

ITEM No ...20(a).....

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 21 SEPTEMBER 2020

REPORT ON: TAYSIDE PENSION FUNDS 2019/2020 ACCOUNTS AND AUDIT

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 246-2020

1 PURPOSE OF REPORT

To report on the outcome of the external audit of Tayside Pension Funds for the year to 31 March 2020. A copy of the External Auditor's Annual Audit Report (Report No 248-2020) and the 2019/2020 Audited Statement of Accounts for the Tayside Pension Funds (Report No 247-2020) are also to be considered.

2 RECOMMENDATIONS

It is recommended that the Committee notes the contents of External Auditor's Annual Audit Report, in particular that Audit Scotland anticipate issuing an unqualified audit opinion.

3 FINANCIAL IMPLICATIONS

None.

4 MAIN TEXT

4.1 Introduction

External audit is one of the key methods by which the activities and performance of local government are independently scrutinised and reported upon. The external audit of Tayside Pension Fund for the financial year 2019/2020 was carried out by Fiona Mitchell-Knight, Assistant Director, Audit Services, Audit Scotland. Local authority external auditors are appointed for a five year period and the financial year 2019/2020 marked the fourth year of Audit Scotland's appointment at the City Council.

The 2019/2020 Unaudited Statement of Accounts was circulated to elected members and to Audit Scotland on 22 June 2020, in line with the statutory deadline. The Accounts have been subject to a three week statutory public inspection period and no objections were received.

4.2 External Auditor's Annual Audit Report

Audit Scotland have now completed their audit work and, in accordance with auditing standards (ISA 260), they are now required to report the outcome of their work in relation to the financial statements. This requirement is addressed via their Annual Audit Report. The report is divided into the following five key areas:

- Audit of 2019/20 annual accounts
- Financial Management
- Financial Sustainability
- Governance and Transparency
- Value for Money

4.3 Conclusions

The External Auditor has undertaken a thorough and wide-ranging review of the financial statements and the processes and procedures around their preparation. Their audit of the annual accounts confirms that the financial statements provide a true and fair view and were properly prepared. The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared.

The audit highlighted that the annual performance of the Fund was significantly impacted by Covid-19. In February the value of the Fund's net assets exceeded £4.4 billion but by the end of March the value fell to £3.7 billion. Management has advised that recent stimulus measures introduced by global governments have had a positive impact, with the Fund recovering to a value of over £4.2 billion at the beginning of June. The longer-term impact of Covid-19 on UK and global markets presents a risk to the future value of the Fund's investments.

There have been negative cash flows from member activity in recent years and the ratio of active fund members to pensioners has been falling, this trend is expected to continue. However, the Fund is content that there is no immediate need to consider changes in its investment strategy. The Fund's three year funding and investment strategy will be reviewed following the next full triennial valuation, due to be completed by 31 March 2021. This will determine the level of employer and employee contribution rates from 2021/22 onwards.

In terms of governance, transparency and good practice, the audit confirmed the Fund to have adequate arrangements in place which support good governance and accountability. Revised arrangements were introduced in March to enable the Fund to operate in the Covid-19 environment. Following an audit recommendation last year, internal audit reporting arrangements were improved during 2019/20. Their report did however highlight that the Fund self-referred itself to the Pension Regulator due to its failure to issue 1,788 deferred benefit entitlement and options notifications to members within the two-month statutory timescale. Management has now strengthened the arrangements in place for monitoring processing levels to help prioritise those cases that are nearing statutory deadlines.

Improvements are being made to administration performance reports to ensure they provide members of the Sub-Committee with a clear picture of how the pension administration team is coping with its increased workload. It is also pleasing to note that the external auditors found working papers to be of a good standard, that staff provided good support to the audit team, and anticipate that an unqualified audit opinion will be issued.

5 **POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6 **CONSULTATIONS**

The Chief Executive and Head of Democratic and Legal Services has been consulted on the content of this report and are in agreement with the contents.

7 **BACKGROUND PAPERS**

None

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

15 SEPTEMBER 2020