

**REPORT TO: POLICY & RESOURCES COMMITTEE - 9 JANUARY 2012**

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S REPORT TO MEMBERS ON THE  
AUDIT OF TAYSIDE SUPERANNUATION FUNDS FOR THE YEAR TO 31  
MARCH 2011**

**REPORT BY: DIRECTOR OF FINANCE**

**REPORT NO: 7-2012**

## **1 PURPOSE OF REPORT**

This report is a response to the report prepared by the Fund's External Auditor on the audit of Tayside Superannuation Funds for the year to 31 March 2011. A copy of the External Auditor's report (Report No 6-2012) and the 2010/2011 Annual Report and Accounts for the Tayside Superannuation Funds (Report No 8-2012) are included on the agenda as separate items.

## **2 RECOMMENDATIONS**

It is recommended that the Committee:

- i endorses this report as the Fund's formal response to the External Auditor's report.
- ii notes the completed Action Plan appended to this report.

## **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 Superannuation Funds for the financial year 2010/2011 was carried out by Mr Mark Taylor CPFA, Assistant Director - Audit Services, Audit Scotland. Local authority external auditors are appointed for a five year period and the financial year 2010/2011 marked the final year of Audit Scotland's current appointment.. From next financial year 2011/12, the new audit firm appointed for the Fund will be KPMG LLP.

### **4.2 External Auditor's Report**

The External Auditor's report outlines his main responsibilities as auditor and describes the scope of audit work undertaken during 2010/2011 and the issues arising from that work. The report is divided into the following four key areas:

- Financial Statements
- Financial Position
- Governance & Accountability
- Use of Resources and Performance

4.3 In addition to the Elected Members of Dundee City Council, the External Auditor's report is also addressed to the Controller of Audit at the Accounts Commission for Scotland. Given this wider audience, and the extent of the External Auditor's responsibilities and scope of work, his report is by necessity both fulsome and extensive. Any External Auditor's reports issued

previously already include agreed management action plans that are the subject of separate consideration by the Scrutiny Committee. Accordingly, it is not the intention in this report to provide a detailed response or commentary on all of the External Auditor's findings.

#### 4.4 Action Plan

The External Auditor has identified seven key issues arising from his 2010/2011 audit that he considers require further action by the Funds. These relate to:

- 1 Accounts submission
- 2 Budgetary control
- 3 Processes and committees
- 4 Internal audit
- 5 Internal control
- 6 Administration performance
- 7 Performance measurement outcomes

These matters have been considered carefully by the Director of Finance and the completed action plan, incorporating the "planned management action", is appended to this report and to the External Auditor's report. The progress on implementing these agreed action points will be monitored through the Fund's procedures for dealing with external audit reports and reviewing previously agreed action plans.

#### 4.5 Conclusions

During 2010/2011, the External Auditor examined a number of areas covering a wide range of the City Council's activities. Whilst some areas for improvement have been identified, it is pleasing to note that the auditor's overall findings and conclusions are satisfactory. In particular, the Council can take encouragement from the following findings:

- the accounts were submitted on time and there was no qualification to the auditor's opinion
- no material weaknesses in the accounting and internal control systems were identified during the audit process
- the inclusion of the Governance Compliance Statement within the accounts has satisfied the level of compliance required by the Scottish Government's guidance

As this is the last year of Audit Scotland's current audit appointment, the Director of Finance would take this opportunity to acknowledge the good working relationship that existed over this period and thank all external audit staff for their work during the last five years.

## 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 Depute Chief Executive (Support Services) have been consulted on the content of this report.

7 **BACKGROUND PAPERS**

Audit Scotland: Tayside Superannuation Funds - Annual Report on the 2010/2011 Audit (November 2011).

**MARJORY M STEWART**  
**DIRECTOR OF FINANCE**

**21 DECEMBER 2011**

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	19.	<p>In future years the certification date for the financial statements will be 30 September in line with other local authority bodies. Administering authorities will need to plan their approach to the preparation of the annual report to ensure that all necessary third party information is available to meet this deadline.</p> <p><i>Risk: insufficient or inadequate preparation means that the financial statements are not prepared and certified within the required timescale.</i></p>	<p>The 2010/11 unaudited accounts were submitted on 30 June 2011.</p> <p>We do not envisage any issues with achieving the certification date of 30 September 2012.</p>	Exchequer Officer	June 2012
2	28.	<p>The pension fund does not set a budget for its activities or report on progress through the year. There are, however some elements (administration costs, investment manager expenses and other overheads) where it does have some control and would be helpful to set a budget for such areas of expenditure.</p> <p><i>Risk: in the absence of robust budgetary control</i></p>	<p>The pension fund will set budgets for 2011/12 for controllable areas.</p> <p>This will form part of the pension fund business plan which will be reported to committee in February 2012.</p>	Exchequer Officer	February 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>the administering authority may not be fully effective in controlling costs.</i>			
3	42.	<p>We note that there is little evidence of the Policy and Resources Committee routinely and actively considering Pension Fund related matters.</p> <p><i>Risk: without adequate scrutiny and challenge the administering authority may fail to achieve best practice and to maximise performance of the funds.</i></p>	<p>The Policy and Resources has provided a clear remit to the Superannuation sub-committee and receives the minutes of its meetings.</p>	n/a	n/a
4	45.	<p>We note that there is currently no programme of internal audit work specifically targeted at the funds and there has been no internal audit activity in this area for 2010/11. We have therefore been unable to place any reliance on internal audit work during 2010/11.</p> <p><i>Risk: in the absence of an internal audit function the administering authority may lack the assurance it needs to determine that all key controls are operating and effective.</i></p>	<p>As Dundee City Council administers the Pension Fund any planned audit work and subsequent reports will be taken to the Scrutiny Committee.</p> <p>An item is included in the 2011/12 Audit Plan</p>	Head of Financial Services	n/a
5	50.	<p>At 31 March 2011 the funds' investment managers held cash balances of £49.8 million. In 2010/11 transactions in excess of £1.2 billion were</p>	<p>The Fund Managers currently provide quarterly cash reconciliations. We will review annual cash reconciliations from</p>	Exchequer Officer	June 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>processed through these cash accounts. However, we noted that accounting arrangements for the investment managers' cash accounts could be strengthened. While we are satisfied that cash balances held by investment managers are fairly stated, the Exchequer Officer should reconcile opening and closing cash positions.</p> <p><i>Risks: investment transactions may be incorrectly or incompletely recorded.</i></p>	each manager.		
6	63.	<p>A number of KPIs for administration such as speed of various processes and the unit cost per scheme member/pensioner are compared against benchmarks. These results have however not been reported to and reviewed by the Superannuation Investment sub-committee. .</p> <p><i>Risk: without monitoring, review and challenge these indicators may not be effective in supporting continuous improvement..</i></p>	KPIs will be reported as part of the updated Business Plan.	Pensions Manager	February 2012
7	64.	<p>KPIs produced by the administering authority are not widely reported to fund</p>	KPIs will be included within the Annual Report and Accounts	Exchequer Officer	June 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		members. <i>Risk: fund members do not have the opportunity to monitor the performance of the pension administration function.</i>	2011/12.		