

FALKIRK COUNCIL

**Subject: FALKIRK COUNCIL PENSION FUND - REPORT TO THOSE CHARGED
WITH GOVERNANCE ON THE 2012/13 AUDIT
Meeting: PENSIONS COMMITTEE AND PENSIONS PANEL
Date: 5 SEPTEMBER 2013
Author: CHIEF FINANCE OFFICER**

1. INTRODUCTION

- 1.1 This report invites the Panel and Committee to consider a report from Audit Scotland issued in accordance with the International Standard on Auditing (ISA 260) "Communication of audit matters to those charged with governance".

2. BACKGROUND

- 2.1 Regulation 31A of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008 requires administering authorities to publish a pension fund annual report and accounts that are separate from the other accounts of the administering authority. The fund annual report and accounts also require to be subject to a separate audit.
- 2.2 The audit for 2012/13 is being undertaken by the Fund's external auditors, Audit Scotland.

3. AUDIT PROCESS

- 3.1 The Annual Audit Plan was presented to the Pensions Committee on 6 March, 2013.
- 3.2 The Fund's Unaudited Annual Report and Accounts for 2012/13 were submitted for audit on 28 June 2013 ahead of the deadline of 30 June 2013.
- 3.3 Under International Standard on Auditing 260 (ISA 260), auditors, before certifying the accounts, are required to communicate matters relating to the audit to those charged with governance. The report, referred to as the ISA 260, is to be provided in sufficient time to enable remedial action to be taken if necessary. Audit Scotland's ISA 260 report for 2012/13 is attached for information.

4. AUDIT OUTCOME

- 4.1 The ISA 260 reports that, subject to a final review, the audit will be unqualified.
- 4.2 The accounts have been adjusted for misstatements and other minor presentational and typographical matters. Two monetary errors relating to year end accruals and totalling £93k were identified. These amounts are immaterial to the accounts as a whole and accordingly I have proposed that no adjustment be made as a result.

5. MATTERS ARISING

5.1 The matters on which the auditor has specifically commented are as follows:

- Investment Management Expenses
- Presentational Matters
- Employee / Employer Contributions
- Cash Balances

Investment Management Expenses

The fees charged by Private Equity managers are invariably set off against distributions instead of being explicitly stated. This means that they cannot be reported as investment management expenses. It is accepted by Audit that this is a widespread industry problem and not a Falkirk specific issue. Officers will continue to explore the extent to which there can be more transparency surrounding the fees.

Presentational Matters

This comment relates to the way in which investments have been classified within the Notes to the Financial Statements. It is accepted that in certain areas an alternative presentation would conform more closely to the Accounting Code.

Employee / Employer Contributions

This relates to the end of year contribution returns which employers are statutorily obliged to provide. As a result of new HMRC deadlines and the onset of auto enrolment, the Pensions Section required more extensive contribution data from employers in respect of 2012/13. Despite advance notice of the changes and follow up reminders, certain employers have failed to provide their returns in the correct format by our deadline of 30 June.

Cash Balances

The Pensions Section processes non-LGPS payments as well as LGPS payments. The non-LGPS payments arise in respect of Police, Firefighters, and Teachers pensions and in respect of LGPS pensioners whose pensions are a mixture of LGPS and non-LGPS elements. Non-LGPS payments are recovered from sponsoring employers through regular invoicing. However, under HMRC restrictions, it is not possible to charge non-LGPS items to the Pension Fund Bank Account, even if they are re-imbursed immediately. This means that Pensions Section transactions generally have to be processed through Falkirk Council's own bank account and then reviewed to enable the appropriate sums to be transferred to and from the Fund bank account. This can lead to a balancing adjustment being required between the two bank accounts at year end.

6. CONCLUSION

6.1 The Fund's external auditors, Audit Scotland, have completed their report to those charged with governance and anticipate being able to issue an unqualified audit certificate.

6.2 Matters arising from the audit will be taken forward in preparing the 2013/14 accounts.

7. RECOMMENDATION

7.1 Members are asked to note the ISA 260 report from Audit Scotland.

Chief Finance Officer

Date: 23 August 2013

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LIST OF BACKGROUND PAPERS

NIL