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Report No: 404-2014

Tayside Pension Fund Tayside Transport Pension Fund

Annual audit report to Dundee City Council as administering authority
for Tayside Pension Fund and Tayside Transport Pension Fund and
the Controller of Audit

Audit: Year ended 31 March 2014

30 September 2014

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in connection with this
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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Dundee City Council, as administering authority for Tayside Pension Fund and Tayside Transport Fund, and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a beneficiary's publication scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

This report is presented in connection with our audit of Tayside Pension Fund and Tayside Transport Pension Fund for the year ended 31 March 2014.

Our audit work is undertaken in accordance with Audit Scotland's Code of Audit Practice ("the Code"). This specifies a number of objectives for our audit.

In accordance with ISA (UK and Ireland) 260: Communication with those charged with governance, this report summarises our work in relation to the financial statements.

We wish to record our appreciation of the continued co-operation and assistance extended to us by Council staff during the course of our work.

Context	<p>The year ended 31 March 2014 is the fifth year for which local authorities responsible for administering a pension fund forming part of the Local Government Pension Scheme have been required to publish an annual report and financial statements for the pension fund separate from the authority's own financial statements.</p> <p>This report summarises our work in respect of the Tayside Pension Fund ("Main Fund") and Tayside Transport Pension Fund ("Transport Fund"), together for the purposes of this report, "the Funds". In addition to Dundee City Council ("the Council"), there are 14 other scheduled bodies and 30 admitted bodies participating across the Funds, with a total contributing membership of 17,623.</p> <p>A triennial valuation was performed for the Funds as at 31 March 2011. This reflected a slight increase in the long term funding position of both the Main Fund and Transport Fund from 97.6% and 92.3% to 98.2% and 96.6%, respectively. The employers' contribution rate was decreased from 18.5 to 18% for the Main Fund and to a reduced fixed value for the Transport Fund. The next triennial valuation is being undertaken as at 31 March 2014, with results expected to be available later this calendar year.</p>
Financial statements	<p>The 2013-14 financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 23013-14 supported by International Financial Reporting Standards ("IFRS"). There were no changes to the Code impacting on the pension funds and accounting policies have been applied consistently year on year. The accounting policies for the pension funds remain appropriate.</p> <p>Draft financial statements were provided on 30 June 2014, in line with the statutory and agreed timetable. These were complete and to a high standard. Supporting evidence was available for the commencement of our audit. Overall, we consider arrangements in the control environment associated with the compilation of the financial statements to be appropriate for the Funds.</p> <p>We have issued unqualified audit opinions on the 2013-14 financial statements.</p>
Governance	<p>The governance compliance statement is in line with that published in the 2012-13 financial statements. Full or partial compliance is reported in respect of the majority of areas. The statement notes that not all employing authorities are represented within the Funds' committee structure, but there is an employers' forum which meets to consider investments together with a four monthly administration meeting which considers procedural arrangements. Additional disclosure related to the governance arrangements related to the role and responsibilities of the pension investment sub-committee and governance framework was made in the financial statements.</p>
Use of resources	<p>Management monitors the performance of investments and this is reported regularly to the pension investments sub-committee based on an agreed benchmark. In the year to 31 March 2014, investment assets performed exceptionally well, returning 9.1% which was 2.94% in excess of the overall benchmark for the year.</p>

Purpose of this report

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit of the Tayside Pension Fund and Tayside Transport Pension Fund for the year ended 31 March 2014. It is addressed to both those charged with governance at the Pension Funds and the Controller of Audit.

The scope and nature of our audit were set out in our audit strategy document which was presented to the Pension Funds at the outset of our audit for 2013-14.

Responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out the Pension Funds' and the Director of Corporate Service's responsibilities in respect of:

- preparation of financial statements;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements, but also consideration of areas such as financial performance and corporate governance.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to Dundee City Council as administering authority of the Pension Funds, together with previous reports during our audit planning work, discharges the requirements of ISA 260.

Investments returns are monitored throughout the year and the performance of investment managers is subject to regular review against benchmarks.

The key financial indicator for the Funds is considered to be the performance of the Funds' investments. This is monitored through the year and reported to the pension investment sub-committee of the Council's policy and resources committee on a quarterly basis.

The pension investment sub-committee engages custodian Northern Trust to produce measurement statistics for both Funds. Aon Hewitt was appointed as the independent investment consultants in October 2013, replacing Hymans Robertson.

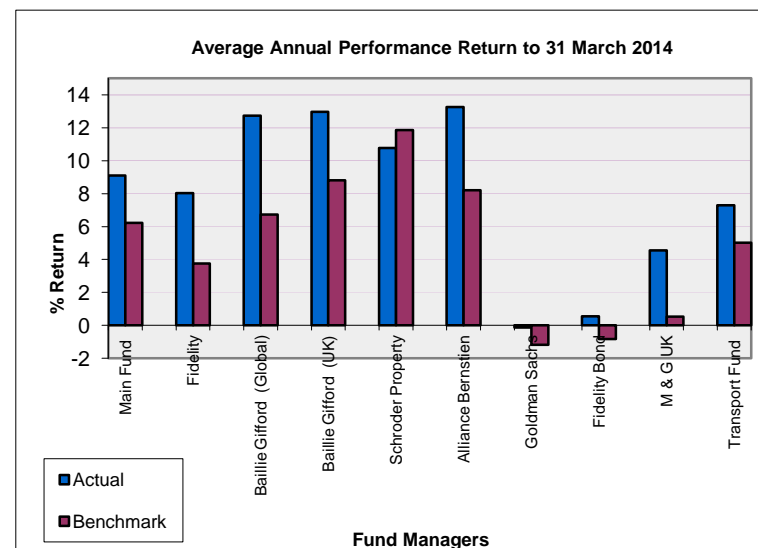
The pension investment sub-committee regularly considers the performance of individual fund managers. With the exception of Schroders Property, all investment managers have outperformed the benchmark in respect of the year ended 31 March 2014. Schroders Property performance remains below benchmarks, but has been subject to scrutiny and has improved over the last year.

Significant funds were transferred from the Alliance Bernstein active global equities mandate to Legal and General Investment Management (LGIM) equities on a passive basis mandate during the year. This resulted in an investment of £233 million in LGIM. Strategic asset allocation of the investments amongst different types of financial instruments has remained consistent with the previous year with the highest investments in global equities followed by UK equities.

In order to gain assurance over the valuation of the year end investments, we tested a sample of the investments using our internal research tools to determine the reasonableness of the year end valuation, which was found to be satisfactory.

It is recognised that investment risks, such as equity and active management risks, are taken by the Funds and these impact on the volatility of returns. The pension investment sub-committee set out an initial risk register, demonstrating understanding of risks, in February 2011. The risk register is updated quarterly, with the latest report approved in March 2014.

The net assets of the Main Fund and Transport Fund increased by £201 million and £2.1 million in the year, respectively, primarily as a result of investment income and gains on the market value of investments.



Investments returns are monitored throughout the year and the performance of investment managers is subject to regular review against benchmarks.

In line with other Scottish local authorities, the Funds were renamed as Tayside Pension Fund and Tayside Transport Pension Fund respectively. These name changes were approved by the pension investment sub-committee on 3 June 2013.

There are a number of developments on the horizon for Pension Funds, such as auto-enrolment. Member should ensure that they give ongoing consideration to any training or advice they may require to carry out their responsibilities for the pension fund going forward.

During the year the contributions, for the Main Fund increased by £540,000 due to the increase in the contributing members and Transport Fund by £11,000 due to the increase in the higher contributions.

For the year ended 31 March 2014, benefits payable, for the Main Fund there was an increase of £2.1 million due to increase in the number of pensioners and Transport Fund showed an increase of £612,000 due to the higher lump sum payments. We performed specific item testing and analytical reviews on this balance and conclude that the year end balance appears reasonable.

Over-arching and supporting corporate governance arrangements were not subject to significant change and continue to provide a sound framework for organisational decision-making.

Governance compliance statement

The governance compliance statement included within the 2013-14 annual report shows continued compliance in the majority of areas. The statement notes that not all employing authorities are represented within the Funds' committee structure, but there is an employers' forum which meets to consider investments together with a four monthly administration meeting which considers procedural arrangements. Additional disclosure related to the governance arrangements related to the role and responsibilities of the pension investment sub-committee and governance framework was made in the financial statements.

Corporate governance and internal control arrangements

The governance compliance statement for the Funds was approved by the pension investment sub-committee on 30 June 2014 and is consistent with or understanding of governance arrangements. The statement should be subject to an annual review by the pension investment sub-committee and action taken to enhance any areas which only report partial or non-compliance where appropriate.

Standards of conduct and prevention and detection of corruption

Management of the Funds is undertaken by Council staff who are therefore subject to Council policies on standards of conduct, fraud and corruption.

As part of the audit, we undertook a review of the latest internal control reports issued by the Pension Funds' investment managers. The exceptions reported by the independent auditors of the investment managers were reviewed and we devised our audit approach based on the assurance gained through these reports. Exceptions reported were recognised as mainly internal control deficiencies bearing no direct impact on the Pension Fund audit and giving comfort over the evidence provided by the investment managers. Independent reviews of each of the reports as at the date of the audit work were also performed for extra comfort over the evidence. In order to introduce an element of unpredictability during the audit and gain comfort over the completeness of the reports, additional testing was performed where the information received from the investment managers was corroborated to the custodian reports that were independently received by us.

Our testing of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively.

Management representation letter

In accordance with International Standards on Auditing (UK & Ireland) management is required to provide us with representations on specific matters such your financial standing, application of accounting policies, and whether the transactions in the financial statements are legal and unaffected by fraud. The representation letter contains standard matters and there are no issues in this regard that we wish to bring to your attention.

We have issued an unqualified audit opinion on the financial statements.

International Standards on Auditing require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk and that management override of controls is a significant risk. We have satisfactorily carried out audit work to address these risks.

Audit conclusions

Following approval of the financial statements by the Director of Corporate Services of the Council, we have issued an unqualified opinion on the truth and fairness of the state of the Funds' affairs as at 31 March 2014, and of its expenditure and income for the year then ended. The financial statements have been properly prepared in accordance with the 2013-14 Code of Practice, and prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks;
- reviewed assumptions and judgements made by management and considered these for appropriateness; and
- considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements.

Significant risks

Revenue recognition

International Standard on Auditing (UK and Ireland) 240 requires us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. As the Funds' income is primarily received from investments, contributions and transfers in, we did not regard the risk of fraud from this revenue recognition to be significant.

We have however undertaken tests over revenue recognition for the purposes of our audit and have concluded appropriately on the amounts recognised in respect of 2013-14.

Management override of controls

To address this risk, we have performed testing of journal entries during the year and at the year end, undertaken a review of unusual transactions in the year, made enquiries with employees outside the finance department, incorporated audit tests of an unpredictable nature and undertaken testing of controls, including 'higher level' controls and reviewed management's accounting estimates for bias.

Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.

There have been no substantive changes to the financial reporting framework as set out in the Code of Practice.

Accounting policies have been applied consistently.

Financial reporting framework	<ul style="list-style-type: none"> ■ The Funds prepare their financial statements in accordance with the Code of Practice which is based upon International Financial Reporting Standards ("IFRS"). ■ There have been no significant changes in financial reporting requirements, and consequently there are no substantive changes to the Funds' accounting policies. We are satisfied that the accounting policies adopted remain appropriate. ■ No newly effective accounting standards are considered likely to have a material impact on the Funds' financial statements in the coming year.
Financial statements preparation	<ul style="list-style-type: none"> ■ The unaudited financial statements were authorised for issue by the Director of Corporate Services of the Council on 24 June 2014, and passed to us for audit in line with the statutory timetable. ■ In accordance with regulations, the unaudited financial statements were made available for public inspection. No objections were received. ■ Good quality supporting documentation was made available in electronic format to support the unaudited financial statements.
Going concern	<ul style="list-style-type: none"> ■ The Main Fund's net asset statement as at 31 March 2014 shows a net asset position of £2,463 million, the majority of which relates to investments of £2,467 million. There are no concerns over the Main Fund's ability to continue as a going concern. ■ The Transport Fund's net asset statement as at 31 March 2014 shows a net asset position of £2,121 million, the majority of which relates to investments of £1,975 million. There are no concerns over the Transport Fund's ability to continue as a going concern.
Other matters	<ul style="list-style-type: none"> ■ Mandatory communications required by International Standards on Auditing are given in Appendix one. ■ There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content.



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Appendices

Mandatory communications regarding audit adjustments, auditor independence and representation letter content are given here.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	<p>There were no audit adjustments required to the draft financial statements which impacted on the net assets or the net expenditure for the year.</p> <p>A small number of numerical and presentational adjustments were required to some of the financial statements notes.</p>	-
Unadjusted audit differences Audit differences identified that we do not consider material to our audit opinion	<p>We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.</p> <p>There are no unadjusted audit differences.</p>	-
Confirmation of Independence Letter issued by KPMG to the Pension Funds	<p>We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Director and audit staff.</p>	Appendix two
Schedule of Fees Fees charged by KPMG for audit and non-audit services	<p>Audit fees for 2013-14 were agreed with management in accordance with the range specified by Audit Scotland as a portion of the fee range for the audit of Dundee City Council. There were non-audit services for withholding tax services (£2,000).</p>	-
Draft management representation letter Proposed draft of letter to be issued by the Pension Funds to KPMG prior to audit sign-off	<p>There are no significant changes to the standard representation required for our audit from last year.</p>	-

Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Pension Fund.

We have appropriate procedures and safeguards in place to enable us to make formal confirmation in our letter included opposite.

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Pension Funds for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the members of the Funds.

Confirmation of audit independence

We confirm that as of 24 September 2014, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of Dundee City Council as administering authority and should not be used for any other purpose.

Yours faithfully

KPMG LLP



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