

ITEM No ...10(a).....

REPORT TO: POLICY & RESOURCES COMMITTEE – 30 OCTOBER 2017

REPORT ON: TAYSIDE PENSION FUNDS 2016/2017 ACCOUNTS AND AUDIT

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 357-2017

1 PURPOSE OF REPORT

To report on the outcome of the external audit of Tayside Pension Funds for the year to 31 March 2017. A copy of the External Auditor's Annual Audit Report (Report No 358-2017) and the 2016/2017 Audited Statement of Accounts for the Tayside Pension Funds (Report No 359-2017) are also to be considered by the Policy & Resources Committee.

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 2016/2017 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 2016/2017 marked the first year of Audit Scotland's appointment at the City Council.

The 2016/2017 Unaudited Statement of Accounts was circulated to elected members and to Audit Scotland on 28 June 2017, 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:

- 2016/17 Annual Report and 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, with no material adjustments to the financial statements arising, stating that the fund has effective arrangements in place for financial management, with comprehensive reporting of investment performance. Their report however recommends improvements to the mechanism of reporting administration performance.

The audit highlighted that although the main fund marginally underperformed against its benchmark, it had been a good year in terms of investment performance, with the 3rd highest net return on investment in comparison to the other 10 Scottish Local Government Pension Schemes. In terms of value for money, the audit concluded that the Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses, having the lowest investment management expenses across the 11 Scottish Local Government Pension Schemes.

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 also confirmed that over 95% of 186 cases referred for investigation under the National Fraud Initiative had been completed in the year. The audit concluded that although funding levels remains good, pension payments in were slightly in excess of contributions received, and although the value of this was not significant, it may become more 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. They did however recommend that the Annual Report and Accounts be considered by the Pension Sub-Committee and that their remit be extended to include audit arrangements. Finding evidence from a number of sources, the Fund demonstrated its commitment to transparency, and the audit concluded that the Fund conducts its business in an open and transparent manner; and that good practice was also demonstrated through the intensive training program undertaken by both the Pension Sub-Committee and Pension Board members. 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 Council's Management Team has been consulted on the content of this report.

7 **BACKGROUND PAPERS**

None