

ITEM No ...6(a)...

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 23 SEPTEMBER 2019

REPORT ON: TAYSIDE PENSION FUNDS 2018/2019 ACCOUNTS AND AUDIT

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 304-2019

1 PURPOSE OF REPORT

To report on the outcome of the external audit of Tayside Pension Funds for the year to 31 March 2019. A copy of the External Auditor's Annual Audit Report (Report No 306-2019) and the 2018/2019 Audited Statement of Accounts for the Tayside Pension Funds (Report No 305-2019) 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 Funds for the financial year 2018/2019 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 2018/2019 marked the third year of Audit Scotland's appointment at the City Council.

The 2018/2019 Unaudited Statement of Accounts was circulated to elected members and to Audit Scotland on 24 June 2019, 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 2018/19 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 main fund marginally underperformed against its benchmark, it had been a good year in terms of investment performance. The Fund generated a return of 6.39% against its benchmark of 6.60%. In terms of value for money, the audit concluded that the Fund has adequate arrangements in place for monitoring investment performance.

Key internal controls were assessed and found to be operating effectively with no weaknesses identified, and furthermore that appropriate arrangements were in place for preventing and detecting fraud and corruption. The audit concluded that although funding levels remains good, the Fund's actuary has assessed the Fund to be 107% funding, including a volatility reserve of 10% as protection from future volatility of investment returns. Employer's pension contribution rate remains unchanged at 17%. Pension payments were in excess of contributions received, and although the value of this was not significant, it may become increasingly challenging over the longer term.

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. Their report did however recommend that Pension Sub-committee should be provided with an Internal Audit Report providing independent assurance on the overall risk management, internal control and corporate governance processes relating specifically to the Fund, prior to approving the Annual Governance Statement.

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

16 SEPTEMBER 2019