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## Pension Sub-Committee – Audit of 2020/21 Annual Report and Accounts

20 September 2021

### Independent auditor's report

1. Our audit work on the 2020/21 annual accounts is now substantially complete. Subject to 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 21 September 2021 (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 2020/21 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.

3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of 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 Executive Director of Corporate Services, as Section 95 Officer, on aspects of the annual accounts, including the judgements and estimates made.

9. A template 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

#### Report 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 for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and the 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 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the Tayside Pension Fund during the year ended 31 March 2021 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 2020/21 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 under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is five years. 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. 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.

##### Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my judgements thereon.

##### Responsibilities of the Executive Director of Corporate Services and the Pension Sub-Committee 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 they determine 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 deemed inappropriate.

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 economic 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:

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;
- identifying which laws and regulations are significant in the context of the fund;
- assessing 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **Reporting on other requirements**

#### **Statutory other information**

The Executive Director of Corporate Services is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or my knowledge obtained in 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 statutory 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 statutory other information and I do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

### **Opinions prescribed by the Accounts Commission**

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, including those in respect of Best Value, 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 120 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.

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

## Appendix B: Template Letter of Representation (ISA 580)

<Signed copy of ISA 580 letter to be provided on headed paper with signed 2020/21 Annual Report and Accounts>

Fiona Mitchell-Knight  
Audit Director  
Audit Scotland  
4th Floor  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

20 September 2021

Dear Fiona

### **Tayside Pension Fund Annual Report and Accounts 2020/21**

1. This representation letter is provided about your audit of the annual accounts of Tayside Pension Fund for the year ended 31 March 2021 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 management commentary, annual governance statement and governance compliance statement.

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's annual accounts for the year ended 31 March 2021.

#### **General**

3. Tayside Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2020/21 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 2020/21 (2020/21 accounting code), and in accordance with 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 2021 and of the amount and disposition at that date of its assets and liabilities.

### **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 2020/21 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's 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 2021, 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 2021. 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 IAS19 report as at 31 March 2021 and the 2020 triennial valuations have been reviewed and I confirm that they are consistent with management's own view.

### **Liabilities**

**15.** 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 2021.

### **Provisions**

**16.** There are no provisions included in the financial statements of the Tayside Pension Fund for 2020/21.

### **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 2020/21. 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 disclosed in the financial statements in accordance with the 2020/21 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.

### **Management Commentary**

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

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

**24.** 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.

**25.** 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.

### **Corporate Governance**

**26.** I confirm that Tayside Pension Fund has undertaken a review of the system of internal control during 2020/21 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.

**27.** 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 2021, which require to be reflected.

### **Other Matters**

**28.** 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

## Proposed 2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the members of the Pension Sub-Committee and the Controller of Audit  
20 September 2021

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# Contents

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Key messages	3
Introduction	5
1. Audit of 2020/21 annual accounts	7
2. Financial management	12
3. Financial sustainability	16
4. Governance and transparency	21
5. Value for money	25
Appendix 1	29
Appendix 2	30
Appendix 3	33

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# Key messages

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## 2020/21 annual accounts

- 1 Tayside Pension Fund's financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities.
- 2 The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with accounting regulations.

## Financial management

- 3 The Fund has effective financial management arrangements in place. This includes comprehensive reporting of investment performance.
- 4 Annual performance was significantly better than anticipated during 2020/21 and saw the value of the Fund increase by 32 per cent to £4.9 billion at 31 March 2021. However, there remains a risk that there will be further volatility and fluctuations in the value of investments in future years as the long-term impact of Covid-19 becomes clearer, and the stimulus measures introduced by global governments in the wake of the pandemic come to an end.

## Financial sustainability

- 5 The results of the 2020 triennial valuation showed an improved position with the Fund 109 per cent funded. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.
- 6 Given the funding position at 31 March 2020, and the healthy net asset position at 31 March 2021, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

## Governance and transparency

- 7 The Fund has adequate arrangements in place to support good governance and accountability. The Covid-19 pandemic has impacted on these since March 2020 but we have concluded that the revised governance arrangements are appropriate in the current circumstances.
- 8 The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to prevent and detect fraud and corruption, and to ensure compliance with the Pensions Regulator Public Service Code.

## Value for money

- 9** All Scottish Local Government Pension Schemes reported positive movements in net assets during 2020/21. However, Tayside Pension Fund's increase of 32 per cent placed it as one of the best performing funds over the last 12 months.
- 10** Performance of individual investment managers over the last 12 months was strong with only one of eight investment portfolios performing below benchmark.
- 11** Longer-term investment performance is also strong and shows above benchmark returns for the Fund over the last five and ten years.

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# Introduction

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1. This report is a summary of our findings arising from the 2020/21 audit of Tayside Pension Fund (the Fund).
2. We aim to add value to the Fund through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
  - reporting our findings and conclusions in public
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Scope of our audit

3. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 meeting of the Pension Sub-Committee. This report comprises the findings from:
  - a review of the Fund's main financial systems
  - the audit of the Fund's 2020/21 annual report and accounts
  - our consideration of the wider dimensions of public sector audit (financial management, financial sustainability, governance and transparency, and value for money) as set out in the [Code of Audit Practice 2016](#).

## Impact of Covid-19

4. The global coronavirus pandemic has impacted all public sector organisations since March 2020. Known risks related to the pandemic were included in our plan, and we have adapted our audit work during the year to address any new risks that have emerged.

## Auditor Independence

5. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.



**6.** 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 2020/21 audit fee of £26,250, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## Responsibilities and reporting

**7.** Dundee City Council is the administering authority for the Tayside Pension Fund. The council delegates this responsibility to the Pension Sub-Committee. The Sub-Committee is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Sub-Committee is also required to review the effectiveness of internal control arrangements and approve the annual report and accounts.

**8.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), International Standards on Auditing in the UK, and supplementary guidance.

**9.** As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Fund's performance management arrangements, suitability and effectiveness of corporate governance arrangements, its financial position, and arrangements for securing financial sustainability.

**10.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

**11.** This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. 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 from its responsibility to address the issues we raise and to maintain adequate systems of control.

**12.** An agreed action plan setting out specific recommendations, responsible officers and dates for implementation is included at [Appendix 1](#).

**13.** This report is addressed to both the members of the Pension Sub-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).

## Acknowledgement

**14.** We would like to thank the management and staff of Tayside Pension Fund for their cooperation and assistance during the audit.

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# 1. Audit of 2020/21 annual accounts

The annual accounts are the principal means of an organisation accounting for the stewardship of resources and its performance in using those resources

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## Main judgements

Tayside Pension Fund's financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities.

The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with accounting regulations.

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

15. The annual report and accounts for the year ended 31 March 2021 were approved by the Pension Sub-Committee on 20 September. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with accounting regulations.

## The audit of the 2020/21 annual report and accounts was completed in line with the original timetable

16. We received the unaudited annual report and accounts on 21 June 2021 in line with the agreed timetable. The accounts and working papers presented for audit were complete and finance staff provided good support to the audit team which helped ensure the final accounts audit was completed in line with the original timetable.

## The inspection notice was placed in accordance with the required regulations and no objections were raised to the 2020/21 annual report and accounts

17. Regulation 9 of the [Local Authority Accounts \(Scotland\) Regulations 2014](#) requires a local authority to give public notice on its website by 17 June (at the

latest) of the right to inspect its annual report and accounts. The specified date should be at least 14 days after the notice is published, but cannot be later than 1 July, and the inspection period should last for 15 working days from the date specified in the notice. As part of our audit we confirmed that the 2020/21 annual report and accounts inspection notice for the Fund, published on the website of the administering authority (Dundee City Council), complied with the regulations.

**18.** The regulations also require a local authority to give the right of interested persons to inspect and object to its accounts, as provided for by section 101 (rights of interested persons to inspect and copy documents and to object to accounts) (11) of the 1974 Act. No objections were raised to the 2020/21 annual report and accounts.

### **Our audit approach and testing reflected the calculated materiality levels**

**19.** Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the annual accounts. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**20.** Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the financial results reported in the 2019/20 audited annual report and accounts. These materiality levels were reported in our Annual Audit Plan presented to the Pension Sub-Committee in March 2021.

**21.** On receipt of the unaudited 2020/21 annual report and accounts we recalculated our materiality levels based on the financial results for the year ended 31 March 2021. Our audit approach and testing were adapted to reflect the recalculated materiality levels. Our final materiality levels are detailed in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Amount
<b>Overall materiality levels</b>	
<b>Asset planning materiality:</b> This is the calculated figure we use in assessing the overall impact of audit adjustments on the investment assets within the financial statements. It has been set at 1% of net assets.	£48.496 million
<b>Asset 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 asset performance materiality at 75% of asset planning materiality.	£36.372 million
<b>Reporting threshold on assets:</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 planning materiality (capped at £250,000).	£250,000
<b>Specific account areas materiality levels</b>	
<b>Transaction planning materiality:</b> This is the calculated figure we use in assessing the overall impact of audit adjustments on the figures for dealings with members and employers within the financial statements. It has been set at 1% of contributions and transfers in from other pension funds.	£1.069 million
<b>Transaction performance materiality:</b> Using our professional judgement, we have calculated transaction performance materiality at 75% of transaction planning materiality.	£0.802 million
<b>Reporting threshold on transactions:</b> This has been calculated at 5% of transaction planning materiality.	£53,000

Source: Audit Scotland

## Our audit identified and addressed the risks of material misstatement

22. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influenced our overall audit strategy and the allocation of staff resources to the audit, and indicate where the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

## We reported the significant findings from the audit to those charged with governance prior to the annual report and accounts being approved and certified

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

**24.** The significant findings are summarised in [Exhibit 2](#). Our audit also identified some minor presentation and disclosure issues which were discussed with management. These were all adjusted in the audited accounts and none were significant enough to require to be separately reported under ISA 260.

### Exhibit 2

#### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Additional voluntary contributions disclosure</b></p> <p>The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 requires pension funds to disclose the following information relating to additional voluntary contributions (AVCs):</p> <p>'The amount of AVCs paid by members during the year and the value at the Balance Sheet date of separately invested AVCs.'</p> <p>The annual report and accounts presented for audit did not include this disclosure note. Management advised that this had been omitted as the information required from Prudential (one of the two companies responsible for managing the AVCs of members) was not available and was unlikely to be available prior to the certification date.</p> <p>We recommended that a note be added disclosing the AVC information that is available and explaining what information has been omitted and the reason why.</p>	<p>Management has included the required disclosure at <i>Note 16. Additional Voluntary Contributions (AVCs)</i> in the audited Annual Report and Accounts.</p> <p>An addendum to the accounts disclosing the omitted AVC information should be published on the Fund's website once it is provided.</p> <p><b>Recommendation 1 at <a href="#">Appendix 1</a></b></p>
<p><b>2. Investment assets values</b></p> <p>As part of our audit we verified the year end investment assets values in the Net Assets Statement to the underlying fund manager reports. This identified differences totalling £4.801 million (i.e. overstated in accounts) between the investment assets values.</p>	<p>Management has advised that these differences relate to the exact timing of when the fund manager reports were run on the 31 March 2021 and both are valid valuations at that date. The overall difference is insignificant in terms of the overall investment assets value of £4.883 billion at 31 March</p>

Issue	Resolution
	<p>2021 and there are always minor differences each year due to timing of the reports.</p> <p>We have accepted management's explanation and are content that the investment assets value in the audited accounts is not materially misstated. However, as the value of the difference exceeds our minimum reporting threshold it has been reported for members information.</p>

Source: Audit Scotland

## We have no misstatements above our reporting threshold to report

**25.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. We have no misstatements above our reporting threshold to report from the 2020/21 audit.

## Good progress was made in implementing our prior year recommendations

**26.** The Fund made good progress in implementing our two prior year audit recommendations to: maintain a robust audit trail for the transactions related to the new pension contributions prepayment arrangement (paragraphs [42.](#) -[45.](#)) and to make improvements to administration performance reporting (paragraphs [82.](#) -[83.](#)).

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## 2. Financial management

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

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### Main judgements

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

Annual performance was significantly better than anticipated during 2020/21 and saw the value of the Fund increase by 32 per cent to £4.9 billion at 31 March 2021. However, there remains a risk that there will be further volatility and fluctuations in the value of investments in future years as the long-term impact of Covid-19 becomes clearer, and the stimulus measures introduced by global governments in the wake of the pandemic come to an end.

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

**27.** 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.

**28.** Investment performance reports are submitted to the Pension Sub-Committee on a quarterly basis. 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.

**29.** Overall, we have concluded that the Fund has effective financial management arrangements in place and that these operated as expected during 2020/21.

### **An internal audit review in June 2020 confirmed that the enhanced internal controls for transfer payments introduced in 2019/20 are operating as expected**

**30.** During 2019/20 the Fund were alerted to the fact that it had completed three defined benefit transfers to Royal London Group based on advice provided by Capital and Income Solutions, which had its pension transfer permissions



removed by the Financial Conduct Authority (FCA) prior to the transfer payments being made.

**31.** Management reviewed the circumstances surrounding these transfer payments and established that a check had been undertaken at the time the transfers were requested to ensure that there were no FCA suspensions or other rulings against the advisor in place at that point, but that a further check had not been undertaken at the time the actual payment was made. However, it also confirmed that as the advice in support of these transfers had been provided prior to the advisors having its permissions removed, and the transfers were completed by the Fund itself rather than by Capital and Income Solutions, this activity did not breach any regulatory requirements.

**32.** To minimise the risk that future defined benefit transfer payments could be completed based on advice from an unlicensed advisor, management immediately strengthened the controls in place to require an additional check against the FCA website to be undertaken at the point of any payment.

**33.** Internal audit reviewed the enhanced controls as part of its review of Pension Benefits and Payments controls in June 2020. This confirmed that the enhanced control is operating as expected.

### **Financial systems of internal control operated effectively during 2020/21**

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

**35.** Our work in 2020/21 covered the key controls over the systems used for pension administration activity and the pension fund's investments. The Fund also uses the financial systems of the administering authority, Dundee City Council. The main council systems used by the Fund are the general ledger system and the payroll system. Our review of the controls in operation within these systems was conducted as part of our audit of Dundee City Council.

**36.** Our review of the systems used by the Fund and the administering authority did not identify any significant control weaknesses which could affect the Fund's ability to report financial and other relevant data in the financial statements, and we concluded that systems of internal control for the Fund operated effectively during 2020/21.

### **Annual performance was significantly better than anticipated and saw the value of the Fund increase by 32 per cent to £4.9 billion at 31 March 2021**

**37.** The Fund's financial performance for 2020/21 is summarised in [Exhibit 3](#). This shows that the net assets of the Fund significantly increased from £3.672 billion at 31 March 2020 to £4.850 billion at 31 March 2021. The £1.178 billion increase in net assets during 2020/21 is primarily attributable to a £0.690 billion

increase in the value of equities and a £0.373 billion increase in the value of pooled investments during the year. These market value increases both contributed to the positive annual fund investment return of 33 per cent which outperformed the benchmark return of 25 per cent.

### Exhibit 3

#### Assets, funding level and investment performance

Decrease in net assets	Funding level	Investment performance
<p><b>£4.850 billion</b></p> <p>Closing net assets as at 31 March 2021 (+32%)</p>	<p><b>109%</b></p> <p>As at 31 March 2021 (based on results of 2020 triennial valuation)</p>	<p><b>33%</b></p> <p>Return on investments 2020/21</p>
<p><b>£3.672 billion</b></p> <p>Opening net assets as at 1 April 2020</p>	<p><b>107%</b></p> <p>As at 31 March 2020 (interim valuation based on roll forward approximation from 2017 triennial valuation)</p>	<p><b>12%</b></p> <p>Return on investments over 5 years</p>

Source: Tayside Pension Fund 2020/21 Annual Report and Accounts

### There is a risk that there will be further volatility and fluctuations in the Fund value in future years as the long-term impact of Covid-19 becomes clearer

**38.** When considering the investment performance of the Fund during 2020/21, [Exhibit 3](#), it is important to recognise the impact of Covid-19 on financial markets and investments since March 2020.

**39.** The global impact of the pandemic significantly increased market volatility and this caused the value of the Fund's investments to fall sharply in the last quarter of 2019/20, resulting in the net assets value at 31 March 2020 being lower than would have otherwise been expected. Despite this caveat, the performance of the Fund during the last 12 months still represents an extraordinary increase, even when compared to the net asset values prior to the Covid-19 outbreak. For example, the closing net assets value at 31 March 2019 was £3.893 billion, 25 per cent lower than the 2020/21 closing value.

**40.** While the Fund's current financial position is very healthy, we would caution that the longer-term outlook remains uncertain. There remains a risk that there will be further volatility and fluctuations in the value of investments in future years as the long-term impact of Covid-19 becomes clearer, and the stimulus measures introduced by global governments in the wake of the pandemic (including tax cuts, business support grants and loans, and investment incentives) come to an end.

## **The Fund reported a deficit from dealings with members of £26.3 million for 2020/21**

**41.** As has been the case in recent years, the Fund reported a deficit from dealings with members of £26.3 million in 2020/21 (£19.5 million in 2019/20). This means that pension payments exceeded member contributions and investment income was used to ensure pensions were paid. This was partly attributable to the bulk transfer of VisitScotland members to Lothian Pension Fund (LPF), as part of its move to consolidate and centralise its LGPS membership, which resulted in a £8.1 million payment from the Fund to LPF.

## **Dundee City Council was the only employer body who took advantage of the new pension contributions prepayment arrangement during 2020/21**

**42.** In March 2020 the Pension Sub-Committee approved a proposal that provides employers the opportunity to prepay pension contributions in order to receive a reduction in the total payment amount. The proposal was based on the fact that receiving contributions early would allow the Fund to invest and earn additional investment returns on contributions paid, resulting in a lower contribution requirement over the three years.

**43.** The new arrangements became effective in April 2020 and are set out in the Funding Strategy Statement in the 2020/21 annual report and accounts. The option to prepay is open to all employer bodies and, where an employer body chooses to make prepayments, the advance payment is due by 30 April each year with reductions applied in line with the financial assumptions set by the Fund Actuary.

**44.** The prepaid contributions attract reductions with the notional amounts payable to cover contributions due to the Fund then subject to annual review. A balancing payment is then required from employers in any case of underpayment compared to the amount due in accordance with the Actuary's Rates and Adjustments Certificate, based on actual pensionable payroll during the year. Prepayments are notional amounts, based on the estimated pensionable payroll for future years, as confirmed by the employer to the Fund.

**45.** Dundee City Council was the only employer body who took advantage of the new prepayment arrangement during 2020/21. It prepaid members contributions of £20.0 million for the year and this resulted in a saving to the council of £0.463 million. As part of our financial statements audit we confirmed that a clear audit trail had been maintained of the transactions relating to the prepayment and year-end balancing payment.

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## 3. Financial sustainability

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

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### Main judgements

The results of the 2020 triennial valuation showed an improved position with the Fund 109 per cent funded. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.

Given the funding position at 31 March 2020, and the healthy net asset position at 31 March 2021, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

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**The results of the 2020 triennial valuation showed an improved position with the Fund 109 per cent funded. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.**

**46.** A full triennial valuation of Tayside Pension Fund was carried out at 31 March 2020 and reported to the Pension Sub-Committee in March 2021. The main purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer for the upcoming three-year period.

**47.** As required by Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014, Barnett Waddingham (the Fund's appointed actuary) considered the following four factors when conducting the valuation:

- the existing and prospective liabilities
- the desirability of maintaining as nearly constant a primary rate as possible
- the current version of the administering authority's funding strategy
- the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

**48.** While the Fund was valued at 31 March 2020, it is worth noting that for the purposes of the valuation, the actuary used a smoothed value of the assets with the market value over the period 1 January 2020 to 30 June 2020 informing the asset valuation. This methodology is used to ensure that the assets are valued

in a consistent way to the liabilities and also guards against any market volatility around the valuation date resulting in the assets being over or under-valued. This was particularly important for the 2020 valuation due to the impact of the Covid-19 pandemic on the asset values at 31 March 2020.

**49.** The results of the valuation showed the Fund to be 109 per cent funded, including a volatility reserve of 10 per cent which is in place to protect the Fund from future volatility of investment returns. This means that, overall, the Fund has a surplus of assets over liabilities. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.

### **The Fund reviewed its investment strategy during the year and approved changes to further diversify the existing asset portfolio and to establish an opportunistic asset portfolio**

**50.** The investment strategy is set for the long-term but is monitored continually and reviewed every three years using asset-liability modelling to ensure that it remains appropriate to the profile of the Fund's liabilities.

**51.** Following each triennial valuation, the Fund is required to review its investment strategy. This review was undertaken by Isio, the Fund's Investment Consultants, during 2020/21 and the findings were reported to the Sub-Committee in June 2021.

**52.** Isio's review concluded that a diversified portfolio remains a suitable long-term strategic asset ambition for the Fund. It highlighted that while the current asset allocation offers some diversification, they believe that further diversification of the Fund's assets through the implementation of an opportunistic portfolio (targeting underperforming investments that have the potential to generate large returns). This could be funded from reductions in both the equity and fixed income portfolios and should be a priority in order to diversify overall risks in the Fund. It also recommended that further global equity diversification and more focus on sustainability within the portfolios will benefit the Fund in terms of reducing the concentration of equity risk. The review also identified inflation as a risk factor and suggested that an allocation to assets with direct inflation linkage would help to mitigate a proportion of this risk.

**53.** After consideration of the report the Sub-Committee noted the findings and agreed to delegate responsibility to officers to implement Isio's recommendations in relation to equity and bond portfolios, and to commence mandate construction and manager selection of an opportunistic portfolio.

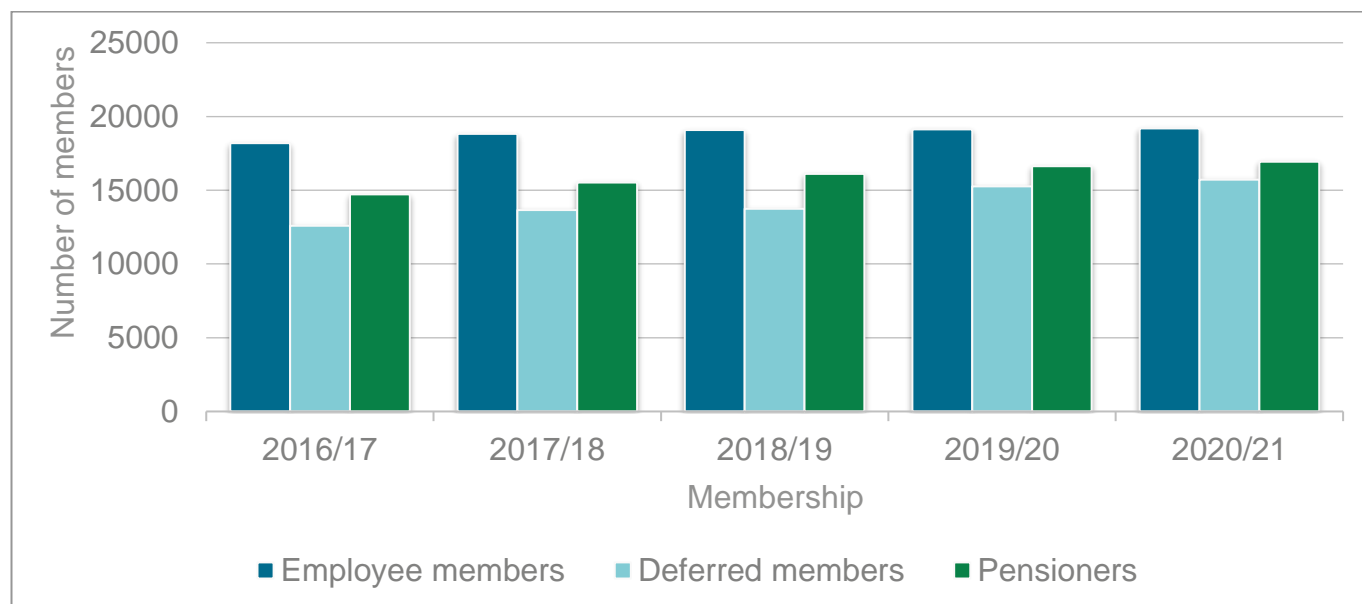
**54.** The funding strategy statement is a summary of the Fund's approach to funding liabilities and sets out the level of employer and employee contribution rates required to ensure sufficient resources are available to provide for members' pensions and lump sum benefits. The statement requires to be reviewed annually, unless circumstances dictate earlier amendment.

**55.** The annual review of the funding strategy statement was undertaken following the completion of the investment strategy review and the updated statement is included within the Fund's 2020/21 Annual Report and Accounts.

## 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

56. The Fund is a multi-employer fund with 45 employers, comprising 13 scheduled bodies (including Dundee City, Angus and Perth & Kinross Councils) and 32 admitted bodies. The current membership profile is shown at [Exhibit 4](#).

### Exhibit 4 Tayside Pension Fund membership



Source: Tayside Pension Fund 2020/21 Annual Report and Accounts

57. 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.

58. Overall membership of the fund increased by 837 (1.6 per cent) to 51,841 members during 2020/21, and has increased by 6,341 (13.9 per cent) since 2016/17. However, although the number of active members continues to exceed the number of pensioners, the ratio of active members to pensioners has steadily reduced in recent years from 1.24:1 in 2016/17 to 1.13:1 in 2020/21. This, combined with increasing life expectancy over this period, continues to place additional pressure on the Fund. However, this does not present any immediate risk to the financial sustainability of the Fund.

## The current financial circumstances may result in some participating employers exiting the Fund which could place additional financial demands on the remaining member bodies

59. Due to the current financial circumstances, some of the Fund's participating employers are reviewing their future service models. If they identify that they



can't afford to maintain their current operations and staffing levels then they may decide that they are unable to continue to participate in the Fund.

**60.** When a participating employer exits the Fund it is required to make a cessation payment to cover its assessed liability at the exit date. In circumstances where exiting employers are unable to meet cessation liabilities, then all employers in the Fund may be required to pay revised contributions to meet the shortfall, which could result in increased contribution rates being imposed.

**61.** We will continue to monitor membership of the Fund during the remainder of the audit appointment and report on any additional financial demands on member bodies resulting from participating employers exiting the Fund.

### Good practice – Assistance available to participating employers

The impact of the Covid-19 pandemic during meant that a number of participating employers experienced service disruption and financial challenges during 2020/21. This particularly affected their cashflow during the early part of the year when operational activity was suspended, and government financial support was yet to come through. To help alleviate these pressures the Fund offered assistance to these bodies in meeting their contribution responsibilities through flexible arrangements permitted by legislation. This included extending the intervals at which payment was required from the employer over the 12 months to allow them to make lower payments in the early part of the year balanced up by higher payments towards the end of the year. We confirmed that all employer bodies made the required annual contributions for 2020/21 by the end of April 2021.

**There have been negative cash flows from member activity in recent years and this trend is expected to continue. However, the Fund is content that there is no immediate need to consider investment changes.**

**62.** Following the 2020 triennial valuation the actuary agreed employer contribution rates with individual employers from 1 April 2021 onwards with the finding surplus being used to subsidise and stabilise contribution rates. The approximate split of all contributions received in 2020/21 is set out at [Exhibit 5](#).

### Exhibit 5 Contributions in 2020/21

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Total £m
<b>Employer contributions</b>	21.169	40.527	12.734	<b>74.430</b>
<b>Employee contributions</b>	7.784	14.560	4.747	<b>27.091</b>
<b>Strain on fund contributions</b>	0.161	0.527	1.093	<b>1.781</b>

Source: Tayside Pension Fund 2020/21 Annual Report and Accounts



**63.** The Fund reported a deficit from dealings with members of £26.3 million in 2020/21 (as detailed at paragraph [41.](#) ). This reflects the trend of negative cash flows from member activity over recent years. The Fund actively monitors its cash-flow position and indications are that negative cash flows will be an ongoing trend in future years. Auto-enrolment has had a positive impact on the cash flow position, but this may be offset by the change in pension regulations to allow Fund members to retire without employers' consent at the age of 55. 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.

**We currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy**

**64.** Given the triennial valuation showed that the Fund was 109% funded at 31 March 2020 (paragraph [49.](#) ), and the healthy net asset position at 31 March 2021 (paragraph [37.](#) and [Exhibit 3](#)), we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

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## 4. Governance and transparency

Governance and transparency relates to the effectiveness of scrutiny and oversight, and transparent reporting of information

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### Main Judgements

The Fund has adequate arrangements in place to support good governance and accountability. The Covid-19 pandemic has impacted on these since March 2020 but we have concluded that the revised governance arrangements are appropriate in the current circumstances.

The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to prevent and detect fraud and corruption, and to ensure compliance with the Pensions Regulator Public Service Code.

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### The Fund has adequate arrangements in place to support good governance and accountability

**65.** 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.

**66.** The responsibilities of the Proper Officer, the Pension Sub-Committee and the Pension Board are set out in the Statement of Investment Principles which is included within the Fund's 2020/21 Annual Report and Accounts.

**67.** The main functions of the fund are management of investments 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.

### The Covid-19 pandemic has impacted on the governance arrangements since March 2020 but we have concluded that the revised governance arrangements are appropriate in the current circumstances

**68.** The impact of Covid-19 pandemic on the governance arrangements from March 2020 has been set out in the Annual Governance Statement in the 2020/21 Annual Report and Accounts.

**69.** Changes to the decision making arrangements and the conduct of meetings were introduced following a meeting with Senior Elected Members on 19 March whereby alternative procedures were implemented for all Council committee business, including Tayside Pension Fund. The following procedures were implemented with immediate effect:

- All non-essential committee business has been deferred to ensure that all elected members and officers can concentrate the maximum possible time and effort on supporting the City through the Coronavirus period.
- The Council's existing Scheme of Delegation of Powers to Officers Standing Orders have been applied to ensure that services act in accordance with the powers already delegated.
- All essential committee business which is not covered by the existing delegated powers will be dealt with as urgent matters arising between meetings.

**70.** As a result of the changes introduced the March and June Pension Sub-Committee meetings were cancelled and the committee papers were circulated to members electronically for consideration and approval.

**71.** In September 2020 arrangements were put in place to hold the Pension Sub-Committees virtually using Microsoft Teams. This was first used for the meeting on 21 September 2020. The Pension Sub-Committee meetings continue to be held remotely but this situation will be reviewed as Covid-19 restrictions on travel and work placed activity ease.

### **The Fund conducts its business in an open and transparent manner**

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

**73.** Public sector governance guidance indicates that an organisation that is transparent shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

**74.** There is evidence from several 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 minutes of all meetings are available on the administering authority's website. The Fund's Annual Report and Accounts are also available on the administering authority's website, along with investment and administration performance information, and key governance documents.

## **The management commentary in the Annual Report and Accounts provides a fair, balanced and reasonable analysis of the organisation's financial performance for the year**

**75.** In addition to the consistency opinion on the management commentary covered in Part 1 of this report, we also consider the qualitative aspects of the management commentary included in the annual accounts. The purpose of the management commentary is to provide information on the Fund, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and reasonable analysis of a body's performance and is essential in helping stakeholders understand the financial statements. We concluded that the management commentary in the 2020/21 Annual Report and Accounts satisfied these requirements.

## **The Fund has appropriate arrangements in place to prevent and detect fraud and corruption**

**76.** The Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**77.** We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the administering body's arrangements for the prevention and detection of fraud and corruption. These include a Code of Conduct for members and officers, Whistleblowing Policy and an Anti-Fraud Strategy.

**78.** We concluded that the Fund has appropriate arrangements in place to prevent and detect fraud and corruption. We are also not aware of any specific issues during 2020/21 that we require to bring to your attention.

## **There are effective arrangements in place for complying with the Pensions Regulator Public Service Code**

**79.** 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.

**80.** 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.

**81.** Management has confirmed that there were no reportable breaches during 2020/21.

**The improved administration performance reports provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines**

**82.** During 2020/21 improvements were made to administration performance reporting to the Pension Sub-Committee to ensure that the reporting of key performance indicators included up-to date information on compliance with statutory deadlines. Action was also taken to address legacy issues in the pension administration system that have caused some issues with the underlying data feeding into the reports. Management has advised that further improvements are planned during 2021/22.

**83.** As part of our annual audit we reviewed the administration performance reports to the Sub-Committee during the year. We concluded that the improvements made to the administration performance reporting mean the reports now provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines.

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## 5. Value for money

Value for money is about using resources effectively and continually improving services

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### Main judgements

All Scottish Local Government Pension Schemes reported positive movements in net assets during 2020/21. However, Tayside Pension Fund's increase of 32 per cent placed it as one of the best performing funds over the last 12 months.

Performance of individual investment managers over the last 12 months was strong with only one of eight investment portfolios performing below benchmark.

Longer-term investment performance is also strong and shows above benchmark returns for the Fund over the last five and ten years.

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### At 31 March 2021, 74 per cent of the value of the Fund's investment assets was held in equities and pooled investments

**84.** The Fund is largely equity based with £2.271 billion (47 per cent) of the Fund's total investment assets at 31 March 2021 held in equities. Hence the Fund's investment performance is heavily reliant on the investment returns of equity managers. A further £1.320 billion (27 per cent) of the Fund's investment assets were held in pooled investments.

**85.** The Fund also continues to invest in long term enhanced yield assets, such as UK property. At 31 March 2021, the Fund held direct property assets with a value of £0.443 billion, 9 per cent of the Fund's investment assets. The objective of holding such investments is to provide a long-term income stream and a degree of inflation protection. Maintaining long term investment income is important to ensuring the Fund has available funding to meet any deficit resulting from dealings with members.

**86.** As detailed at paragraphs [50.](#) -[53.](#), the Fund reviewed its investment strategy during the year and approved changes to further diversify the existing asset portfolio and to establish an opportunistic asset portfolio. It is therefore likely that the proportion of the Fund invested in equities and pooled investments will reduce in future years although these will still make up the majority of the asset base.

## **All Scottish Local Government Pension Schemes reported positive movements in net assets during 2020/21. However, Tayside Pension Fund's increase of 32 per cent placed it as one of the best performing funds over the last 12 months.**

**87.** 2020/21 was a good year for Scottish Local Government Pension Schemes as markets bounced back from the shock experienced in the final quarter of 2019/20, following the outbreak of the Covid-19 pandemic. As a result, all eleven funds reported positive movements in net assets during the year 31 March 2021 with increases ranging from 16 per cent to 38 per cent. Tayside Pension Fund's increase of 32 per cent placed it near the top of this this range with only one fund performing better.

## **Performance of individual investment managers over the last 12 months was strong with only one of eight investment portfolios performing below benchmark**

**88.** The Fund used five external investment managers managing eight distinct mandates (a set of instructions laying out how a pool of assets should be invested) during the course of 2020/21. Investment manager performance for each portfolio is reported on a quarterly basis to the Pension Sub-Committee. The Fund's external investment advisor attends the meetings in an advisory capacity, when required. The external investment advisor also provides an annual report to the Pension Sub-Committee each March covering the performance of each portfolio, and the full fund, for the previous calendar year.

**89.** The performance summaries presented to each meeting of the Sub-Committee include details of performance of individual portfolios against benchmark for each quarter of the current year, and over the last three and five years. This allows members of the Sub-Committee to scrutinise investment performance and to question officers on the reasons for any under-performance.

**90.** During 2020/21 the overall performance of investment managers was better than targeted with six of eight investment portfolios performing above benchmark, and one performing in line with benchmark. The only portfolio that performed below benchmark was GSAM – Broad Street Real Estate Credit Partners III which reported a negative annual return of -7.5 per cent against a benchmark of 9.7 per cent. This was largely attributable to the impact of Covid-19 on global property markets over the last 12 months. However, the investment managers do not anticipate these will result in realised losses as the majority of assets are long-term investments.

## **Management expenses increased from last year due to an increase in investment management fees linked to investment manager performance**

**91.** 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.

92. External investment manager fees are agreed in the respective mandates governing their appointments. These are usually based on the market value of the investments under their management and therefore increase or reduce as the value of these investments' changes.

93. Investment management expenses have increased from £9.605 million in 2019/20 to £10.411 million in 2020/21. This was mainly attributable to a £0.729 million increase in investment management fees linked to investment manager performance, reflecting above benchmark performance during the year.

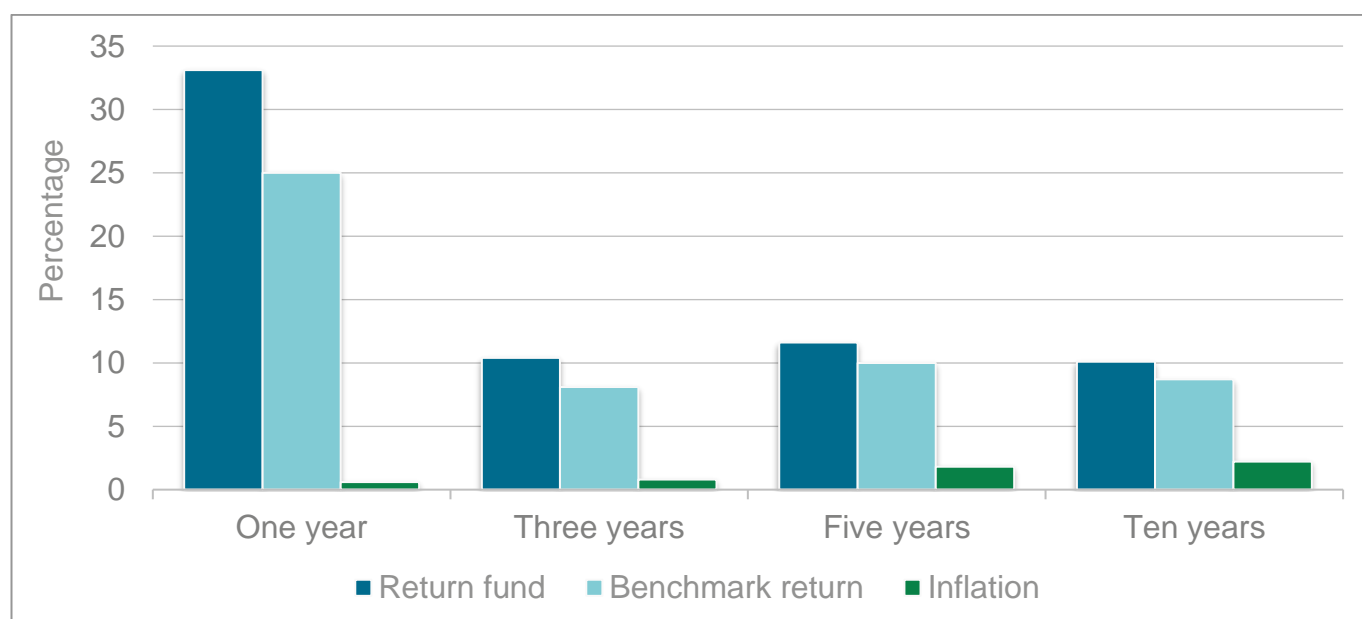
### Longer-term investment performance shows above benchmark returns for the Fund over the last five and ten years

94. 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, Sub-Committee members receive a report outlining overall fund performance including an analysis of risks and returns.

95. [Exhibit 6](#) shows that the Fund performed well above the benchmark over the last 12 months, generating a rate of return of 33.1 per cent against the benchmark of 25.0 per cent. The medium and long-term performance is also strong with the Fund performing above benchmark (11.6 per cent against the benchmark of 10.0 per cent) over the last five and ten years (10.1 per cent against the benchmark of 8.7 per cent).

96. Under the career average pension scheme (CARE), accrued benefits are indexed at Consumer Price Index (CPI). Benefits earned under the previous final salary schemes will continue to increase in line with earnings. [Exhibit 6](#) shows that investment returns have outperformed inflation over the past ten years, going some way to meeting increases in the historic liabilities.

### Exhibit 6 Longer-term Fund investment performance



Source: Tayside Pension Fund 2020/21 Annual Report and Accounts



## National performance audit reports

**97.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21 a number of reports were published which may be of interest to the Fund. These are detailed in [Appendix 3](#).

**98.** The Pension Sub-Committee considers Audit Scotland reports that are relevant to its remit to identify any issues that might be of interest and relevance.

# Appendix 1

## Action plan 2020/21

### 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Additional voluntary contributions disclosure</b></p> <p>The 2020/21 figures for members whose AVCs are managed by Prudential have not been disclosed within the Annual Report and Accounts.</p> <p><b>Risk: Stakeholders will be unable to access this information.</b></p>	<p>An addendum to the accounts disclosing the omitted AVC information should be published on the Fund's website once it is provided.</p> <p><a href="#">Issue 1 in Exhibit 2</a></p>	<p>Recommendation agreed</p> <p><b>Responsible officer:</b> Senior Manager – Financial Services</p> <p><b>Agreed date:</b> Recommendation will be actioned as soon as AVC information is received. Anticipated date of receipt is not known at date of report.</p>

# 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 accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

### Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement caused by management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Review of the Annual Governance Statement and the assurances obtained in support of the statement, including the internal audit annual report.</li> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>Our work did not identify any errors that required adjustment to the financial statements.</p> <p>There is no evidence of management override of controls.</p>
<p><b>2. Estimation and judgements</b></p> <p>There is a significant degree of estimation and judgement in the measurement and valuation of some material account areas, including:</p> <ul style="list-style-type: none"> <li>• Valuation of investments which include level 3 investments, such as unquoted equity, where valuations involve significant application of judgement in determining values included in the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the work of the valuers, including focused substantive testing of the valuation of material assets.</li> <li>• 'Review of the work of an expert' in accordance with ISA 500, for the work of third parties undertaking valuations of material unquoted investments.</li> <li>• Confirmation of valuations to valuation reports and / or other supporting documentation.</li> </ul>	<p>During the course of the audit we reviewed the risks of material misstatement relating to estimation and judgement and concluded that only the actuarial valuation represented a significant risk of material misstatement, as defined by ISA 315, for the 2020/21 financial statements. As a result, we did not require to undertake any specific targeted audited work on the valuation of investments as our routine testing for the final</p>

Audit risk	Assurance procedure	Results and conclusions
<ul style="list-style-type: none"> <li>Actuarial valuation of future retirement benefits which depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Confirm that investment values are correctly reflected within the 2020/21 accounts.</li> <li>Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used, with reference to the report produced by the consulting actuary to Audit Scotland.</li> <li>Confirm that valuation data in the actuarial report is correctly reflected within the 2020/21 accounts.</li> </ul>	<p>accounts audit was sufficient to provide assurance over this risk. We can confirm that no issues were identified from this testing that could have resulted in a material misstatement in the 2020/21 annual accounts.</p> <ul style="list-style-type: none"> <li>No issues identified from review of the actuary or the assumptions used in the valuation.</li> <li>Relevant balances and disclosures in 2020/21 accounts agreed to actuarial report.</li> </ul>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>3. Administration performance reporting</b></p> <p>Improvements have been made to administration performance reporting to ensure they provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines.</p> <p>However, legacy issues in the pension administration system have caused some issues with the underlying data feeding into the reports. This may limit members' ability to scrutinise the fund's administration performance.</p>	<ul style="list-style-type: none"> <li>Review administration performance reports presented to the Sub-Committee.</li> <li>Observation of scrutiny of reporting by members during Sub-Committee meetings.</li> </ul>	<p>The improved administration performance reports provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines.</p> <p>(<a href="#">Paragraphs 82. -83.</a>)</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>4. Triennial valuation of the fund as at 31 March 2020</b></p> <p>The triennial valuation of the fund as at 31 March 2020 was carried out by the fund's actuary (Barnett Waddingham) during 2020/21. The results will be formally reported to the Sub-Committee in March 2021.</p> <p>The results of the valuation will impact on future employer contribution rates, as well as the future funding and investment strategies of the Fund.</p> <p>The results of the valuation therefore present a risk to the financial sustainability of the fund.</p>	<ul style="list-style-type: none"> <li>• Review the actuary's report on the triennial valuation of the fund as at 31 March 2020.</li> <li>• Consider reports on the triennial valuation presented to the Sub-Committee.</li> <li>• Review future investment and funding strategies produced following the valuation.</li> </ul>	<p>The results of the 2020 triennial valuation showed an improved position with the Fund 109 per cent funded. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.</p> <p>(<a href="#">Paragraphs 46. -49.</a>)</p> <p>Given the funding position at 31 March 2020, and the healthy net asset position at 31 March 2021, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.</p> <p>(<a href="#">Paragraph 64.</a>)</p>

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# Appendix 3

## Summary of national performance reports 2020/21

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### April

[Affordable housing](#)

### June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

### July

[The National Fraud Initiative in Scotland 2018/19](#)

### January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

### February

[NHS in Scotland 2020](#)

### March

[Improving outcomes for young people through school education](#)

# Tayside Pension FundTayside Pension Fund

## 2020/21 Annual Audit Report

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# Tayside Pension Fund

## Proposed 2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the members of the Pension Sub-Committee and the Controller of Audit  
20 September 2021



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# Contents

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Key messages	3
Introduction	5
1. Audit of 2020/21 annual accounts	7
2. Financial management	12
3. Financial sustainability	16
4. Governance and transparency	21
5. Value for money	25
Appendix 1	29
Appendix 2	30
Appendix 3	33

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# Key messages

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## 2020/21 annual accounts

- 1 Tayside Pension Fund's financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities.
- 2 The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with accounting regulations.

## Financial management

- 3 The Fund has effective financial management arrangements in place. This includes comprehensive reporting of investment performance.
- 4 Annual performance was significantly better than anticipated during 2020/21 and saw the value of the Fund increase by 32 per cent to £4.9 billion at 31 March 2021. However, there remains a risk that there will be further volatility and fluctuations in the value of investments in future years as the long-term impact of Covid-19 becomes clearer, and the stimulus measures introduced by global governments in the wake of the pandemic come to an end.

## Financial sustainability

- 5 The results of the 2020 triennial valuation showed an improved position with the Fund 109 per cent funded. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.
- 6 Given the funding position at 31 March 2020, and the healthy net asset position at 31 March 2021, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

## Governance and transparency

- 7 The Fund has adequate arrangements in place to support good governance and accountability. The Covid-19 pandemic has impacted on these since March 2020 but we have concluded that the revised governance arrangements are appropriate in the current circumstances.
- 8 The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to prevent and detect fraud and corruption, and to ensure compliance with the Pensions Regulator Public Service Code.

## Value for money

- 9** All Scottish Local Government Pension Schemes reported positive movements in net assets during 2020/21. However, Tayside Pension Fund's increase of 32 per cent placed it as one of the best performing funds over the last 12 months.
- 10** Performance of individual investment managers over the last 12 months was strong with only one of eight investment portfolios performing below benchmark.
- 11** Longer-term investment performance is also strong and shows above benchmark returns for the Fund over the last five and ten years.

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# Introduction

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1. This report is a summary of our findings arising from the 2020/21 audit of Tayside Pension Fund (the Fund).
2. We aim to add value to the Fund through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
  - reporting our findings and conclusions in public
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Scope of our audit

3. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 meeting of the Pension Sub-Committee. This report comprises the findings from:
  - a review of the Fund's main financial systems
  - the audit of the Fund's 2020/21 annual report and accounts
  - our consideration of the wider dimensions of public sector audit (financial management, financial sustainability, governance and transparency, and value for money) as set out in the [Code of Audit Practice 2016](#).

## Impact of Covid-19

4. The global coronavirus pandemic has impacted all public sector organisations since March 2020. Known risks related to the pandemic were included in our plan, and we have adapted our audit work during the year to address any new risks that have emerged.

## Auditor Independence

5. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**6.** 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 2020/21 audit fee of £26,250, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## Responsibilities and reporting

**7.** Dundee City Council is the administering authority for the Tayside Pension Fund. The council delegates this responsibility to the Pension Sub-Committee. The Sub-Committee is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Sub-Committee is also required to review the effectiveness of internal control arrangements and approve the annual report and accounts.

**8.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), International Standards on Auditing in the UK, and supplementary guidance.

**9.** As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Fund's performance management arrangements, suitability and effectiveness of corporate governance arrangements, its financial position, and arrangements for securing financial sustainability.

**10.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

**11.** This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. 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 from its responsibility to address the issues we raise and to maintain adequate systems of control.

**12.** An agreed action plan setting out specific recommendations, responsible officers and dates for implementation is included at [Appendix 1](#).

**13.** This report is addressed to both the members of the Pension Sub-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).

## Acknowledgement

**14.** We would like to thank the management and staff of Tayside Pension Fund for their cooperation and assistance during the audit.

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# 1. Audit of 2020/21 annual accounts

The annual accounts are the principal means of an organisation accounting for the stewardship of resources and its performance in using those resources

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## Main judgements

Tayside Pension Fund's financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities.

The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with accounting regulations.

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

15. The annual report and accounts for the year ended 31 March 2021 were approved by the Pension Sub-Committee on 20 September. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with accounting regulations.

## The audit of the 2020/21 annual report and accounts was completed in line with the original timetable

16. We received the unaudited annual report and accounts on 21 June 2021 in line with the agreed timetable. The accounts and working papers presented for audit were complete and finance staff provided good support to the audit team which helped ensure the final accounts audit was completed in line with the original timetable.

## The inspection notice was placed in accordance with the required regulations and no objections were raised to the 2020/21 annual report and accounts

17. Regulation 9 of the [Local Authority Accounts \(Scotland\) Regulations 2014](#) requires a local authority to give public notice on its website by 17 June (at the



latest) of the right to inspect its annual report and accounts. The specified date should be at least 14 days after the notice is published, but cannot be later than 1 July, and the inspection period should last for 15 working days from the date specified in the notice. As part of our audit we confirmed that the 2020/21 annual report and accounts inspection notice for the Fund, published on the website of the administering authority (Dundee City Council), complied with the regulations.

**18.** The regulations also require a local authority to give the right of interested persons to inspect and object to its accounts, as provided for by section 101 (rights of interested persons to inspect and copy documents and to object to accounts) (11) of the 1974 Act. No objections were raised to the 2020/21 annual report and accounts.

### **Our audit approach and testing reflected the calculated materiality levels**

**19.** Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the annual accounts. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**20.** Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the financial results reported in the 2019/20 audited annual report and accounts. These materiality levels were reported in our Annual Audit Plan presented to the Pension Sub-Committee in March 2021.

**21.** On receipt of the unaudited 2020/21 annual report and accounts we recalculated our materiality levels based on the financial results for the year ended 31 March 2021. Our audit approach and testing were adapted to reflect the recalculated materiality levels. Our final materiality levels are detailed in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Amount
<b>Overall materiality levels</b>	
<b>Asset planning materiality:</b> This is the calculated figure we use in assessing the overall impact of audit adjustments on the investment assets within the financial statements. It has been set at 1% of net assets.	£48.496 million
<b>Asset 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 asset performance materiality at 75% of asset planning materiality.	£36.372 million
<b>Reporting threshold on assets:</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 planning materiality (capped at £250,000).	£250,000
<b>Specific account areas materiality levels</b>	
<b>Transaction planning materiality:</b> This is the calculated figure we use in assessing the overall impact of audit adjustments on the figures for dealings with members and employers within the financial statements. It has been set at 1% of contributions and transfers in from other pension funds.	£1.069 million
<b>Transaction performance materiality:</b> Using our professional judgement, we have calculated transaction performance materiality at 75% of transaction planning materiality.	£0.802 million
<b>Reporting threshold on transactions:</b> This has been calculated at 5% of transaction planning materiality.	£53,000

Source: Audit Scotland

## Our audit identified and addressed the risks of material misstatement

**22.** [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influenced our overall audit strategy and the allocation of staff resources to the audit, and indicate where the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

## We reported the significant findings from the audit to those charged with governance prior to the annual report and accounts being approved and certified

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

**24.** The significant findings are summarised in [Exhibit 2](#). Our audit also identified some minor presentation and disclosure issues which were discussed with management. These were all adjusted in the audited accounts and none were significant enough to require to be separately reported under ISA 260.

### Exhibit 2

#### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Additional voluntary contributions disclosure</b></p> <p>The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 requires pension funds to disclose the following information relating to additional voluntary contributions (AVCs):</p> <p>‘The amount of AVCs paid by members during the year and the value at the Balance Sheet date of separately invested AVCs.’</p> <p>The annual report and accounts presented for audit did not include this disclosure note. Management advised that this had been omitted as the information required from Prudential (one of the two companies responsible for managing the AVCs of members) was not available and was unlikely to be available prior to the certification date.</p> <p>We recommended that a note be added disclosing the AVC information that is available and explaining what information has been omitted and the reason why.</p>	<p>Management has included the required disclosure at <i>Note 16. Additional Voluntary Contributions (AVCs)</i> in the audited Annual Report and Accounts.</p> <p>An addendum to the accounts disclosing the omitted AVC information should be published on the Fund's website once it is provided.</p> <p><b>Recommendation 1 at <a href="#">Appendix 1</a></b></p>
<p><b>2. Investment assets values</b></p> <p>As part of our audit we verified the year end investment assets values in the Net Assets Statement to the underlying fund manager reports. This identified differences totalling £4.801 million (i.e. overstated in accounts) between the investment assets values.</p>	<p>Management has advised that these differences relate to the exact timing of when the fund manager reports were run on the 31 March 2021 and both are valid valuations at that date. The overall difference is insignificant in terms of the overall investment assets value of £4.883 billion at 31 March</p>

Issue	Resolution
	<p>2021 and there are always minor differences each year due to timing of the reports.</p> <p>We have accepted management's explanation and are content that the investment assets value in the audited accounts is not materially misstated. However, as the value of the difference exceeds our minimum reporting threshold it has been reported for members information.</p>

Source: Audit Scotland

## We have no misstatements above our reporting threshold to report

**25.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. We have no misstatements above our reporting threshold to report from the 2020/21 audit.

## Good progress was made in implementing our prior year recommendations

**26.** The Fund made good progress in implementing our two prior year audit recommendations to: maintain a robust audit trail for the transactions related to the new pension contributions prepayment arrangement (paragraphs [42.](#) -[45.](#)) and to make improvements to administration performance reporting (paragraphs [82.](#) -[83.](#)).

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## 2. Financial management

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

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### Main judgements

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

Annual performance was significantly better than anticipated during 2020/21 and saw the value of the Fund increase by 32 per cent to £4.9 billion at 31 March 2021. However, there remains a risk that there will be further volatility and fluctuations in the value of investments in future years as the long-term impact of Covid-19 becomes clearer, and the stimulus measures introduced by global governments in the wake of the pandemic come to an end.

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

**27.** 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.

**28.** Investment performance reports are submitted to the Pension Sub-Committee on a quarterly basis. 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.

**29.** Overall, we have concluded that the Fund has effective financial management arrangements in place and that these operated as expected during 2020/21.

### **An internal audit review in June 2020 confirmed that the enhanced internal controls for transfer payments introduced in 2019/20 are operating as expected**

**30.** During 2019/20 the Fund were alerted to the fact that it had completed three defined benefit transfers to Royal London Group based on advice provided by Capital and Income Solutions, which had its pension transfer permissions

removed by the Financial Conduct Authority (FCA) prior to the transfer payments being made.

**31.** Management reviewed the circumstances surrounding these transfer payments and established that a check had been undertaken at the time the transfers were requested to ensure that there were no FCA suspensions or other rulings against the advisor in place at that point, but that a further check had not been undertaken at the time the actual payment was made. However, it also confirmed that as the advice in support of these transfers had been provided prior to the advisors having its permissions removed, and the transfers were completed by the Fund itself rather than by Capital and Income Solutions, this activity did not breach any regulatory requirements.

**32.** To minimise the risk that future defined benefit transfer payments could be completed based on advice from an unlicensed advisor, management immediately strengthened the controls in place to require an additional check against the FCA website to be undertaken at the point of any payment.

**33.** Internal audit reviewed the enhanced controls as part of its review of Pension Benefits and Payments controls in June 2020. This confirmed that the enhanced control is operating as expected.

### **Financial systems of internal control operated effectively during 2020/21**

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

**35.** Our work in 2020/21 covered the key controls over the systems used for pension administration activity and the pension fund's investments. The Fund also uses the financial systems of the administering authority, Dundee City Council. The main council systems used by the Fund are the general ledger system and the payroll system. Our review of the controls in operation within these systems was conducted as part of our audit of Dundee City Council.

**36.** Our review of the systems used by the Fund and the administering authority did not identify any significant control weaknesses which could affect the Fund's ability to report financial and other relevant data in the financial statements, and we concluded that systems of internal control for the Fund operated effectively during 2020/21.

### **Annual performance was significantly better than anticipated and saw the value of the Fund increase by 32 per cent to £4.9 billion at 31 March 2021**

**37.** The Fund's financial performance for 2020/21 is summarised in [Exhibit 3](#). This shows that the net assets of the Fund significantly increased from £3.672 billion at 31 March 2020 to £4.850 billion at 31 March 2021. The £1.178 billion increase in net assets during 2020/21 is primarily attributable to a £0.690 billion

increase in the value of equities and a £0.373 billion increase in the value of pooled investments during the year. These market value increases both contributed to the positive annual fund investment return of 33 per cent which outperformed the benchmark return of 25 per cent.

### Exhibit 3

#### Assets, funding level and investment performance

Decrease in net assets	Funding level	Investment performance
<p><b>£4.850 billion</b></p> <p>Closing net assets as at 31 March 2021 (+32%)</p>	<p><b>109%</b></p> <p>As at 31 March 2021 (based on results of 2020 triennial valuation)</p>	<p><b>33%</b></p> <p>Return on investments 2020/21</p>
<p><b>£3.672 billion</b></p> <p>Opening net assets as at 1 April 2020</p>	<p><b>107%</b></p> <p>As at 31 March 2020 (interim valuation based on roll forward approximation from 2017 triennial valuation)</p>	<p><b>12%</b></p> <p>Return on investments over 5 years</p>

Source: Tayside Pension Fund 2020/21 Annual Report and Accounts

### There is a risk that there will be further volatility and fluctuations in the Fund value in future years as the long-term impact of Covid-19 becomes clearer

**38.** When considering the investment performance of the Fund during 2020/21, [Exhibit 3](#), it is important to recognise the impact of Covid-19 on financial markets and investments since March 2020.

**39.** The global impact of the pandemic significantly increased market volatility and this caused the value of the Fund's investments to fall sharply in the last quarter of 2019/20, resulting in the net assets value at 31 March 2020 being lower than would have otherwise been expected. Despite this caveat, the performance of the Fund during the last 12 months still represents an extraordinary increase, even when compared to the net asset values prior to the Covid-19 outbreak. For example, the closing net assets value at 31 March 2019 was £3.893 billion, 25 per cent lower than the 2020/21 closing value.

**40.** While the Fund's current financial position is very healthy, we would caution that the longer-term outlook remains uncertain. There remains a risk that there will be further volatility and fluctuations in the value of investments in future years as the long-term impact of Covid-19 becomes clearer, and the stimulus measures introduced by global governments in the wake of the pandemic (including tax cuts, business support grants and loans, and investment incentives) come to an end.



## **The Fund reported a deficit from dealings with members of £26.3 million for 2020/21**

**41.** As has been the case in recent years, the Fund reported a deficit from dealings with members of £26.3 million in 2020/21 (£19.5 million in 2019/20). This means that pension payments exceeded member contributions and investment income was used to ensure pensions were paid. This was partly attributable to the bulk transfer of VisitScotland members to Lothian Pension Fund (LPF), as part of its move to consolidate and centralise its LGPS membership, which resulted in a £8.1 million payment from the Fund to LPF.

## **Dundee City Council was the only employer body who took advantage of the new pension contributions prepayment arrangement during 2020/21**

**42.** In March 2020 the Pension Sub-Committee approved a proposal that provides employers the opportunity to prepay pension contributions in order to receive a reduction in the total payment amount. The proposal was based on the fact that receiving contributions early would allow the Fund to invest and earn additional investment returns on contributions paid, resulting in a lower contribution requirement over the three years.

**43.** The new arrangements became effective in April 2020 and are set out in the Funding Strategy Statement in the 2020/21 annual report and accounts. The option to prepay is open to all employer bodies and, where an employer body chooses to make prepayments, the advance payment is due by 30 April each year with reductions applied in line with the financial assumptions set by the Fund Actuary.

**44.** The prepaid contributions attract reductions with the notional amounts payable to cover contributions due to the Fund then subject to annual review. A balancing payment is then required from employers in any case of underpayment compared to the amount due in accordance with the Actuary's Rates and Adjustments Certificate, based on actual pensionable payroll during the year. Prepayments are notional amounts, based on the estimated pensionable payroll for future years, as confirmed by the employer to the Fund.

**45.** Dundee City Council was the only employer body who took advantage of the new prepayment arrangement during 2020/21. It prepaid members contributions of £20.0 million for the year and this resulted in a saving to the council of £0.463 million. As part of our financial statements audit we confirmed that a clear audit trail had been maintained of the transactions relating to the prepayment and year-end balancing payment.



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## 3. Financial sustainability

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

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### Main judgements

The results of the 2020 triennial valuation showed an improved position with the Fund 109 per cent funded. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.

Given the funding position at 31 March 2020, and the healthy net asset position at 31 March 2021, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

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**The results of the 2020 triennial valuation showed an improved position with the Fund 109 per cent funded. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.**

**46.** A full triennial valuation of Tayside Pension Fund was carried out at 31 March 2020 and reported to the Pension Sub-Committee in March 2021. The main purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer for the upcoming three-year period.

**47.** As required by Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014, Barnett Waddingham (the Fund's appointed actuary) considered the following four factors when conducting the valuation:

- the existing and prospective liabilities
- the desirability of maintaining as nearly constant a primary rate as possible
- the current version of the administering authority's funding strategy
- the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

**48.** While the Fund was valued at 31 March 2020, it is worth noting that for the purposes of the valuation, the actuary used a smoothed value of the assets with the market value over the period 1 January 2020 to 30 June 2020 informing the asset valuation. This methodology is used to ensure that the assets are valued

in a consistent way to the liabilities and also guards against any market volatility around the valuation date resulting in the assets being over or under-valued. This was particularly important for the 2020 valuation due to the impact of the Covid-19 pandemic on the asset values at 31 March 2020.

**49.** The results of the valuation showed the Fund to be 109 per cent funded, including a volatility reserve of 10 per cent which is in place to protect the Fund from future volatility of investment returns. This means that, overall, the Fund has a surplus of assets over liabilities. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.

### **The Fund reviewed its investment strategy during the year and approved changes to further diversify the existing asset portfolio and to establish an opportunistic asset portfolio**

**50.** The investment strategy is set for the long-term but is monitored continually and reviewed every three years using asset-liability modelling to ensure that it remains appropriate to the profile of the Fund's liabilities.

**51.** Following each triennial valuation, the Fund is required to review its investment strategy. This review was undertaken by Isio, the Fund's Investment Consultants, during 2020/21 and the findings were reported to the Sub-Committee in June 2021.

**52.** Isio's review concluded that a diversified portfolio remains a suitable long-term strategic asset ambition for the Fund. It highlighted that while the current asset allocation offers some diversification, they believe that further diversification of the Fund's assets through the implementation of an opportunistic portfolio (targeting underperforming investments that have the potential to generate large returns). This could be funded from reductions in both the equity and fixed income portfolios and should be a priority in order to diversify overall risks in the Fund. It also recommended that further global equity diversification and more focus on sustainability within the portfolios will benefit the Fund in terms of reducing the concentration of equity risk. The review also identified inflation as a risk factor and suggested that an allocation to assets with direct inflation linkage would help to mitigate a proportion of this risk.

**53.** After consideration of the report the Sub-Committee noted the findings and agreed to delegate responsibility to officers to implement Isio's recommendations in relation to equity and bond portfolios, and to commence mandate construction and manager selection of an opportunistic portfolio.

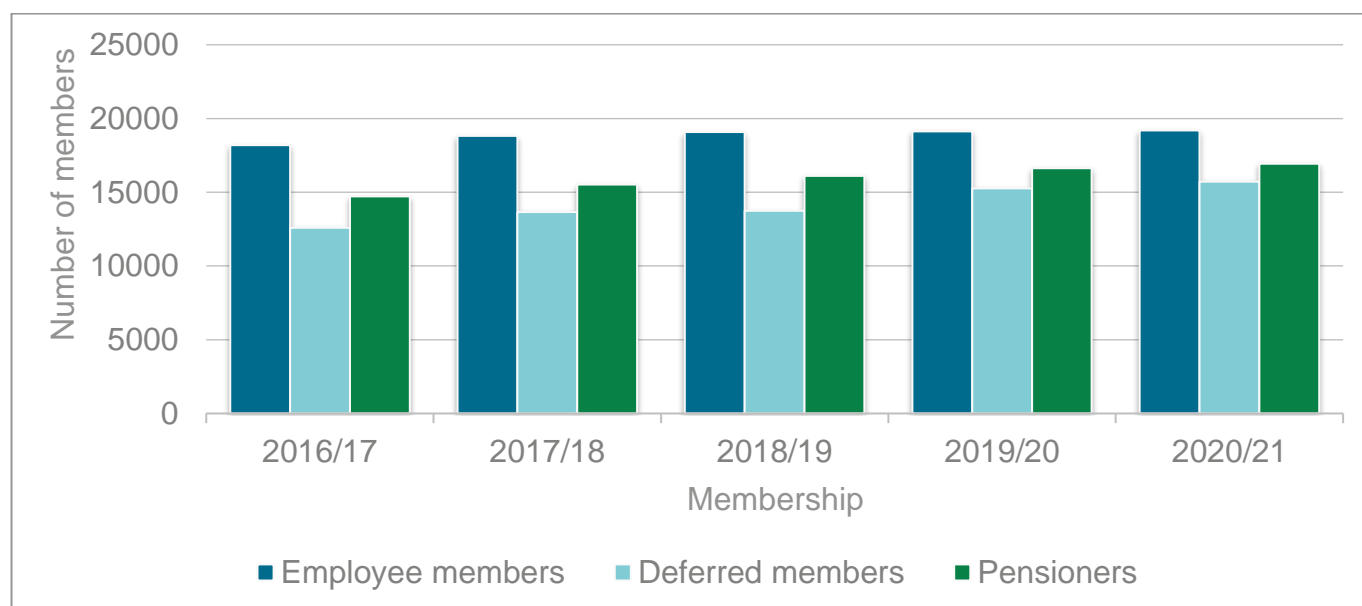
**54.** The funding strategy statement is a summary of the Fund's approach to funding liabilities and sets out the level of employer and employee contribution rates required to ensure sufficient resources are available to provide for members' pensions and lump sum benefits. The statement requires to be reviewed annually, unless circumstances dictate earlier amendment.

**55.** The annual review of the funding strategy statement was undertaken following the completion of the investment strategy review and the updated statement is included within the Fund's 2020/21 Annual Report and Accounts.

## 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

56. The Fund is a multi-employer fund with 45 employers, comprising 13 scheduled bodies (including Dundee City, Angus and Perth & Kinross Councils) and 32 admitted bodies. The current membership profile is shown at [Exhibit 4](#).

### Exhibit 4 Tayside Pension Fund membership



Source: Tayside Pension Fund 2020/21 Annual Report and Accounts

57. 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.

58. Overall membership of the fund increased by 837 (1.6 per cent) to 51,841 members during 2020/21, and has increased by 6,341 (13.9 per cent) since 2016/17. However, although the number of active members continues to exceed the number of pensioners, the ratio of active members to pensioners has steadily reduced in recent years from 1.24:1 in 2016/17 to 1.13:1 in 2020/21. This, combined with increasing life expectancy over this period, continues to place additional pressure on the Fund. However, this does not present any immediate risk to the financial sustainability of the Fund.

## The current financial circumstances may result in some participating employers exiting the Fund which could place additional financial demands on the remaining member bodies

59. Due to the current financial circumstances, some of the Fund's participating employers are reviewing their future service models. If they identify that they

can't afford to maintain their current operations and staffing levels then they may decide that they are unable to continue to participate in the Fund.

**60.** When a participating employer exits the Fund it is required to make a cessation payment to cover its assessed liability at the exit date. In circumstances where exiting employers are unable to meet cessation liabilities, then all employers in the Fund may be required to pay revised contributions to meet the shortfall, which could result in increased contribution rates being imposed.

**61.** We will continue to monitor membership of the Fund during the remainder of the audit appointment and report on any additional financial demands on member bodies resulting from participating employers exiting the Fund.

### Good practice – Assistance available to participating employers

The impact of the Covid-19 pandemic during meant that a number of participating employers experienced service disruption and financial challenges during 2020/21. This particularly affected their cashflow during the early part of the year when operational activity was suspended, and government financial support was yet to come through. To help alleviate these pressures the Fund offered assistance to these bodies in meeting their contribution responsibilities through flexible arrangements permitted by legislation. This included extending the intervals at which payment was required from the employer over the 12 months to allow them to make lower payments in the early part of the year balanced up by higher payments towards the end of the year. We confirmed that all employer bodies made the required annual contributions for 2020/21 by the end of April 2021.

**There have been negative cash flows from member activity in recent years and this trend is expected to continue. However, the Fund is content that there is no immediate need to consider investment changes.**

**62.** Following the 2020 triennial valuation the actuary agreed employer contribution rates with individual employers from 1 April 2021 onwards with the finding surplus being used to subsidise and stabilise contribution rates. The approximate split of all contributions received in 2020/21 is set out at [Exhibit 5](#).

### Exhibit 5 Contributions in 2020/21

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Total £m
<b>Employer contributions</b>	21.169	40.527	12.734	<b>74.430</b>
<b>Employee contributions</b>	7.784	14.560	4.747	<b>27.091</b>
<b>Strain on fund contributions</b>	0.161	0.527	1.093	<b>1.781</b>

Source: Tayside Pension Fund 2020/21 Annual Report and Accounts

**63.** The Fund reported a deficit from dealings with members of £26.3 million in 2020/21 (as detailed at paragraph [41.](#) ). This reflects the trend of negative cash flows from member activity over recent years. The Fund actively monitors its cash-flow position and indications are that negative cash flows will be an ongoing trend in future years. Auto-enrolment has had a positive impact on the cash flow position, but this may be offset by the change in pension regulations to allow Fund members to retire without employers' consent at the age of 55. 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.

**We currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy**

**64.** Given the triennial valuation showed that the Fund was 109% funded at 31 March 2020 (paragraph [49.](#) ), and the healthy net asset position at 31 March 2021 (paragraph [37.](#) and [Exhibit 3](#)), we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

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## 4. Governance and transparency

Governance and transparency relates to the effectiveness of scrutiny and oversight, and transparent reporting of information

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### Main Judgements

The Fund has adequate arrangements in place to support good governance and accountability. The Covid-19 pandemic has impacted on these since March 2020 but we have concluded that the revised governance arrangements are appropriate in the current circumstances.

The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to prevent and detect fraud and corruption, and to ensure compliance with the Pensions Regulator Public Service Code.

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### The Fund has adequate arrangements in place to support good governance and accountability

**65.** 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.

**66.** The responsibilities of the Proper Officer, the Pension Sub-Committee and the Pension Board are set out in the Statement of Investment Principles which is included within the Fund's 2020/21 Annual Report and Accounts.

**67.** The main functions of the fund are management of investments 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.

### The Covid-19 pandemic has impacted on the governance arrangements since March 2020 but we have concluded that the revised governance arrangements are appropriate in the current circumstances

**68.** The impact of Covid-19 pandemic on the governance arrangements from March 2020 has been set out in the Annual Governance Statement in the 2020/21 Annual Report and Accounts.

**69.** Changes to the decision making arrangements and the conduct of meetings were introduced following a meeting with Senior Elected Members on 19 March whereby alternative procedures were implemented for all Council committee business, including Tayside Pension Fund. The following procedures were implemented with immediate effect:

- All non-essential committee business has been deferred to ensure that all elected members and officers can concentrate the maximum possible time and effort on supporting the City through the Coronavirus period.
- The Council's existing Scheme of Delegation of Powers to Officers Standing Orders have been applied to ensure that services act in accordance with the powers already delegated.
- All essential committee business which is not covered by the existing delegated powers will be dealt with as urgent matters arising between meetings.

**70.** As a result of the changes introduced the March and June Pension Sub-Committee meetings were cancelled and the committee papers were circulated to members electronically for consideration and approval.

**71.** In September 2020 arrangements were put in place to hold the Pension Sub-Committees virtually using Microsoft Teams. This was first used for the meeting on 21 September 2020. The Pension Sub-Committee meetings continue to be held remotely but this situation will be reviewed as Covid-19 restrictions on travel and work placed activity ease.

### **The Fund conducts its business in an open and transparent manner**

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

**73.** Public sector governance guidance indicates that an organisation that is transparent shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

**74.** There is evidence from several 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 minutes of all meetings are available on the administering authority's website. The Fund's Annual Report and Accounts are also available on the administering authority's website, along with investment and administration performance information, and key governance documents.



## **The management commentary in the Annual Report and Accounts provides a fair, balanced and reasonable analysis of the organisation's financial performance for the year**

**75.** In addition to the consistency opinion on the management commentary covered in Part 1 of this report, we also consider the qualitative aspects of the management commentary included in the annual accounts. The purpose of the management commentary is to provide information on the Fund, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and reasonable analysis of a body's performance and is essential in helping stakeholders understand the financial statements. We concluded that the management commentary in the 2020/21 Annual Report and Accounts satisfied these requirements.

## **The Fund has appropriate arrangements in place to prevent and detect fraud and corruption**

**76.** The Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**77.** We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the administering body's arrangements for the prevention and detection of fraud and corruption. These include a Code of Conduct for members and officers, Whistleblowing Policy and an Anti-Fraud Strategy.

**78.** We concluded that the Fund has appropriate arrangements in place to prevent and detect fraud and corruption. We are also not aware of any specific issues during 2020/21 that we require to bring to your attention.

## **There are effective arrangements in place for complying with the Pensions Regulator Public Service Code**

**79.** 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.

**80.** 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.

**81.** Management has confirmed that there were no reportable breaches during 2020/21.



**The improved administration performance reports provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines**

**82.** During 2020/21 improvements were made to administration performance reporting to the Pension Sub-Committee to ensure that the reporting of key performance indicators included up-to date information on compliance with statutory deadlines. Action was also taken to address legacy issues in the pension administration system that have caused some issues with the underlying data feeding into the reports. Management has advised that further improvements are planned during 2021/22.

**83.** As part of our annual audit we reviewed the administration performance reports to the Sub-Committee during the year. We concluded that the improvements made to the administration performance reporting mean the reports now provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines.

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## 5. Value for money

Value for money is about using resources effectively and continually improving services

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### Main judgements

All Scottish Local Government Pension Schemes reported positive movements in net assets during 2020/21. However, Tayside Pension Fund's increase of 32 per cent placed it as one of the best performing funds over the last 12 months.

Performance of individual investment managers over the last 12 months was strong with only one of eight investment portfolios performing below benchmark.

Longer-term investment performance is also strong and shows above benchmark returns for the Fund over the last five and ten years.

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### At 31 March 2021, 74 per cent of the value of the Fund's investment assets was held in equities and pooled investments

**84.** The Fund is largely equity based with £2.271 billion (47 per cent) of the Fund's total investment assets at 31 March 2021 held in equities. Hence the Fund's investment performance is heavily reliant on the investment returns of equity managers. A further £1.320 billion (27 per cent) of the Fund's investment assets were held in pooled investments.

**85.** The Fund also continues to invest in long term enhanced yield assets, such as UK property. At 31 March 2021, the Fund held direct property assets with a value of £0.443 billion, 9 per cent of the Fund's investment assets. The objective of holding such investments is to provide a long-term income stream and a degree of inflation protection. Maintaining long term investment income is important to ensuring the Fund has available funding to meet any deficit resulting from dealings with members.

**86.** As detailed at paragraphs [50.](#) -[53.](#), the Fund reviewed its investment strategy during the year and approved changes to further diversify the existing asset portfolio and to establish an opportunistic asset portfolio. It is therefore likely that the proportion of the Fund invested in equities and pooled investments will reduce in future years although these will still make up the majority of the asset base.

## **All Scottish Local Government Pension Schemes reported positive movements in net assets during 2020/21. However, Tayside Pension Fund's increase of 32 per cent placed it as one of the best performing funds over the last 12 months.**

**87.** 2020/21 was a good year for Scottish Local Government Pension Schemes as markets bounced back from the shock experienced in the final quarter of 2019/20, following the outbreak of the Covid-19 pandemic. As a result, all eleven funds reported positive movements in net assets during the year 31 March 2021 with increases ranging from 16 per cent to 38 per cent. Tayside Pension Fund's increase of 32 per cent placed it near the top of this this range with only one fund performing better.

## **Performance of individual investment managers over the last 12 months was strong with only one of eight investment portfolios performing below benchmark**

**88.** The Fund used five external investment managers managing eight distinct mandates (a set of instructions laying out how a pool of assets should be invested) during the course of 2020/21. Investment manager performance for each portfolio is reported on a quarterly basis to the Pension Sub-Committee. The Fund's external investment advisor attends the meetings in an advisory capacity, when required. The external investment advisor also provides an annual report to the Pension Sub-Committee each March covering the performance of each portfolio, and the full fund, for the previous calendar year.

**89.** The performance summaries presented to each meeting of the Sub-Committee include details of performance of individual portfolios against benchmark for each quarter of the current year, and over the last three and five years. This allows members of the Sub-Committee to scrutinise investment performance and to question officers on the reasons for any under-performance.

**90.** During 2020/21 the overall performance of investment managers was better than targeted with six of eight investment portfolios performing above benchmark, and one performing in line with benchmark. The only portfolio that performed below benchmark was GSAM – Broad Street Real Estate Credit Partners III which reported a negative annual return of -7.5 per cent against a benchmark of 9.7 per cent. This was largely attributable to the impact of Covid-19 on global property markets over the last 12 months. However, the investment managers do not anticipate these will result in realised losses as the majority of assets are long-term investments.

## **Management expenses increased from last year due to an increase in investment management fees linked to investment manager performance**

**91.** 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.

**92.** External investment manager fees are agreed in the respective mandates governing their appointments. These are usually based on the market value of the investments under their management and therefore increase or reduce as the value of these investments' changes.

**93.** Investment management expenses have increased from £9.605 million in 2019/20 to £10.411 million in 2020/21. This was mainly attributable to a £0.729 million increase in investment management fees linked to investment manager performance, reflecting above benchmark performance during the year.

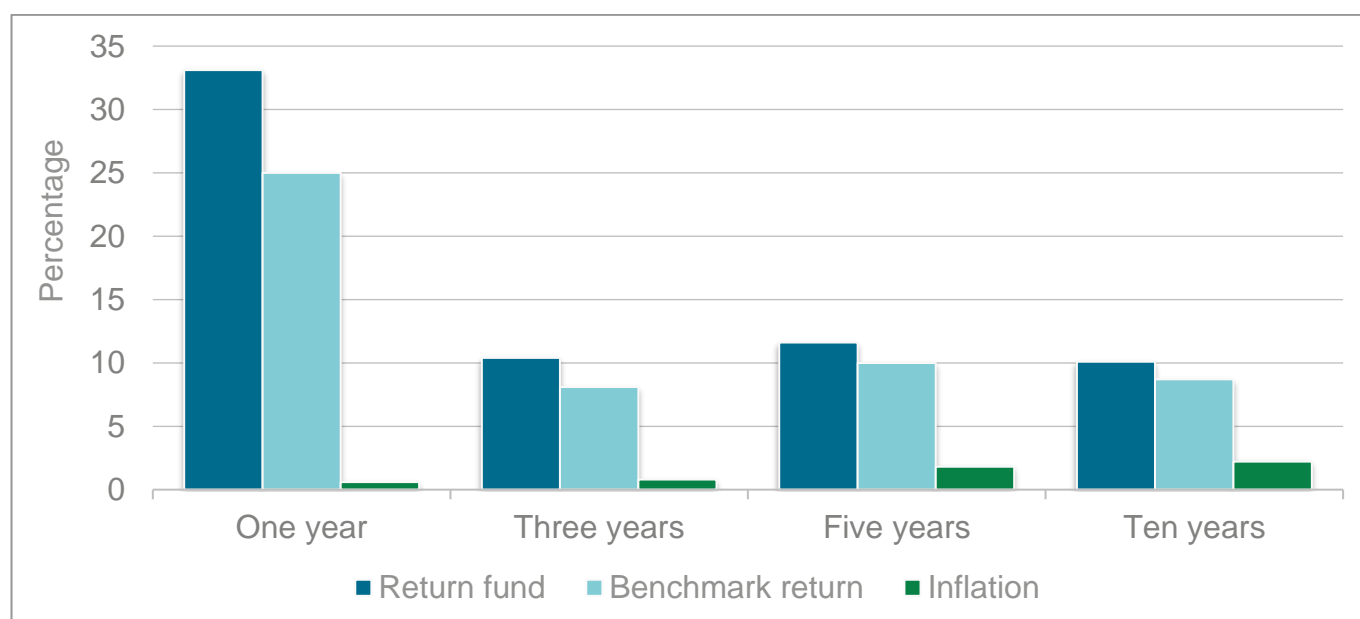
### Longer-term investment performance shows above benchmark returns for the Fund over the last five and ten years

**94.** 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, Sub-Committee members receive a report outlining overall fund performance including an analysis of risks and returns.

**95.** [Exhibit 6](#) shows that the Fund performed well above the benchmark over the last 12 months, generating a rate of return of 33.1 per cent against the benchmark of 25.0 per cent. The medium and long-term performance is also strong with the Fund performing above benchmark (11.6 per cent against the benchmark of 10.0 per cent) over the last five and ten years (10.1 per cent against the benchmark of 8.7 per cent).

**96.** Under the career average pension scheme (CARE), accrued benefits are indexed at Consumer Price Index (CPI). Benefits earned under the previous final salary schemes will continue to increase in line with earnings. [Exhibit 6](#) shows that investment returns have outperformed inflation over the past ten years, going some way to meeting increases in the historic liabilities.

### Exhibit 6 Longer-term Fund investment performance



Source: Tayside Pension Fund 2020/21 Annual Report and Accounts

## National performance audit reports

**97.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21 a number of reports were published which may be of interest to the Fund. These are detailed in [Appendix 3](#).

**98.** The Pension Sub-Committee considers Audit Scotland reports that are relevant to its remit to identify any issues that might be of interest and relevance.

# Appendix 1

## Action plan 2020/21

### 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Additional voluntary contributions disclosure</b></p> <p>The 2020/21 figures for members whose AVCs are managed by Prudential have not been disclosed within the Annual Report and Accounts.</p> <p><b>Risk: Stakeholders will be unable to access this information.</b></p>	<p>An addendum to the accounts disclosing the omitted AVC information should be published on the Fund's website once it is provided.</p> <p><a href="#">Issue 1 in Exhibit 2</a></p>	<p>Recommendation agreed</p> <p><b>Responsible officer:</b> Senior Manager – Financial Services</p> <p><b>Agreed date:</b> Recommendation will be actioned as soon as AVC information is received. Anticipated date of receipt is not known at date of report.</p>

# 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 accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

### Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement caused by management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Review of the Annual Governance Statement and the assurances obtained in support of the statement, including the internal audit annual report.</li> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>Our work did not identify any errors that required adjustment to the financial statements.</p> <p>There is no evidence of management override of controls.</p>
<p><b>2. Estimation and judgements</b></p> <p>There is a significant degree of estimation and judgement in the measurement and valuation of some material account areas, including:</p> <ul style="list-style-type: none"> <li>• Valuation of investments which include level 3 investments, such as unquoted equity, where valuations involve significant application of judgement in determining values included in the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the work of the valuers, including focused substantive testing of the valuation of material assets.</li> <li>• 'Review of the work of an expert' in accordance with ISA 500, for the work of third parties undertaking valuations of material unquoted investments.</li> <li>• Confirmation of valuations to valuation reports and / or other supporting documentation.</li> </ul>	<p>During the course of the audit we reviewed the risks of material misstatement relating to estimation and judgement and concluded that only the actuarial valuation represented a significant risk of material misstatement, as defined by ISA 315, for the 2020/21 financial statements. As a result, we did not require to undertake any specific targeted audited work on the valuation of investments as our routine testing for the final</p>

Audit risk	Assurance procedure	Results and conclusions
<ul style="list-style-type: none"> <li>Actuarial valuation of future retirement benefits which depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Confirm that investment values are correctly reflected within the 2020/21 accounts.</li> <li>Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used, with reference to the report produced by the consulting actuary to Audit Scotland.</li> <li>Confirm that valuation data in the actuarial report is correctly reflected within the 2020/21 accounts.</li> </ul>	<p>accounts audit was sufficient to provide assurance over this risk. We can confirm that no issues were identified from this testing that could have resulted in a material misstatement in the 2020/21 annual accounts.</p> <ul style="list-style-type: none"> <li>No issues identified from review of the actuary or the assumptions used in the valuation.</li> <li>Relevant balances and disclosures in 2020/21 accounts agreed to actuarial report.</li> </ul>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>3. Administration performance reporting</b></p> <p>Improvements have been made to administration performance reporting to ensure they provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines.</p> <p>However, legacy issues in the pension administration system have caused some issues with the underlying data feeding into the reports. This may limit members' ability to scrutinise the fund's administration performance.</p>	<ul style="list-style-type: none"> <li>Review administration performance reports presented to the Sub-Committee.</li> <li>Observation of scrutiny of reporting by members during Sub-Committee meetings.</li> </ul>	<p>The improved administration performance reports provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines.</p> <p>(<a href="#">Paragraphs 82. -83.</a>)</p>



Audit risk	Assurance procedure	Results and conclusions
<p><b>4. Triennial valuation of the fund as at 31 March 2020</b></p> <p>The triennial valuation of the fund as at 31 March 2020 was carried out by the fund's actuary (Barnett Waddingham) during 2020/21. The results will be formally reported to the Sub-Committee in March 2021.</p> <p>The results of the valuation will impact on future employer contribution rates, as well as the future funding and investment strategies of the Fund.</p> <p>The results of the valuation therefore present a risk to the financial sustainability of the fund.</p>	<ul style="list-style-type: none"> <li>• Review the actuary's report on the triennial valuation of the fund as at 31 March 2020.</li> <li>• Consider reports on the triennial valuation presented to the Sub-Committee.</li> <li>• Review future investment and funding strategies produced following the valuation.</li> </ul>	<p>The results of the 2020 triennial valuation showed an improved position with the Fund 109 per cent funded. This enabled the Fund to maintain the employer's common contribution rate at 17 per cent for the period 2021-2024.</p> <p>(<a href="#">Paragraphs 46. -49.</a>)</p> <p>Given the funding position at 31 March 2020, and the healthy net asset position at 31 March 2021, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.</p> <p>(<a href="#">Paragraph 64.</a>)</p>

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# Appendix 3

## Summary of national performance reports 2020/21

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### April

[Affordable housing](#)

### June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

### July

[The National Fraud Initiative in Scotland 2018/19](#)

### January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

### February

[NHS in Scotland 2020](#)

### March

[Improving outcomes for young people through school education](#)

# Tayside Pension FundTayside Pension Fund

## 2020/21 Annual Audit Report

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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