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Pension Sub-Committee, Tayside Pension Fund

11 December 2023

Audit of 2022/23 annual accounts

Independent auditor's report

1. Our audit work on the 2022/23 annual accounts is now substantially complete. Subject to the receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 11 December 2023 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we 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 present for the Pension Sub-Committee's consideration our draft annual report on the 2022/23 audit. The section headed "Significant findings and key audit matters" sets out the issues identified in respect of the annual accounts.

3. The report also sets out conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice.

4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

6. We have no unadjusted misstatements to be corrected.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Pension Sub-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.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

9. A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

Appendix A: Proposed Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and accounts of Tayside Pension Fund (the fund) for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement, 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 UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2023 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 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 for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 was appointed by the Accounts Commission on 2 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the fund 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 Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Executive Director of Corporate Services and Pension Sub-Committee for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, 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.

In preparing the financial statements, the Executive Director of Corporate Services is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

The Pension Sub-Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain 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) 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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Executive Director of Corporate Services to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;

- inquiring of the Executive Director of Corporate Services concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Other information

The Executive Director of Corporate Services is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities for the Statement of Accounts and other reports included in the annual report other than the financial statements and my auditor's report thereon.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

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 2018.

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.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Brian Howarth
Audit Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow G2 1BT

Appendix B: Letter of Representation (ISA 580)

Brian Howarth, Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Brian,

Tayside Pension Fund Annual Accounts 2022/23

1. This representation letter is provided about your audit of the annual accounts of Tayside Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Tayside Pension Fund's annual accounts for the year ended 31 March 2023.

General

3. Tayside Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2022/23 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Tayside Pension Fund have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (2022/23 accounting code), and the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Tayside Pension Fund at 31 March 2023 and the transactions for 2022/23.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2022/23 accounting code where

applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Tayside Pension Fund circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Tayside Pension Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Tayside Pension Fund's ability to continue as a going concern.

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.

Assets

Investments

11. For the year ended 31 March 2022, 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 2022. 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

12. 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

13. 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.

Actuarial Assumptions

14. The pension assumptions made by the actuary in the IAS26 report as at 31 March 2022 have been reviewed and I confirm that they are consistent with management's own view.

Liabilities

15. All liabilities at 31 March 2023 of which I am aware have been recognised in the annual accounts.

Provisions

16. There are no provisions included in the financial statements of the Tayside Pension Fund for 2021/22.

Commitments

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

Carrying Value of Assets and Liabilities

18. 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 2021/22. 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.

Contingent liabilities/assets

19. There are no significant contingent liabilities or contingent assets other than those disclosed in the notes to the accounts.

Fraud

20. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

21. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

22. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2022/23 accounting code. I have made available to you the identity of all the Tayside Pension Fund's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

23. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

24. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

25. I confirm that the Tayside Pension Fund has undertaken a review of the system of internal control during 2022/23 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

26. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2023, which require to be reflected.

Events Subsequent to the Date of the Net Assets Statement

27. 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, other than those already reflected in the audited financial statements.

28. Since the date of the Net Assets Statement 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.

Other Matters

29. 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

Robert Emmott
Executive Director of Corporate Services, Dundee City Council

Tayside Pension Fund

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the members of Tayside Pension Fund Sub-Committee and the Controller of Audit

11 December 2023

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Key messages

2022/23 annual report and accounts/financial statements

- 1 Audit opinions on the annual report are unmodified.

Financial management

- 2 The overall funding position indicated by the IAS 19 assessment is unchanged from last year at 109 per cent.
- 3 The Fund has appropriate and effective financial management arrangements.

Financial sustainability

- 4 The next triennial valuation covering at 31 March 2023 is currently being conducted. This will provide an updated assessment of the Fund's position.
- 5 The Fund concluded a review of its investment strategy with identified changes currently being implemented in 2022/23.
- 6 Overall membership levels have increased over the last five years but the ratio of active members to pensioners has steadily reduced over the same period

Vision, leadership and governance

- 7 Governance arrangements are appropriate and operate effectively.

Use of resources to improve outcomes

- 8 The Fund has effective arrangements for monitoring and reporting performance, but there is scope for improvement

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Introduction

1. This report summarises the findings from the 2022/23 annual audit of Tayside Pension Fund (the Fund). The scope of the audit was set out in an annual audit plan presented to the March 2023 meeting of the Pension Sub-Committee. This Annual Audit Report comprises:

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

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

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

Responsibilities and reporting

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

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

6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of administering authority from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £30,360 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. We add value to the Fund by:

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

1. Audit of 2022/23 annual accounts

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

Main judgements

Our audit opinions on the annual report are unmodified.

Audit opinions on the annual report are unmodified

9. The committee approved the annual accounts for the Fund for the year ended 31 March 2023 on 11 December 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor, the financial statements:

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

The unaudited annual accounts were received in line with the agreed audit timetable

10. The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023.

Overall materiality was assessed as £96.7 million

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

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

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£96.70 million
Performance materiality	£62.80 million
Reporting threshold	£0.250 million

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

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65 per cent of overall materiality, reflecting the first year of the audit and no issues noted during the planning of the audit.

Materiality was separately assessed for benefits expenditure and contribution income

15. We assessed that benefits expenditure and contribution income could reasonably be expected to influence the economic decisions of users of the annual accounts, despite the comparatively small value of these areas in relation to overall materiality. In line with International Standards on Auditing (UK) 320, we therefore set a specific materiality value for these areas based on 10 per cent of contributions.

Exhibit 2 Specific materiality values for benefits expenditure and contribution income

Materiality level	Amount
Transactions materiality	£11.85 million
Transactions Performance materiality	£7.7 million

Significant findings and key audit matters

16. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the fund's accounting practices.

17. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

18. We have no issues to report from the audit.

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

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

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Result: We did not identify any instances of management override of controls during our audit.</p>
<p>2. Actuarial valuation of future retirement benefits</p> <p>The annual accounts include a disclosure note setting out the Fund's liability for future retirement benefits. This information is provided by the Fund's actuary.</p>	<p>Valuations are reviewed by officers for reasonableness including confirmation of the accuracy of the source data used to produce them.</p>	<p>Result: We reviewed the valuations by the actuary and the reasonableness checks by officers over the source data provided. We have no concerns over the estimates and no material misstatements have been identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>The actuary's valuation depends on a range of financial and demographic estimations about the future.</p> <p>The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.</p>		

There were no identified misstatements

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

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

Good practice

22. The cash-flow projections within the management commentary of the annual report and accounts clearly show the net draw on the fund from dealing with members over the next 10-year period. It also outlines that investment income is expected to more than match it. This diagram is considered good practice as it clearly demonstrates the expected position for the next 10-year period.

Good progress has been made on prior year recommendations

23. Tayside Pension Fund has made good progress in implementing the audit recommendations identified by the previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Conclusions

The overall funding position indicated by the IAS 19 assessment unchanged from last year at 109 per cent

The Fund has appropriate and effective financial management arrangements

The value of the fund's assets has decreased during 2022/23

24. The Fund's performance in 2022/23 is summarised in [Exhibit 4](#).

Exhibit 4

Assets, funding level and investment performance

net assets	IAS 19 Funding level	Investment performance
£4.8 billion	109%	6.35%
Closing net assets as at 31 March 2023 (-5.14%)	Net assets vs promised retirement benefits 31 March 2023	Average annual return on investments over 5 years
£5.1 billion	109%	-4.50%
Opening net assets at 1 April 2022	Opening net assets as a proportion of promised retirement benefits	Return on investments 2022/23

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

25. The Fund has faced a challenging year in 2022/23. The net assets of the Fund decreased from £5.1 billion at 31 March 2022 to £4.8 billion at 31 March 2023. The Fund has also seen a negative performance of -4.50 per cent, against a benchmark of -3.24 per cent. However, as noted below the future projections of the pension liability has also reduced, leaving the net funding position unchanged at 109 percent.

26. The performance of the Fund's investments was poorer in the first half of 2022/23. Many factors contributed to that, including the conflict in Ukraine and the resultant impact on global energy and food costs which caused a steep rise in inflation and interest rates. The second half of the year saw a recovery of Fund values, as fears of global recession didn't materialise, interest rates were perceived to be reaching their peak and global inflation slowed down which led to positive performance particularly for equities.

27. The promised retirement benefits at 31 March 2023 have been estimated at £3.5 billion (31 March 2022 – £5.0 billion), a 29 percent decrease. This estimate uses assumptions in line with Internal Accounting Standards (IAS) 19 requirements, for the purposes of the Fund's financial statements. This is not the actuarial assessment, which is undertaken triennially to determine the future funding strategy. This valuation is currently being prepared..

The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance

28. 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 Fund. We consider these to be current, comprehensive and support good financial management.

29. The Tayside Pension Fund Committee receives administration and performance reports at its quarterly meetings. These reports are comprehensive and include fund performance trends, investment manager performance against benchmarks and movements in asset allocations. From attendance at Committee, we observed and concluded that reports presented to members are subject to appropriate review and scrutiny.

Tayside Pension Fund has appropriate financial control arrangements in place

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

31. We identified one area where controls could be improved. Ad hoc payments, such as lump sums and death benefits, are calculated in Altair system and there is a secondary check and authorisation before payments being made. However, there is no reconciliation of these payments between Altair pension system and the general ledger to ensure completeness and accuracy of these payments.

Recommendation 1

A year end reconciliation of ad hoc payments between the Altair pension system and the general ledger should be carried out to ensure completeness and accuracy of these payments.

Internal audit has given an overall satisfactory opinion for 2022/23

32. Tayside Pension Fund's internal audit function is carried out by PWC. They have now completed their 2022/23 audit work and presented their Annual Audit Report to the June 2023 Pension Sub Committee. The overall opinion was of general satisfaction with no critical or high risk issues. There were some recommendations for improvements including contributions monitoring and business resilience.

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

33. Tayside Pension Fund has adequate arrangements in place to prevent and detect fraud or other irregularities.

3. Financial sustainability

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

Conclusions

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

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

Overall membership levels have increased over the last five years but the ratio of active members to pensioners has steadily reduced over the same period

We have no concerns over the arrangements for financial sustainability

34. The next triennial valuation covering at 31 March 2023 is currently being conducted. This will provide an updated assessment of the Fund's position. The results of the 2020 full triennial valuation of the Tayside Pension Fund showed a funding level of 109 per cent. The most recent interim valuation did not provide a specific funding level but concluded that the funding position remained static.

35. The outcome of the triennial valuation will include setting the funding strategy for the following 3 years, including contribution rates, with effect from 1 April 2024.

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

36. The previous year's investment strategy review made recommendations for further diversification via investment in alternative asset classes. It also recommended further global equity diversification, with increased focus on sustainability, whilst maintaining the long-term return strategic benchmark of 5.4 per cent per year. (or CPI + 3 per cent). These recommendations have been implemented during 2022/23 and further allocations will be made when market conditions are suitable, in agreement with specialist advisors.

37. The recommendation of the introduction of a diversified private markets mandate and investment of 5 per cent of the Fund's overall assets has been

explored by Officers and Isio (the Fund's Investment Advisors) to determine the most appropriate investment vehicle and procurement requirements. The Fund officers have received delegated authority to progress and implementation of this allocation is expected in the coming months.

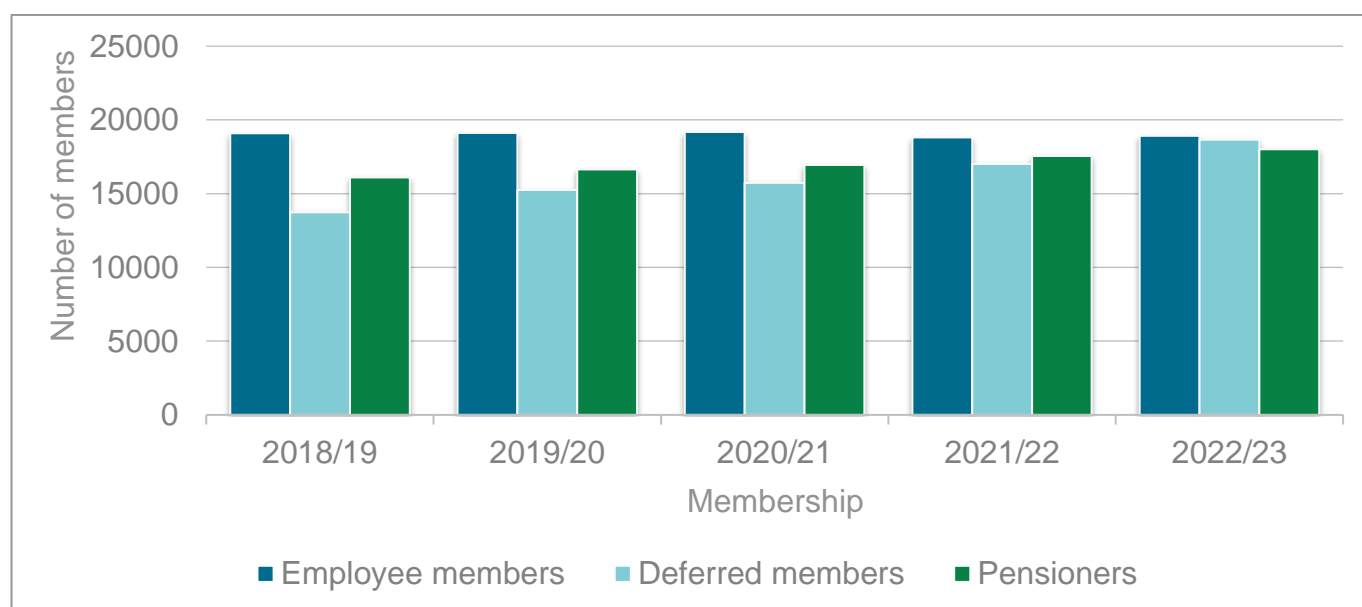
Overall membership levels have increased over the last five years but the ratio of active members to pensioners has steadily reduced over the same period

38. The Fund is a multi-employer fund with 3 Local Authorities, and around 39 other employers. The membership profile over the last five years is shown at [Exhibit 5](#).

Exhibit 5

Tayside Pension Fund membership over the last five years

The ratio of active members is reducing



Source: Tayside Pension Fund 2022/23 unaudited financial statements

39. Membership of Tayside Pension Fund increased by 2,236 to 55,582 members at 31 March 2023; an increase in membership of 4.19 per cent from 31 March 2022. The impact of auto-enrolment continues to contribute to the increase in employee members.

40. In 2022/23 the number of pensioners receiving a pension from Tayside Pension Fund increased by 482 and the number of pensioner members continues to increase steadily each year. The ratio of active members to pensioners has reduced over the past five years.

41. Cash flows from dealings with members continue to be negative in 2022/23, with more paid out in benefits than received from contributions. Over the long term, the cash flow position will impact on the investment strategy as income

from investments, rather than contributions, will increasingly be needed to pay pensions. However, based on the actuarial maturity profile, the Fund is content that there is no immediate need to consider investment changes due to the cash flow position.

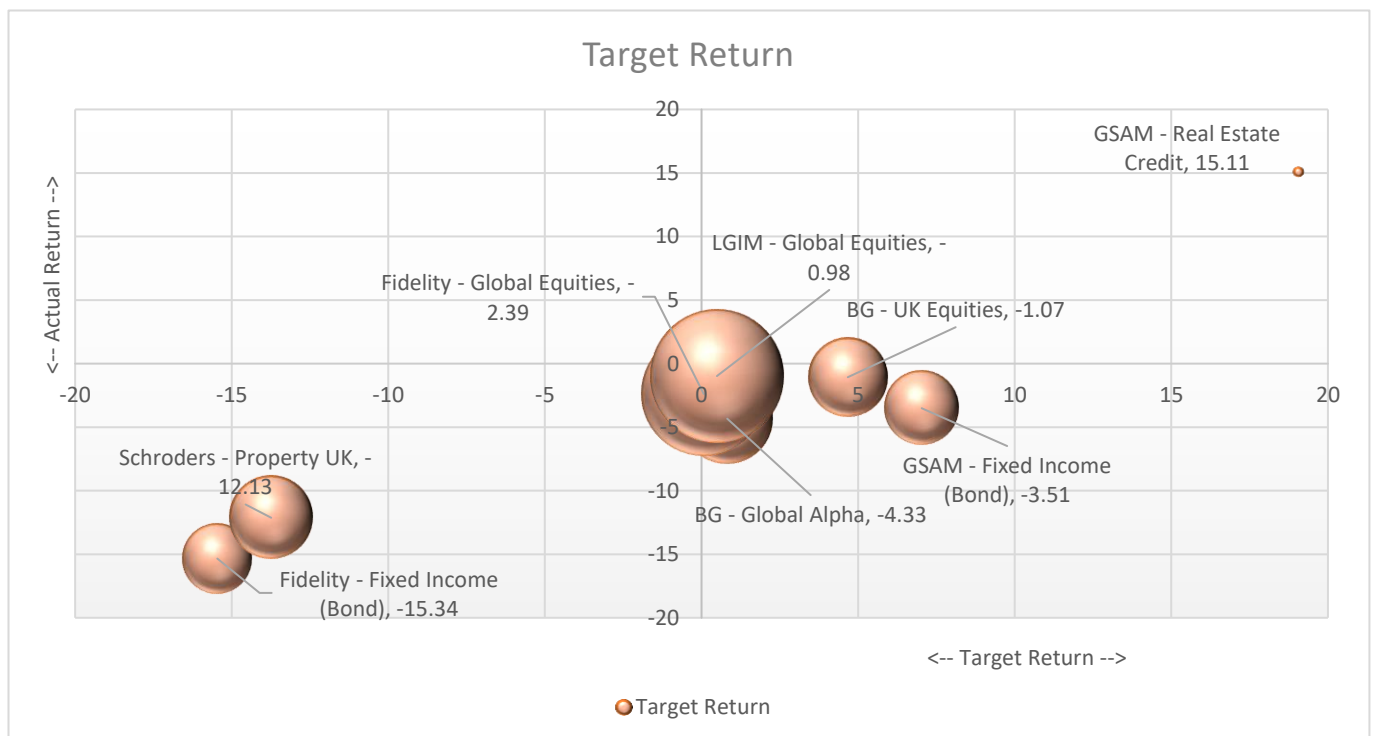
The Fund's investment performance has seen a difficult year with only one mandate attaining its benchmark

42. 2022/23 was a challenging year for investments, with most industry benchmarks delivering negative performance. Investment managers also have performance targets which are set above the chosen benchmarks, however, only two managed to beat the target (Schroders and Fidelity Fixed Income). Majority of the Fund's investments delivered negative actual returns. The only positive return on investment was produced by the GSAM Real Estate mandate, however, it did not match the industry benchmark and its target and fell nearly 4 percentage points short. Actual investment returns and targets are shown for the Fund's investment mandates in Exhibit 6.

Exhibit 6

Investment mandate target versus actual returns

Most mandates underperformed their 1-year target



Source: Tayside Pension Fund records and reports

4. Vision, leadership and governance

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

Conclusions

Governance arrangements are appropriate and operate effectively.

Governance arrangements are appropriate and operate effectively

43. Dundee City Council is the administering authority for Tayside Pension Fund. The Council has delegated the responsibility for governance to the Pension Sub-Committee of the Policy and Resources 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. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

44. The responsibilities of the Executive Director of Corporate Services, the Pension Sub-Committee and the Pension Board are set out in the Statement of Investment Principles which is included within the Fund's 2022/23 Annual Report and Accounts.

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

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

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

47. The Pension Fund Manager and Senior Financial Services Manager monitor any potential breaches of the Pensions Regulator Public Service Code regulations. If any such incidents occur, they are discussed with the Head of

Corporate Finance to establish if they are material breaches that require to be reported to the regulator.

48. Management has confirmed that there were no reportable breaches during 2022/23.

Climate change arrangements

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

50. The Fund has a detailed section within the annual report and accounts that is focussed on climate change and is titled “climate focus”,

51. The Fund has included a brief narrative about climate change in relation to the Fund’s investments. This covers governance, strategy, risk metrics and targets. There is an analysis of the top 10 investments by carbon risk.

52. The Fund's policy will continue to require its investment managers to engage with companies on Sustainability and the Environment and Employee Care and Human Rights. There is also six-monthly reporting to the pension sub-committee on socially responsible investments.

53. Whilst Tayside Pension Fund has no explicit Climate Strategy, it is committed to ensuring that their investment strategy is consistent with achieving the goal of global net-zero emissions by 2050, if conditions allow, and is working to achieve this trajectory.

5. Use of resources to improve outcomes

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

Conclusions

The Fund has effective arrangements for monitoring and reporting performance, but there is scope for improvement

The pension administration function has performed well against targets, but reporting could be improved

54. The Tayside Pension Sub-committee and Pension Board meet on a quarterly basis and receive regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

55. The average days taken to process transactions have reduced for four out of six tasks measured. This is despite significant increases in case volume. Decreased performance in the other two areas was due to recruitment and training issues.

56. The reporting of key performance indicators for the administrative function could be improved by including the levels of performance set out in the pension administration strategy and whether these have been achieved. This will also ensure compliance with Regulation 55 of the LGPS (Scotland) 2018 Regulation.

Recommendation 2

Reporting of the KPIs for the administration function should be improved by providing extent to which the levels of performance set out in the pension administration strategy have been achieved.

The Fund scrutinises investment management expenses appropriately

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

58. Investment management expenses have decreased from £10.5 million in 2021/22 to £9.9 million in 2022/23. The main reason for this decrease in expenses relates to the 5.14 per cent decrease in net asset value.

59. We have considered the Fund's assessment of management expenses, including classification and disclosure within the financial statements. We have concluded the Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

Appendix 1: Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Ad hoc payments reconciliation</p> <p>Ad hoc payments, such as lump sums and death benefits, are calculated in Altair system and there is a secondary check and authorisation before payments being made. However, there is no reconciliation of these payments between Altair pension system and the general ledger to ensure completeness and accuracy of these payments..</p>	<p>A year end reconciliation of ad hoc payments between the Altair pension system and the general ledger should be carried out to ensure completeness and accuracy of these payments.</p> <p>Paragraph 31</p>	<p>Agreed. This recommendation will be implemented by 30/6/23 for end of current financial year, and will be undertaken on a quarterly basis thereafter.</p> <p>Responsible Officer - S Norrie</p>
<p>2. KPI reporting</p> <p>The administration performance reporting can be improved, however, to comply with Regulation 55 of the LGPS (Scotland) Regulation 2018 which requires pension fund's annual report to include the extent to which levels of performance set out in the pension administration strategy have been achieved.</p> <p>Risk – The Fund is not fully compliant with Regulation 55 of the LGPS (Scotland) Regulation 2018 in relation to performance reporting.</p>	<p>Performance reporting should be improved by providing additional details on KPI's such a progress against target.</p> <p>Paragraph 56</p>	<p>Agreed. This recommendation will be implemented by 30/6/23 for end of current financial year and will be included in the annual report.</p> <p>Responsible Officer - T Russell</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>PY1. Member training</p> <p>Following the 2022 local government elections, 3 councillors were newly appointed to the Pension Sub-Committee and 2 new councillors were appointed to the Pension Board.</p> <p>There is a risk that the new appointees do not have sufficient training and support to discharge their duties.</p>	<p>Following the completion of the member training plan for 2022/23, the Fund should carry out an exercise to develop individual member training needs assessments, and personal development plans, for all sub-committee and board members to ensure their training requirements continue to be met going forward.</p>	<p>Complete</p> <p>The necessary training was provided as part of the 2022/23 training plan.</p>
<p>PY2. Cashflow projection Disclosures</p> <p>The 2021/22 annual report does not include a long-term cashflow projection for the Fund.</p> <p>The annual report disclosures relating to the future financial position of the Fund could be enhanced by the inclusion of his information.</p>	<p>A 10-year cashflow projection should be included in the 2022/23 Annual Report and Accounts.</p>	<p>Complete</p> <p>There is a 10 year projection included within the fund statistics in the 2022/23 annual report and accounts.</p>
<p>PY3. Pension administration case processing times</p> <p>The average days taken to process pension administration cases increased during 2021/22 due to members having the ability to self-generate straight forward estimates.</p> <p>The remaining cases requiring calculation by the administration staff are complex, and as a result have longer processing times.</p> <p>There is a risk that the delay in processing pension administration cases adversely affects members.</p>	<p>The Fund should develop additional guidance and support to help pension administration staff understand the more complex cases, and enable the team to build a larger pool of staff who are able to process these cases with limited assistance.</p>	<p>On-going</p> <p>There have been six staff employed to assist with this, but there is still work to be completed.</p>
<p>PY4. Member Self Service online portal</p> <p>The Fund introduced a Member Self Service online portal during 2021/22 and by the end of the year 17 per cent of members had</p>	<p>The Fund should consider new ways to actively publicise and promote the Member Self Service online portal to encourage as many of the</p>	<p>Complete</p> <p>All new joiners are sent links to active their online portal. Members who have requested information or made contact with The Fund</p>

registered and were actively utilising the portal.

Fund's members as possible to utilise the service.

are sent links to active online accounts.

There is a risk that other members have not yet registered for the portal as they are not aware of its existence or capabilities.

Tayside Pension Fund

2022/23 Annual Audit Report

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