

Falkirk Council Pension Fund

Report to those charged with governance on the 2012/13 audit



Prepared for members of the Pension Committee
August 2013

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Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Pension Committee consideration the matters arising from the audit of the financial statements for 2012/13 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management, however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Falkirk Council Pension Fund and no responsibility to any third party is accepted.

Status of the Audit

3. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in a matters arising discussed with the Pensions Manager and Pensions Accountant on 6 August 2013. A copy of the matters arising schedule and the Pension Manager's response to the issues raised was copied to the Depute Chief Finance Officer to ensure that he agreed with any proposed amendments to the accounts.
4. We received the unaudited financial statements on 28 June 2013, in accordance with the agreed timetable. The working papers were of a good standard and the staff provided good support to the audit team. This enabled us to complete our on-site fieldwork on 5 August 2013.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Pensions Committee on 6 March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not carry out any additional work outwith our planned activity this fee remains unchanged.

Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Pensions Committee we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion & representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 5 September 2013 (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.
9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
10. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements.
11. In addition, a couple of monetary errors were identified which were not processed through the financial statements by management. If adjusted the net impact on the balance sheet would be that net assets would increase by £93,000.
12. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that these adjustments were immaterial to the financial statements.
13. As part of the completion of our audit we seek written assurances from the Chief Finance Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Chief Finance Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Accounting and internal control systems

14. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Matters arising from the audit

15. In our view, the following issue requires to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
16. **Investment Management Expenses**
Investment management expenses recorded in the Pension Fund Account and supporting notes are incomplete. They exclude investment manager fees relating to private equity funds. These fees are accounted for within 'Profit and losses on disposal of investments and changes in market value of investments'. However, the calculation of the fees is a complex area, particularly in regard to pooled investment funds, and it is not possible to separately identify these fees. The CIPFA Code on Local Authority Accounting in the UK 2012/13 recommends that investment management expenses be shown as a separate item in the fund account and further analysed in a note. Consequently the current presentation does not fully comply with the Code. This matter does not relate solely to Falkirk Council Pension Fund but also applies to other pension funds in Scotland.

Resolution - The Pension Fund Manager will consult with other Local Authority Pension Funds and with the Fund's investment managers and custodian to improve the transparency of management fees in accordance with CIPFA requirements.

17. Presentational Matters

The financial statements are compliant with the requirements of applicable regulations. There are some areas where disclosure could be improved. For example:

- Disclosure of any single investment which exceeds either 5% of the Net Assets available for benefits, or 5% of any class or type of security
- Disclosure of investment holdings and income in line with example accounts provided by CIPFA
- More accurate disclosure of the change in market value of investments
- Disclosure of cash holdings for future commitments to private equity investments should be accurately allocated to the fund managers on a pro rata basis. At present these are allocated on an arbitrary basis with the £14.4m being split equally between three funds

It is important to note that the matters identified above are presentational and do not affect the bottom line figures which are included within the accounts.

Resolution - management have agreed to review disclosures, and consider the CIPFA exemplar Local Government Pension Scheme fund accounts in order to incorporate best practice for 2013/14

18. Employer / Employee Contributions

Employers are required to provide year end information on contributions to the Fund. This is a key control and thus provides assurance on governance arrangements. It is noted that delays in receiving outstanding information is in part due to new formatting requirements introduced by the fund in preparation for auto-enrolment. Nine returns had not been received at the year end. Based on the scale of differences identified on the returns received, the error rate is likely to be immaterial.

Resolution - management will continue to communicate with employers and stress the importance of year end contribution returns being submitted timeously.

19. Cash Balances

The cash balances in the Net Asset Statement include £4,230,000 described as balances held by Falkirk Council. This amount is a balancing figure after accounting for all transactions relating to the Council, and management have confirmed that all except £215,000 of this amount can be attributed to the pension fund. Of the remaining balance management have confirmed that it is likely to be fully attributable to the pension fund but this has yet to be fully verified. Based on management assurances and work completed to verify the balance to date we have not treated this as an unadjusted error and the £215,000 is immaterial to the accounts.

Resolution - the remaining balance is to be investigated on an on-going basis

Acknowledgements

20. We would like to express our thanks to the staff of the Treasury & Investments and Pensions & Payroll sections of Falkirk Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Falkirk Council as administering body for Falkirk Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Falkirk Council Pension Fund for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the financial transactions of the fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 Code; and

- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003

Opinion on other prescribed matter

In my opinion the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight FCA
Assistant Director (Audit Services)
Audit Scotland
4th Floor, South Suite
Athenaeum building
8 Nelson Mandela Place
Glasgow
G2 1BT

5 September 2013

Appendix B: ISA 580 - Letter of Representation

Fiona Mitchell Knight
Assistant Director of Audit
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Mandela Place
G2 1BT

Date xxx

Dear Fiona,

**Falkirk Council Pension Fund
Annual Accounts 2012/13**

This representation letter is provided in connection with your audit of the financial statements of Falkirk Council Pension Fund for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Falkirk Council Pension Fund, as at 31 March 2013 and its income and expenditure for the year then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Pensions Manager and the Pension Accountant, the following representations given to you in connection with your audit of Falkirk Council Pension Fund for the year ended 31 March 2013.

General

I acknowledge my responsibility and that of Falkirk Council Pension Fund for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Falkirk Council Pension Fund have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

The information given in the Annual Report to the financial statements, including the Explanatory Foreword, presents a balanced picture of the Falkirk Council Pension Fund and is consistent with the financial statements.

I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Legality of Financial Transactions

The financial transactions of Falkirk Pension Fund are in accordance with the relevant legislation and regulations governing its activities.

Financial Reporting Framework

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements.

Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Falkirk Council Pension Fund for the year ended 31 March 2013.

Accounting Policies & Estimates

All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Actuarial Assumptions

The pension assumptions made by the actuary in the IAS19 report on the Fund have been reviewed and I can confirm that they are consistent with management's own view

Fraud

I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Corporate Governance

I acknowledge, as the officer with responsibility for the proper administration of the Fund's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. I have reviewed the corporate governance compliance statement and the disclosures I have made comply with the guidance from the Scottish Ministers. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2013 which require disclosure.

Related Party Transactions

All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Investment Management Expenses

Investment management expenses do not reflect the cost related to Private Equity Funds. The fees related to these funds are included within 'Profit and losses on disposal of investments and changes in market value of investments'. Presently it is not possible to separately identify these fees because of the pooled nature of investment funds. We will work with the fund managers and fund custodian to ensure full disclosure in 2013/14.

Investment Assets and Current Assets

On realisation in the ordinary course of the Fund's business the investment and current assets in the net asset statement are expected, in my opinion, to produce at least the amounts at which they are stated. I particular, adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

Investment Liabilities and Current Liabilities

All liabilities have been provided for in the books of account as at 31 March 2013.

Contractual commitments

All outstanding call payments due to unquoted limited partnership funds have been fully included in the accounts for the period to 31 March 2013.

Employer / Employee Contributions

The contribution figures recorded in the accounts represent payments made by employing bodies on a monthly basis throughout the year and processed through the ledger. In addition, a year end reconciliation is carried out between the ledger and annual returns from employing bodies. These annual returns provide an additional source of assurance of total payments made in the year.

Events Subsequent to the Net Asset Statement

There have been no material events since the date of the Net Asset Statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

Since the date of the net asset statement no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

Bryan Smail
Chief Finance Officer