard and finance staff provided good support to the audit team.

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### Unqualified audit opinions

13. The Annual Report and Accounts for the year ended 31 March 2017 were approved by the Scrutiny Committee on 27 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified audit opinions on the management commentary, annual governance statement and governance compliance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Submission of annual accounts for audit

15. We received the unaudited annual accounts on 29 June 2017, in line with our agreed audit timetable.

16. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risks of material misstatement

17. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

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The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

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## Materiality

**18.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**19.** Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**20.** On receipt of the annual report and accounts we reviewed our materiality calculations. The materiality levels set for Tayside Pension Fund are summarised in [Exhibit 2](#).

## Exhibit 2 Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 10% of contributions receivable for the year ended 31 March 2017.	Main Fund £9.54 million
	Transport Fund £44,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	Main Fund £4.77 million
	Transport Fund £22,000
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality (with a maximum level of £100,000).	Main Fund £95,000
	Transport Fund £2,200

## Evaluation of misstatements

**21.** There were no material adjustments to the financial statements arising from our audit.

## Significant findings

**22.** International Standard on Auditing 260 requires us to communicate to you significant findings from the audit. There was one significant finding arising from the audit of the financial statements to bring to your attention.

**23. Approval of the Tayside Pension Fund Annual Report and Accounts:** A report on the Fund's Governance Compliance Statement was presented to the Pension Sub-committee on 26 May 2017. The report stated that the Sub-committee's responsibilities include receiving and agreeing the Annual Report and Accounts. This process has not been followed this year or in previous years and instead the Council's Scrutiny Committee has undertaken these responsibilities.

This is contrary to the approved arrangements for the Fund. We understand that the timing of the Sub-committee meetings did not facilitate this in 2016/17 but this should be reviewed to ensure that the approved governance arrangements are in place in 2017/18.

**24.** Further information, including a recommendation on this matter are included in the governance arrangements section of this report at page 18.

### **Other Findings**

**25.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

# Part 2

## Financial management



### Main judgements

The Fund has effective arrangements in place for financial management. This includes comprehensive reporting of investment performance.

The Fund's investment performance was good. Net returns for the Main Fund were higher than most Scottish funds.



### Financial performance in 2016/17

26. Pension fund finances are independently assessed every three years by an actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming three year period and takes account of the strength of employer covenants and the Fund's investment strategy.

27. The Fund's performance in 2016/17 is summarised in [Exhibits 3 and 4](#).

### Exhibit 3

Main fund - Assets, liabilities, funding level and investment performance

Increase in net assets per custodian	Increase in estimated actuarial liabilities	Funding level	Investment performance
			
<b>£605 million</b> (+21.30%)	<b>£1.022 billion</b> (+30.25%)	<b>99.8%</b> 2014 Funding valuation	<b>22.07%</b> Return on investments 2016/17
<b>£3.445 billion</b> Closing net assets	<b>£4.401 billion</b> Closing liabilities	2017 Triennial funding valuation due December 2017	<b>12.31%</b> Return on investments over 5 years

**28.** The net assets of the Main Fund increased to £3.445 billion at 31 March 2017 from £2.840 billion at 31 March 2016. This increase of £0.605 billion (21.3%) reflected a good year for global equities.

**29.** During 2016/17 contributions to the Main Fund amounted to some £95.422 million. This was less than the benefits paid out which totalled £106.231 million. Including Administration Expenses of £1.378 million there was a net withdrawal from dealings with members of £12.187 million.

**30.** At the March 2014 Triennial Funding Valuation the Fund was assessed by the actuary, Barnett Waddingham, to be 99.8% funded. In addition to this, a volatility reserve was created to provide for future volatility of investment returns. The funding level, together with the volatility reserve means that overall the investment assets were slightly higher than the liabilities. The 2017 triennial valuation due at the end of 2017 will provide an up to date funding position.

**31.** In addition to the Triennial Funding Valuation, the Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions. This uses the same base data as the Triennial Funding Valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting employer contribution rates and the Fund does not take account of liabilities to pay pensions and other benefits in the future.

**32.** The actuarial present value of promised retirement benefits estimates the Fund's liabilities rising from £3.379 billion at 31 March 2016 to £4.401 billion at 31 March 2017 (£1.022 billion increase). It should be recognised that not all funds have liabilities assessed on the same prudential scales. The use of differing actuarial firms and assumptions creates difficulties in direct comparisons. It should be noted that this valuation is an accounting estimate.





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

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## Exhibit 4

### Transport fund - Assets, liabilities, funding level and investment performance

Increase in net assets	Increase in estimated actuarial liabilities	Funding level	Investment performance
			
<b>£9.545 million</b> (+15.72%)	<b>£10.029 million</b> (+19.862%)	<b>99.9%</b> 2014 Funding valuation	<b>19.5%</b> Return on investments 2016/17
<b>£70.246 million</b> Closing net assets	<b>£60.529 million</b> Closing liabilities	2017 Triennial funding valuation due December 2017	<b>11.23%</b> Return on investments over 5 years

**33.** The net assets of the Transport Fund increased to £70.246 million at 31 March 2017 from £60.701 million at 31 March 2016, an increase of £9.545 million (15.72%).

**34.** Contributions to the Transport Fund were £0.440 million compared to benefits paid out of £2.154 million. Including administration expenses of £0.047 million there was a net withdrawal from dealings with members of £1.761 million. This has resulted from pensioners increasing and active members decreasing, a trend that is likely to continue.

**35.** The Transport Fund's funding level at the last triennial valuation was 99.9%. Like the Main Fund, the Transport Pension Fund also had a volatility reserve which meant that overall the investment assets were slightly higher than the liabilities. In June 2017, the Transport Fund was repatriated into the Main Fund. Further information on the repatriation is noted at page 16.

## Financial management arrangements

**36.** The Executive Director of Corporate Services for Dundee City Council is the proper officer responsible for Tayside Pension Fund. The financial regulations of Dundee City Council, as administering authority, apply to the pension fund. We consider these to be comprehensive and current and promote good financial management.

**37.** Investment and administration performance reports are submitted to the Pension Sub-Committee quarterly. Reports are comprehensive detailing the performance of fund managers and comparing their performance against specific benchmarks. The reports also include commentaries from each fund manager.

**38.** Based on evidence reviewed, the financial management arrangements in place were assessed as good.

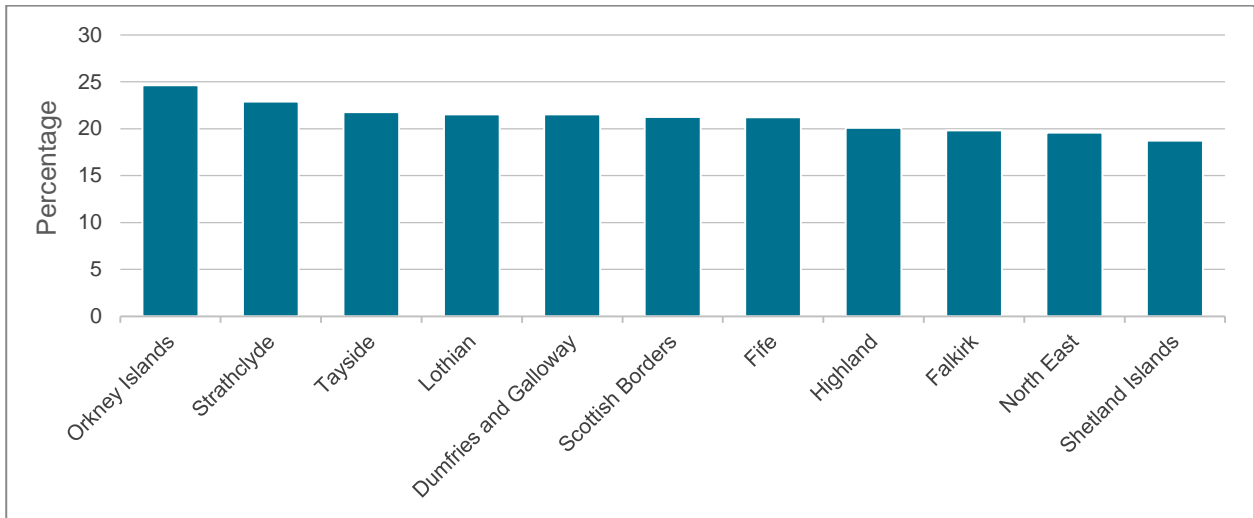
## Financial outcomes

**39.** 2016/17 has been a relatively good year for investment performance for most pension funds across Scotland. We have carried out a comparison of the investment performance of the main fund in 2016/17 compared to other funds. The outcome of our review is illustrated in [Exhibit 5](#) and shows that Tayside Pension Fund had the third highest net return on investment (based on unaudited figures).



## Exhibit 5

### LGPS pension funds – Net return on investment 2016/17 (unaudited figures)



Source: 2016/17 LGPS pension funds' unaudited financial statements

## Internal controls

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

**41.** We concluded that the controls were operating effectively. No significant internal control weaknesses were identified during the audit which could affect the Fund's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Fraud prevention and detection

**42.** We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the administering body's (Dundee City Council) arrangements for the prevention and detection of fraud and corruption. These include the Code of Conduct for members and officers, a whistleblowing policy and an anti-fraud strategy.

**43.** We concluded that appropriate arrangements were in place for preventing and detecting fraud and corruption in 2016/17.

## National Fraud Initiative

**44.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

**45.** NFI activity is summarised in [Exhibit 6](#). Through investigation of recommended matches the Tayside Pension Fund is now recovering £14,651 of pension payments.

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## Exhibit 6

Total number of matches



186

Number recommended for investigation



186

Completed/closed investigations



177

Source: NFI website

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# Part 3

## Financial sustainability



### Main judgement

**Funding levels remain good. The 2017 triennial valuation will provide an updated valuation and form the basis for future employers' contribution levels.**

**The continued increase in pension payments in excess of contributions received will make funding pension payments increasingly challenging. Cash flow projections show that the fund will continue to rely on investment income to pay pensions.**

**The Transport Pension Fund has been repatriated to the Main Fund in 2017/18. An employer contribution rate of 40% has been calculated and although this cannot guarantee adequate funding to meet pension liabilities, the risk is not considered significant.**

### Funding position

**46.** The March 2014 triennial valuation reports that the Main Fund's assets were sufficient to meet 99.8% of its liabilities. For the Transport Fund, assets were sufficient to meet 99.9% of its liabilities.

**47.** Following legal, actuarial and investment opinion and consultation with the employers of the Main Fund, the Pension Sub-Committee approved a proposal to repatriate the assets and liabilities of the single employer Tayside Transport Fund back to the main fund. The aim of the proposal was to improve efficiencies. The repatriation took place in June 2017.

**48.** The repatriation has an impact on the funding of the Main Fund. Following the repatriation, an actuarial contribution rate of 40% was agreed for Xplore Dundee (the employer in Tayside Transport Fund). Whilst this cannot guarantee adequate funding to meet pension liabilities, the risk is not considered significant to have any material impact on the employer contribution rates for the Main Fund.

**49.** The fund actively monitors its cash flow position. Indications are that negative cash flows will be an on going trend, although auto-enrolment is expected to have a positive impact on the cash flow position. Looking forward, it is anticipated that the Fund will have to rely on investment income to pay pensions for at least the next two years.

**50.** Contribution rates and deficit payments will be considered by the Actuary at the 2017 triennial funding valuation. Following this, officers will review and update the Funding Strategy Statement.

**51.** We have concluded that despite forecast cash flows being negative in the medium to long term, management has taken this into account with its investment

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

strategy. The Fund recognises the desirability of maximising investment income within reasonable risk parameters.

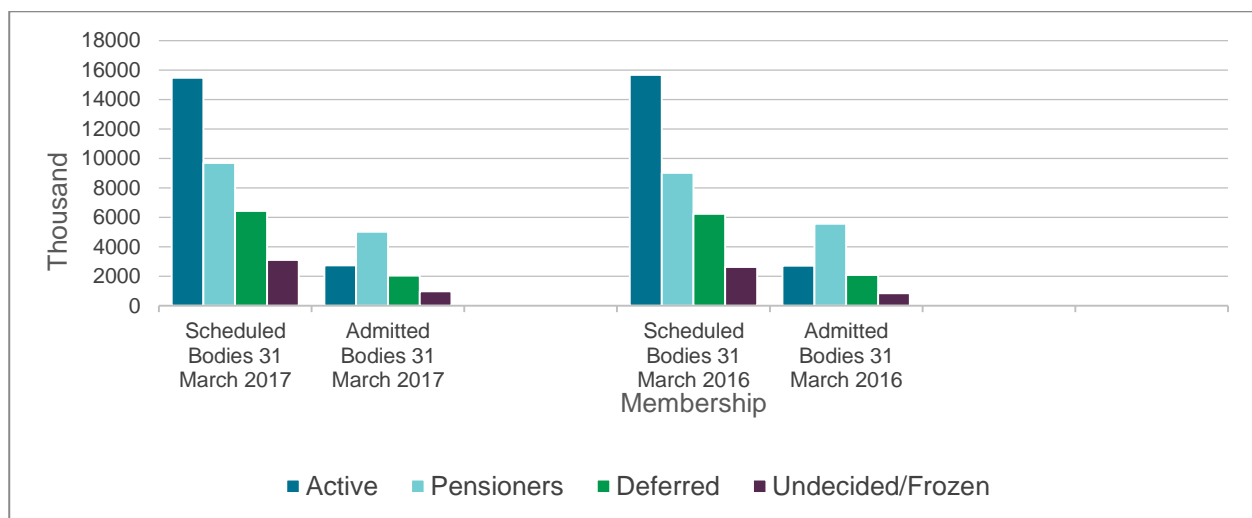
**52.** The Fund recognises the need to ensure that it has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Fund's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The cash flow position is monitored on a daily basis to ensure that all cash requirements can be met.

**53.** The Fund holds sufficient cash to meet the likely benefit payments. Additionally, the Fund holds sufficient assets in liquid or readily realisable form to meet any unexpected cash flow requirements so that the realisation of assets will not disrupt the Fund's overall policy.

## Membership levels

**54.** The Fund is a multi-employer fund with 3 Local Authorities, and 42 other employers. The 2016/17 membership profile is shown at [Exhibit 7](#), with comparative figures for 2015/16. The number of active members continues to outweigh the number of pensioners.

### Exhibit 7 Tayside Pension Fund membership



Source: Tayside Pension Fund 2015/16 and 2016/17 Annual Report and Accounts

**55.** Membership of the Fund increased by 1,214 to 46,044 members at 31 March 2017. However the number of active members decreased from 18,391 to 18,230.

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

## Contributions

**57.** Following the last triennial valuation in 2014, the Actuary agreed employer contribution rates with individual employers for the period 2015 to 2018. An element of these employer costs includes deficit recovery contributions to support

employers financial planning. Employer contributions will be updated following the 2017 Triennial Valuation.

**58.** The approximate split of all contributions received in 2016/17 is set out at [Exhibit 8](#).

## Exhibit 8

### Contributions in 2016/17

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Total £m
Employer contributions	19.559	34.204	11.339	65.102
Employee contributions	7.034	12.217	4.267	23.518
Strain Contributions	2.135	0.978	0.682	3.795
Deficit Recovery Contributions	-	-	0.697	0.697

Source: Tayside Pension Fund 2016/17 Annual Report and Accounts

**59.** The Fund reported a deficit from dealings with members of £12.187 million in 2016/17. This means that pension payments exceeded member contributions and investment income was used to ensure pensions were paid. The Fund's cash flow projections show that the Fund will continue to rely on investment income to pay pensions. The continued increase in pensioners in the Fund's membership will make funding pension payments increasingly challenging over the longer term.

# Part 4

## Governance and transparency



### Main judgements

**The Annual Report and Accounts are considered and approved by the Council's Scrutiny Committee rather than the Pension Sub-committee. This is contrary to approved governance arrangements.**

**Although the Pension Sub-committee has delegated responsibility for the Fund's governance arrangements, its remit excludes audit arrangements for the Fund .**

**Decisions are transparent with Pension Sub-committee papers and detailed minutes of meetings of the Pension Sub-Committee available on Dundee City Council's website.**

### Governance arrangements

**60.** The main functions of the Fund are the management and investment of scheme funds and administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972 and Public Service Pensions Act 2013.

**61.** Dundee City Council is the administering body for Tayside Pension Fund. The Council has delegated responsibility for the management of the Fund to the Pension Sub-committee. This Sub-committee, supported by the Pension Board, is responsible for establishing arrangements that ensure the proper conduct of the affairs of Tayside Pension Fund.

**62.** The Sub-committee is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme and for preparing, maintaining and publishing the Governance Compliance Statement. The Pension Sub-committee and Pension Board meet jointly on a quarterly basis.

**63.** As noted page 9, the Sub-committee's responsibilities include receiving and agreeing the Annual Report and Accounts but these responsibilities are carried out instead by the Council's Scrutiny Committee. The Sub-committee's remit also contains no direct reference to the audit arrangements for the Fund, which are included in the remit of Dundee City Council's Scrutiny Committee. The Sub-committee has no mechanism for taking reports on these areas.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

---

## Recommendation 1

**The governance processes should be reviewed to ensure that the approved arrangements for the Annual Report and Accounts are adhered to. Consideration should also be given to including audit arrangements within the remit of the Pension Sub-committee.**

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**64.** Employers are required to submit year end contribution returns by May for the preceding 31 March year end. This is an important control over the accuracy of pension contributions received and recorded in the pensions systems. This is of increased importance following the introduction of CARE, as the member benefit statement requires actual salary data from all employers. All year end contribution returns relating to 2016/17 have been received by the administering authority.

**65.** We also reviewed various other aspects of governance that apply to the Fund including standing orders, financial regulations and arrangements for reporting breaches of regulation to the Pensions Regulator. We have nothing to report in relation to these matters. No breaches of regulation have been reported to the Pensions Regulator.

**66.** Overall, we have concluded that subject to the issue highlighted above on the respective responsibilities of the Pension Sub-committee and the Council's Scrutiny Committee, the Fund has adequate governance arrangements in place which support good governance and accountability.

## Internal audit

**67.** Internal audit provides the Fund with independent assurance on the Fund's overall risk management, internal control and corporate governance processes.

**68.** The internal audit function is carried out by Dundee City Council. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**69.** To avoid duplication effort we aim to place reliance on the work of internal audit wherever possible. In 2016/17 we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However, we considered the findings from internal audit's report on Pension Fund – Treasury Management as part of our wider dimension work.

## Transparency

**70.** Transparency means that the public, in particular pension fund members have access to understandable, relevant and timely information about how the Fund is taking decisions and how it is using resources.

**71.** There is evidence from a number of sources which demonstrate the Fund's commitment to transparency. For example, the Pension Sub-Committee and Pensions Board meetings are held in public and the Fund's annual accounts are available on the Fund's website.

**72.** Review of the Fund's website identified publication of relevant and current policies, governance documents and financial and funding information.

**73.** Overall, we concluded that the Fund conducts its business in an open and transparent manner.

## Good Practice

**74.** All members of the Pension Sub-Committee and Pension Board underwent an intensive training program during the year which concluded with all completing and passing the Pensions Regulator Trustee Public Sector and Defined Benefits Toolkit assessments.



# Part 5

## Value for money



### Main judgements

The Fund's investment performance is subject to regular review and scrutiny by the Pension Sub-committee.

The Main Fund marginally underperformed against its benchmark in 2016/17 but outperformed benchmarks over the longer term. The Transport Fund has outperformed its one year and longer term benchmarks.

Some Fund Managers have failed to achieve their one year investment performance benchmark, with one, a property based portfolio, also failing to achieve the 3, 5 and 10 year benchmarks. The performance of this fund manager continues to be monitored.

There is scope for improvement in the mechanism for reporting administration performance.

### Investment performance

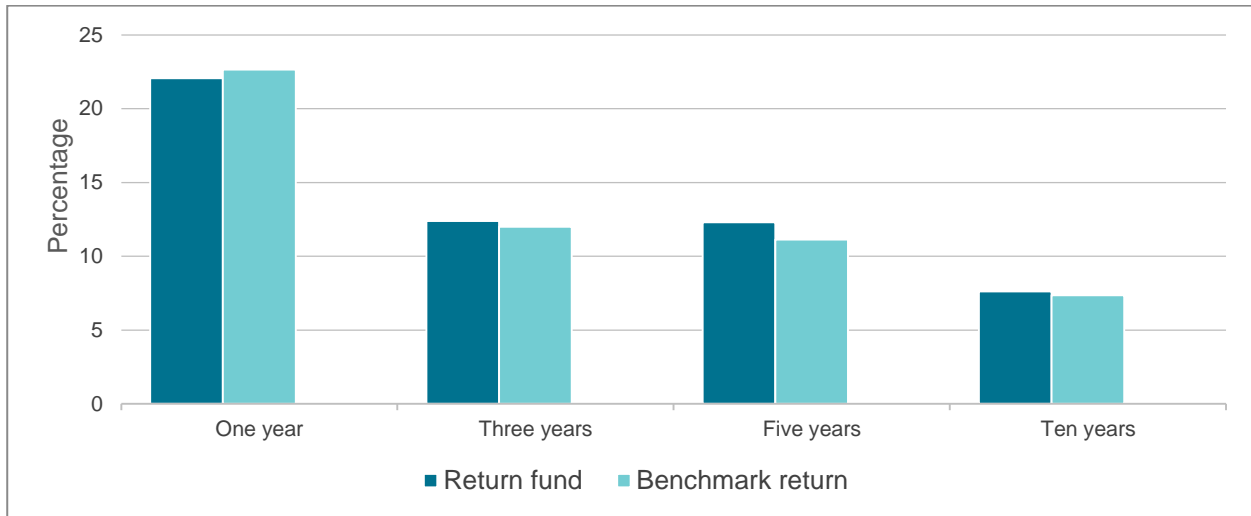
**75.** The Pension Sub-Committee meets on a quarterly basis. A review of fund managers' performance is a standing item on the Sub-committee's agenda. At each meeting, committee members receive a report outlining overall fund performance including an analysis of risks and returns.

**76.** [Exhibits 9 and 10](#) show the Funds' investment performance. In the year to 31 March 2017 the Main Fund return of 22.07% slightly underperformed the benchmark return of 22.64%, although it outperformed all other time periods (3, 5 and 10 years). In the year to 31 March 2017 the Transport Fund return of 19.50% slightly outperformed the benchmark return of 18.62% and outperformed all other time periods (3, 5 and 10 years). As shown earlier in [Exhibit 5](#) net investment performance compared favourably with other LGPS Funds in Scotland.

Value for money is concerned with using resources effectively and continually improving services.

## Exhibit 9

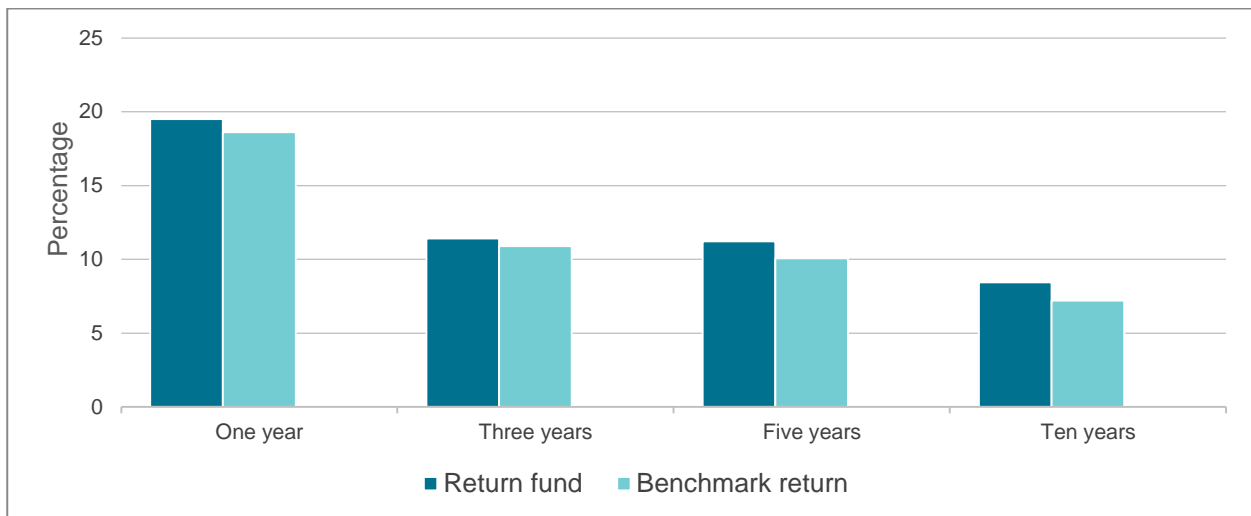
### Main Fund investment performance



Source: Tayside Pension Fund 2016/17 Annual Report and Accounts

## Exhibit 10

### Transport Fund investment performance



Source: Tayside Pension Fund 2016/17 Annual Report and Accounts

**77.** The fund uses seven fund managers. Individual investment manager performance is reported on a quarterly basis to the Pension Sub-Committee. The external investment advisor, AON Hewitt attends the meetings in an advisory capacity, when required. AON Hewitt also provides an annual report to the Pension Sub-Committee each March covering the managers' and fund performance for the previous full calendar year.

**78.** Some fund managers fell below their one year benchmark returns in 2016/17 - Baillie Gifford UK Equities, Fidelity Investment Management, Schroders and Legal & General for the Main Fund (Legal and General only slightly) and Baillie Gifford UK Equities for the Transport Fund. Schroders also fell below its longer term benchmark returns (3, 5 and 10 years) for the Main Fund. The Schroders

performance is due to their investment in property, the Continental European Property Fund, prior to the 2008 property crash. Although the investment represents less than 2% of the Fund's overall property portfolio, the impact of the property market fall continues to be felt. The performance of this portfolio continues to be monitored quarterly.

**79.** Quarterly meetings are held with all the fund managers and fund managers attend the Pension Sub-Committee meetings on a rotational basis to make presentations.

**80.** Investment return and risk are inextricably linked and it is not possible for us to comment on the relative performance of the fund's investments given the risk exposure of the asset allocation and investments made. However, the asset allocation is largely in line with the Fund's investment strategy. The investment objective of the fund is to maximise the overall return whilst maintaining a prudent and balanced investment exposure.

## Administration Performance

**81.** The workload of the pension administration section continues to grow primarily due to the introduction of the career average pension scheme (CARE) from 1 April 2015. Other factors impacting on the administration workload include auto enrolment, requests generated via freedom of choice, the Guaranteed Minimum Payment reconciliation and increased voluntary early retirement workload.

**82.** We highlighted the increased pressure on the administration section in our Annual Audit Plan, with the workload continuing to stretch the existing resources available. This coupled with the loss of experienced staff members led to the need to consider outsourcing the backlog workload. At that time, we were advised of the potential outsourcing of some of the section's workload.

**83.** Subsequently, two service providers were appointed in June 2017, one to carry out the Guaranteed Minimum Pension reconciliation which is due to be submitted to HMRC by December 2018 and one to process the legacy backlog of specific cases. Two temporary staff have also been recruited for a period of six months from April/May 2017. It is too early to assess the impact of these additional resources.

**84.** A report on administration performance is reported to the Pension Sub-committee but this focuses on the volume of key tasks undertaken and does not provide details of performance against target performance levels or comparatives with prior years. There is also no regular reporting of benchmarking performance data to members (benchmark administration costs data is available from the Chartered Institute of Public Finance and Accountancy (CIPFA)).

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## Recommendation 2

**The Fund should consider changes to reporting its administration performance to incorporate performance against targets and regular reporting of benchmarking performance data.**

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## Management expenses

**85.** 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 the governance fees for actuarial and audit services.

**86.** CIPFA published revised guidance on local government pension scheme management expenses. This guidance sets out a framework for the reporting of investment management costs and was applied from 2016/17. The new guidance

recommends that only expenses that can be directly controlled by the fund should be included.

**87.** Investment manager fees are agreed in the respective mandates governing their appointments. Generally these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments changes.

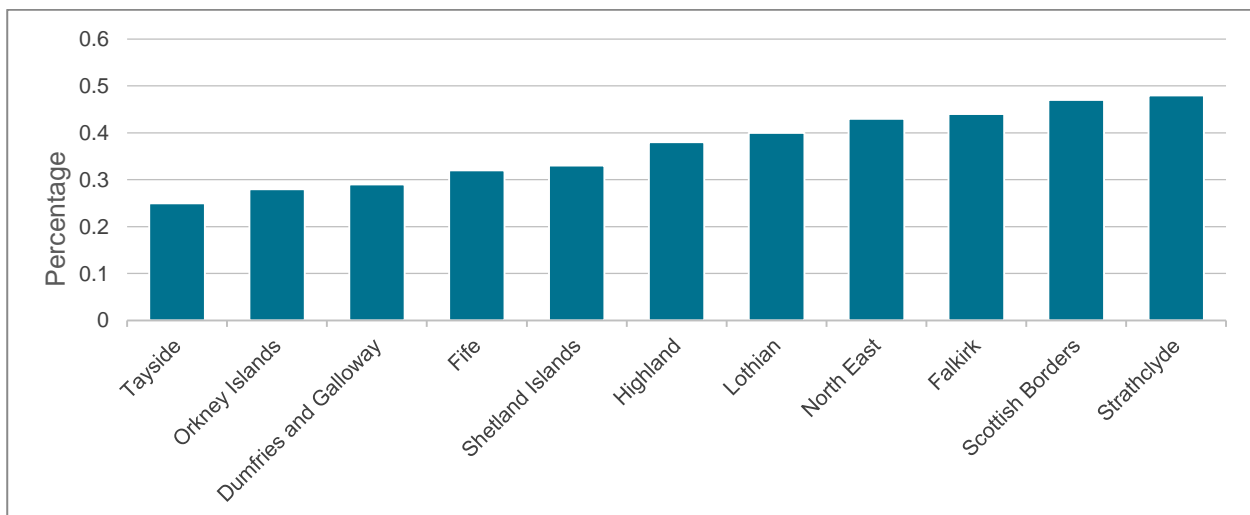
**88.** Investment management expenses for the Main Fund have increased from £7.589 million in 2015/16 to £8.516 million in 2016/17. Investment management expenses for the Transport Fund have increased from £0.207 million in 2015/16 to £0.217 million in 2016/17. The increases are due to the expenses being linked to the market value of investments.

**89.** [Exhibit 11](#) shows figures for total management expenses relative to net assets across the Scottish Local Government Pension Funds, with investment management expenses for Tayside Pension Fund highlighted. The Fund had the lowest percentage in Scotland.

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## Exhibit 11

### Investment management expenses



Source: 2016/17 unaudited local government pension funds' financial statements

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**90.** The additional information on the cost of LGPS investment management services is now available and enables the Fund to review and benchmark its level of management expenses.

**91.** Overall, we have concluded that the Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses. There is scope for improvement in the mechanism for reporting administration performance.

## National performance audit reports

**92.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the Fund. These are outlined in [Appendix 3](#) accompanying this report.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
19	<p><b>1. Governance arrangements</b></p> <p>The current processes for considering and approving the Annual Report and Accounts is contrary to the approved arrangements. In addition, audit arrangements for the Fund are not included within the remit of the Pension Sub-committee.</p> <p><b>Risk:</b></p> <p>Members of the Pension Sub-committee do not have the opportunity to consider significant areas of governance and compliance relating to the Fund.</p>	<p>The governance processes should be reviewed to ensure that the approved arrangements for the Annual Report and Accounts are adhered to. Consideration should also be given to including audit arrangements within the remit of the Pension Sub-committee.</p>	<p>Changes to the remit and terms of reference will be amended. The Annual Report and Accounts and all audit reports will be considered by the Pension Sub-committee.</p> <p>Responsible officer. Senior Manager – Financial Services</p> <p>Agreed date. Immediate (June 2018 for the unaudited Annual Report and Accounts).</p>
23	<p><b>2. Administration Performance</b></p> <p>Administration performance reporting could be improved to include details of performance against target performance levels or comparatives with prior years. There is also no reference to benchmarking performance data (benchmark administration costs data is available from the Chartered Institute of Public Finance and Accountancy (CIPFA)).</p> <p><b>Risk:</b></p> <p>Management is unable to demonstrate the specific pressures on administration services and the impact of those pressures on providing the service.</p>	<p>The Fund should consider changes to reporting its administration performance to incorporate performance against targets and regular reporting of benchmarking performance data to members.</p>	<p>Administration performance against target will be reported in line with our Administration Strategy, which relies on the full adoption by employers of PensionsWeb by December 2017.</p> <p>Administration cost data is monitored in “Covalent” the Council’s performance monitoring system and is also reported on to the Pension Sub-committee in the Annual Business Plan. We will extend this to report benchmarking the data available from CIPFA, and incorporate this annually in one of the quarterly administration performance reports.</p> <p>Responsible officer. Senior Manager – Financial Services</p>



Page  
no. Issue/risk



Recommendation



Agreed management  
action/timing

Agreed date. March 2018.

# Appendix 2

## Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of fraud over income and expenditure</b></p> <p>ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements includes certain requirements relating to the auditor's consideration of fraud.</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The Fund receives a material amount of income from a variety of sources including pension contributions and investment income.</p> <p>Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure. The Fund incurs significant expenditure on pension payments.</p>	<p>Evaluate the effectiveness of systems of internal control, including analytical procedures on income and expenditure and testing of key internal controls</p> <p>Detailed testing of transactions focusing on the areas of greatest risk.</p> <p>Review the content of service auditor reports.</p>	<p>Evaluated the effectiveness of systems of internal control and tested the internal controls.</p> <p>Analytical review of income streams and expenditure carried out.</p> <p>Reviewed the content of service auditor reports.</p> <p><b>Conclusion:</b> We did not identify any instances of income and expenditure being materially misstated.</p>
<p><b>2 Risk of management override of controls</b></p> <p>Management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Focused testing of accruals and prepayments</p> <p>Evaluation of significant transactions that are outside</p>	<p>Carried out detailed testing of journal entries.</p> <p>Reviewed accounting estimates for bias.</p> <p>Tested year end accruals and prepayments.</p> <p><b>Conclusion:</b> Our work did not identify any material errors that</p>

Audit risk	Assurance procedure	Results and conclusions
	the normal course of business.	required adjustment to the financial statements.
<p><b>3 Valuation of Investments</b></p> <p>Valuation of investments can be one of the more volatile elements of financial statements. There is a significant degree of subjectivity in the measurement and valuation of investments. This includes level 3 investments such as unquoted equity where valuations use techniques that require significant judgement in determining appropriate assumptions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Review the work of an expert (professional valuer) in accordance with ISA500</p> <p>Evaluate the significant assumptions and judgements made in the valuation of unquoted assets and liabilities.</p> <p>Test valuations to valuation reports and/or other supporting documentation.</p>	<p>Reviewed the work of the actuary.</p> <p>Agreed valuations of investments to valuation reports provided by the global custodian.</p> <p><b>Conclusion:</b> Our work did not identify any material errors that required adjustment to the financial statements.</p>
<p><b>4 Changes to financial reporting</b></p> <p>There are changes to the accounting code for the 2016/17 financial statements, including:</p> <ul style="list-style-type: none"> <li>presentational changes to the format of the fund account.</li> <li>application of IFRS 13 Fair value measurement has been applied to pension fund investments</li> <li>new recommended disclosures in respect of management expenses.</li> </ul> <p>There is a risk of material misstatement, if these changes are not properly implemented.</p>	<p>Communication with officers on the technical details of the changes</p> <p>Review disclosures as part of our financial statements audit</p> <p>Review the calculation of investment management expenses and confirm to supporting evidence.</p>	<p>We reviewed the Annual Report and Account presentation to ensure changes to the Code had been applied.</p> <p><b>Conclusion</b></p> <ul style="list-style-type: none"> <li>The Fund Account was prepared in accordance with the Code.</li> <li>Testing confirmed that investments were measured at fair value, however fair value disclosures were incomplete as the global custodian had not provided all the required information. This is to be reviewed for 2017/18.</li> <li>Management expenses were disclosed in accordance with the Code.</li> </ul>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>5 Pension administration performance</b></p> <p>A review of pension administration was undertaken in 2015 and highlighted various areas for improvement. One continuing issue is in relation to the capacity of the service. A report to members in December 2016 highlighted the increased voluntary early retirement workload continues to stretch the existing resources available. This coupled with the</p>	<p>Review pension administration performance through administration performance indicators</p> <p>Monitor the outcome of the outsourcing proposal.</p>	<p>Administration performance focusses on the volume of key tasks undertaken by the administration section.</p> <p>Reviewed Quarterly Pension Administration Performance reports presented to the Pension Sub-committee.</p> <p><b>Conclusion:</b> Improvements to administration performance reporting have been recommended (see recommendation 2).</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>loss of experienced staff members has led to the need to consider outsourcing the backlog workload.</p>		
<p><b>6 Local government elections</b></p> <p>The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of specialist pension fund skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required.</p> <p>The Audit Scotland publication How Councils Work on the role of councillors provides guidance in this area.</p>	<p>Review the arrangements for the induction and training of new members.</p>	<p>Reviewed arrangements for induction and training:</p> <p><b>Conclusion:</b> A programme of induction training and refresher training took place for all members.</p>
<p><b>7 Repatriation of the Transport Fund</b></p> <p>In December 2016, Members agreed in principle to a proposal for the repatriation of the Transport Pension Fund to the main Tayside Pension Fund. The proposal aims to improve efficiencies in respect of the Funds and is subject to final agreement of employer contribution rate (currently proposed as 40%) and guarantee as required by Tayside Pension Fund specialist advisors. If approved, a risk remains that the agreed employer contribution rate will be inadequate to meet pension liabilities.</p>	<p>Monitor developments in this area.</p>	<p>Monitored developments.</p> <p><b>Conclusion:</b> Repatriation of the Transport Fund took place on 30<sup>th</sup> June 2017. No significant risks have been identified.</p>



# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### Pension fund relevant reports

[Local Government in Scotland Financial Overview 2015/16 – LGPS Supplement](#) – November 2016.

# Tayside Pension Fund

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