

FALKIRK COUNCIL

Subject: PENSION FUND - ANNUAL AUDIT PLAN
Meeting: JOINT MEETING OF PENSIONS PANEL AND COMMITTEE
Date: 12 MARCH 2015
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 This purpose of this report is to bring the Annual Audit Plan of Audit Scotland to the attention of the Panel and Committee.

2. ANNUAL AUDIT PLAN 2014/15

- 2.1 Audit Scotland has submitted its formal plan for the audit of the 2014/15 pension fund annual report and accounts. A copy of the plan is attached as Appendix 1 to this report.
- 2.2 The key milestones of the audit process are set out on Page 6 of the plan. These include the requirement to have unaudited final statements completed by 30 June 2015 and the audited annual report and accounts completed by 30 September 2015. Matters identified as being of potential risk to the Fund are set out on Pages 9 and 10 of the plan.
- 2.3 The Local Authority Accounts (Scotland) Regulations 2014 require that the following items must now be included in the annual report and accounts:
- a management commentary;
 - an annual governance statement (i.e. including a review of the system of internal financial control);
 - a statement of responsibilities; and
 - a remuneration statement.
- 2.4 The management commentary has to be signed by the Pensions Committee Convener and by the Council's Chief Executive.
- 2.5 Audit Scotland has produced a guidance note on the new disclosures and this is attached at Appendix 2.
- 2.6 In terms of process, the unaudited accounts now require to be approved by 31 August. It is therefore intended to bring these accounts to the meeting of the Pensions Committee on 26 June 2015. A further change is that the Annual Audit Report – which concludes the audit process - will be combined with the ISA260 ("Communication of audit matters to those charged with governance") to enable it to be formally issued by 30 September.
- 2.7 The fee for the 2014/15 audit is £23,010 and represents an increase of 3.4% from the 2013/14 audit. This reflects additional audit work considered necessary in the light of the systems and governance developments taking place.

3. RECOMMENDATION

- 3.1 The Panel and Committee are asked to note the issuing of the Annual Audit Plan by Audit Scotland, consistent with the audit of the pension fund annual report and accounts 2014/15.**

Chief Finance Officer

Date: 01 March 2015

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

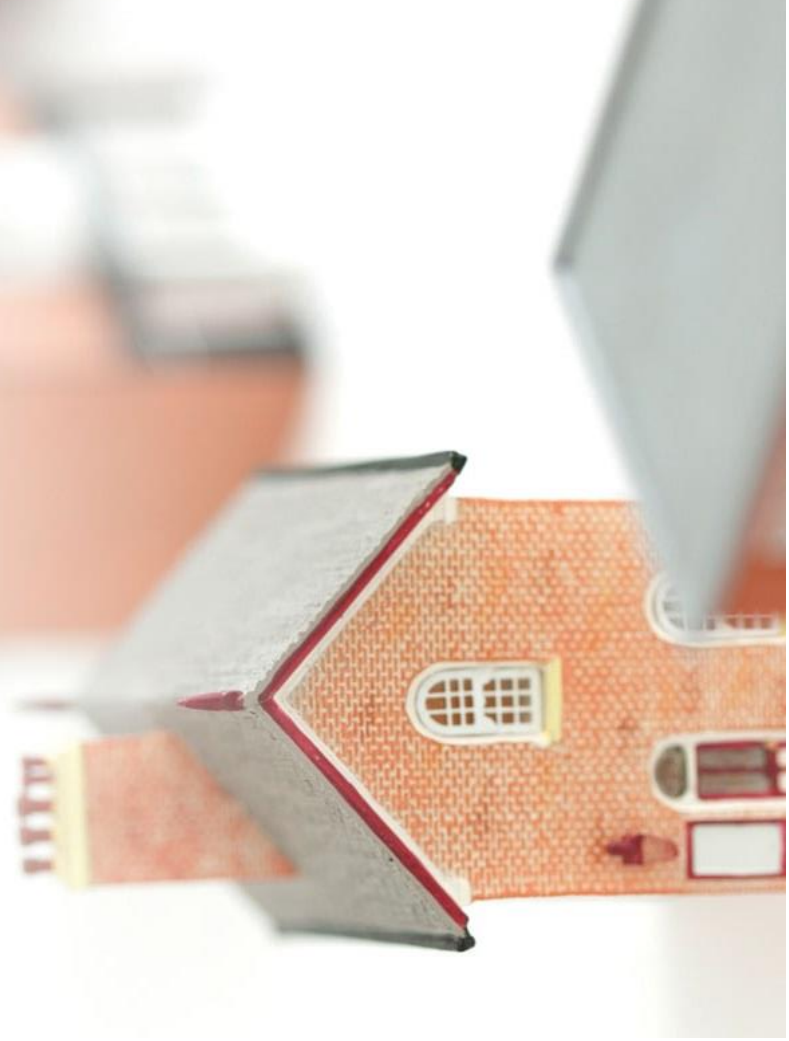
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Falkirk Council Pension Fund Annual Audit Plan 2014/15

Prepared for Members of Falkirk Council as administering body
of Falkirk Council Pension Fund and the Controller of Audit

February 2015



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Summary	2
Introduction	2
Summary of planned audit activity	2
Responsibilities	3
Responsibility of the appointed auditor	3
Responsibility of the Chief Finance Officer	3
Format of the accounts	3
Audit Approach	4
Our approach	4
Materiality	5
Reporting arrangements	5
Quality control	7
Independence and objectivity	7
Audit issues and risks	9
Financial statement audit issues and risks	9
Wider dimension audit issues and risks	10
Summary assurance plan	11
Fees and resources	12
Audit fee	12
Audit team	12
Appendix I: Planned audit outputs	14
Appendix II: Significant audit risks	15

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Falkirk Council Pension Fund's financial statements.
2. This report summarises the key challenges and risks facing Falkirk Council Pension Fund and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing Falkirk Council Pension Fund
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.

Summary of planned audit activity

3. Our planned work in 2014/15 includes:
 - an audit of the financial statements and provision of an opinion on whether:

- they give a true and fair view of the state of affairs of Falkirk Council Pension Fund as at 31 March 2015 and its income and expenditure for the year then ended
- the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- a review and assessment of Falkirk Council Pension Fund's governance and performance arrangements in a number of key areas including: arrangements supporting the governance statement, and information gathering for the Annual Audit Report.
- provision of an annual audit report addressed to the members of Falkirk Council Pension Fund and the Controller of Audit for review.
- regular attendance at Pensions Committee.

Responsibilities

4. The audit of the financial statements does not relieve management or the Pensions Committee as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Chief Finance Officer

7. It is the responsibility of the Chief Finance Officer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of

Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code). This means:

- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the state of affairs of Falkirk Council Pension Fund as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Falkirk Council Pension Fund. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
- understanding the business of Falkirk Council Pension Fund and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how Falkirk Council Pension Fund will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2015 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - the appointment of a lead accountant with responsibilities for preparing the financial statements, the provision of supporting working papers, liaising with external audit and responding to audit queries
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package.
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible. However, as reported in our 2013/14

Annual Audit Report, limited reliance can be placed on the work of Internal Audit for our current audit. Internal Audit's Plan does not include the provision for any work on the Pension Fund in 2014/15 although management advised that internal audit testing of 2014/15 data is scheduled for early 2015/16.

Materiality

12. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

13. Based on our knowledge and understanding of Falkirk Council Pension Fund we have set our planning materiality at 10% of contributions as per the 2013/14 audited financial statements. For 2014/15 planning materiality is £7.643 million.

14. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements

- nature and extent of prior year misstatements
- extent of audit testing coverage.

15. For 2014/15 performance materiality has been set at £3.822 million. Also, we will report, to those charged with governance, all misstatements greater than £100,000.

16. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

17. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.

18. The Fund must publish the unaudited accounts on their website until the date on which the audited annual accounts are published.

19. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature.
20. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
21. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.
22. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Pension Committee dates.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	By April 2015
Meetings with officers to clarify expectations of working papers and financial system reports	By April 2015
Planned committee approval of unaudited financial statements	26 June 2015
Submission of unaudited council financial statements with working papers package to external audit	By 30 June 2015
Progress meetings with lead officers on emerging issues	As required during the audit
Latest date for final clearance meeting with Pensions Manager and Accountant	31 July 2015
Agreement of unsigned financial statements for Pension Committee agenda, and issue of combined ISA 260 report to those charged with governance and Annual Audit Report.	By 10 Sept 2015
Pensions Committee	24 Sep 2015
Independent auditors report signed	By 30 Sep 2015
Annual report to Members and the Controller of Audit	By 30 Sep 2015

23. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible relevant officers to confirm factual accuracy. Responses to draft reports are expected within two weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Chief Finance Officer, Pensions Manager, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.

24. We will provide an independent auditor's report to Falkirk Council Pension Fund and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. As part of streamlining our audit approach, this year the Annual Audit Report will be combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than in previous years.

25. All annual audit reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).

26. Planned outputs for 2014/15 are summarised at Appendix I.

Quality control

27. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal

requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

28. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Fiona Mitchell Knight.

Independence and objectivity

29. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards

including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

30. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Falkirk Council Pension Fund.

Audit issues and risks

Financial statement audit issues and risks

31. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for Falkirk Council Pension Fund (the Fund).
32. **Accountancy Staff:** Currently, the Fund does not have a dedicated and experienced Pension Fund Accountant in place. There is a risk of the financial statements being submitted to external audit late. Also, there is also an increased risk of errors within the accounts due to a lack of specialist accounting knowledge and support.
33. **Annual Governance Statement:** The Local Authority Accounts (Scotland) Regulations 2014 require that an Annual Governance Statement (AGS) be published as part of the annual accounts. It should be prepared in accordance with proper practices as set out in *Delivering good governance in local government: framework* published by CIPFA and SOLACE. This is in addition to the Governance Compliance Statement required under pension administration regulations.

34. It is recommended that one statement is prepared which satisfies the requirements of both an AGS and a GCS.
35. Also, the 2014 Regulations require local authorities (including Pension Funds) to conduct a review, at least once in each financial year, of the effectiveness of their systems of internal control and report this in their Annual Governance Statements. This review must also be considered at a meeting of the Pensions Committee. The 2014/15 internal audit plan does not include any specific work on the Pension Fund. This could affect the level of assurances given on internal controls and there is also a risk that disclosures in the AGS (or combined AGS and GCS) could be incomplete.
36. **Investment Management Expenses:** Accurate presentation and disclosure of investment management costs has been problematic for Pension Funds. There is a risk that these will not be presented correctly in the financial statements and that members may not be able to gauge whether best value is being achieved. Management have advised that they will endeavour to follow the most recent guidance on the disclosure of management expenses.

37. **Management override of controls:** International Standard on Auditing (ISA) 240 recognises that management are in a unique position and have the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. ISA 240 requires that this risk be recognised in audit plans. We will design and perform audit procedures to address these risks within Falkirk Council Pension Fund.

Wider dimension audit issues and risks

38. **Public Services Pension Act 2013:** Changes to the public service pensions are required in line with the Public Service Pensions Act 2013. The main changes are the introduction of career average pensions (at a national level) and the introduction of a Scheme Manager and the establishment of a Pensions Board to support the Manager (at a local level). There is a risk that the Fund may not comply with the Act at its effective date of 1 April 2015. Falkirk Council Pension Fund is taking steps to ensure its preparedness and compliance and we will continue to monitor its progress.

39. **IT Systems Change:** In our 2013/14 Annual Audit Report it was identified that there is a risk of corruption in the migration of data to the new pensions administration system (Altair). As part of our interim audit testing we will perform additional testing to gain our own assurances that management's process for the implementation of the new system is sound.

40. **Risk Management:** A risk register was introduced in 2013. When changes in criteria are identified they are notified to committee members however, the core risk register is not kept up to date. Risk management should reflect current risks. The potential issue is that the likelihood and impact of risks crystallising are not properly monitored and controlled. The Pensions Manager has indicated that risk management arrangements will be revisited with the establishment of the Pensions Board.

41. **Bank Account:** In our Annual Audit Report we noted that, in our opinion, Falkirk Council Pension Fund is not fully compliant with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 in that it does not fully operate a separate bank account. Some transactions are processed through Falkirk Council's main bank account with transfers made to/from the Fund. It is management's opinion that this set up is required because any non-fund charges to the element could result in the loss of tax exempt status.

42. **Budgetary Control:** At the date of this report no budgetary information on controllable administration costs has been reported to committee. There is a risk that performance against budget is not monitored effectively. In response to our 2013/14 Annual Audit Report management gave assurances that steps would be taken to report the administration budget to the Pensions Committee in 2014/15.

Summary assurance plan

43. In terms of financial statements risks actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix II. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

44. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. In 2014/15 it has been necessary to increase our audit fee by 3.6% (or £809) compared to 2013/14. This is due to the fact that there is no planned internal audit work, other than NFI in 2014/15, and there are also significant changes affecting the Fund's governance arrangements. In addition, a new pensions administration system is being implemented during 2014/15 involving the migration of data from the old system. This will require some additional audit input.
45. In determining the audit fee we have taken account of the risk exposure of Falkirk Council Pension Fund, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2015.
46. The agreed audit fee for the 2014/15 audit of Falkirk Council Pension Fund is £23,010. Our fee covers:
- The costs of planning, delivering and reporting the annual audit including auditor's attendance at committees.

- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

47. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

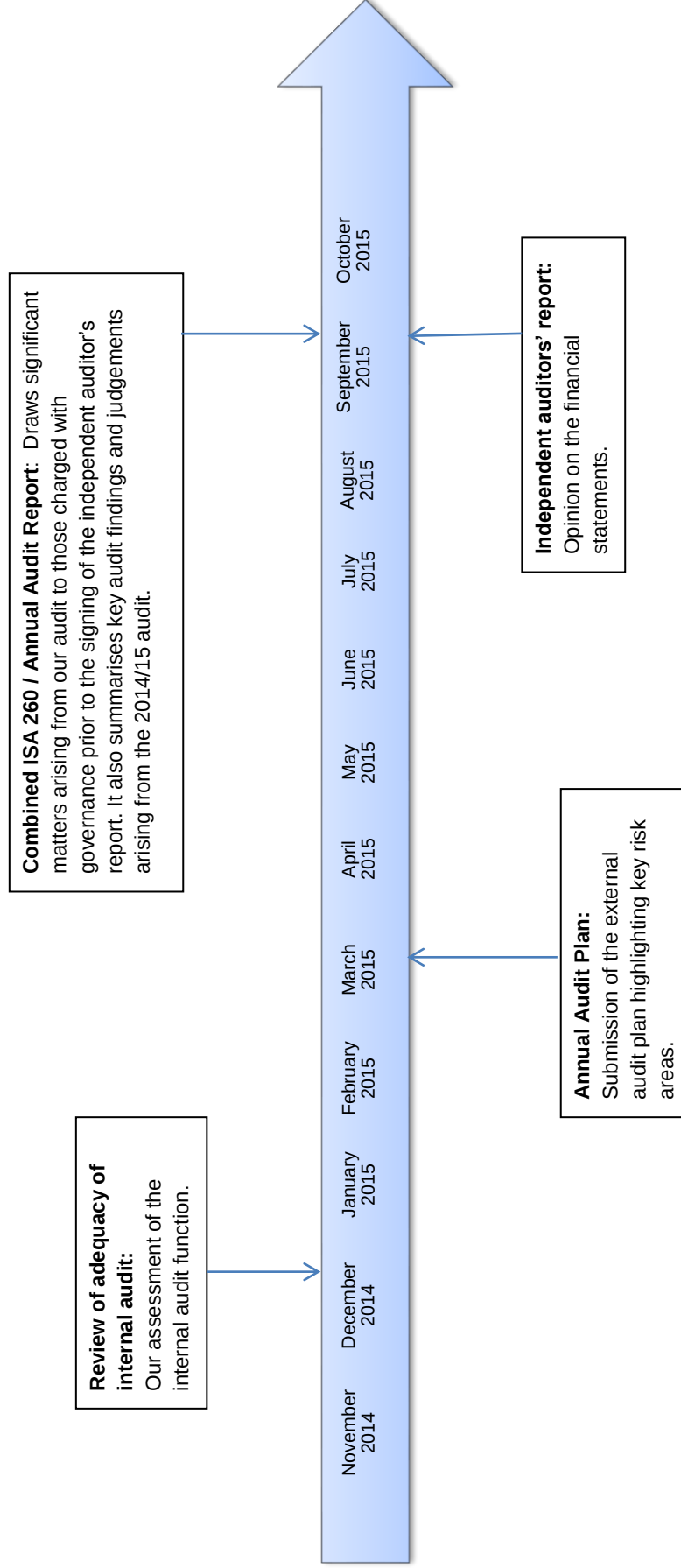
48. Fiona Mitchell-Knight, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Louise Dodds who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2 overleaf. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Fiona Mitchell-Knight, BA (Hons) FCA, Assistant Director	Fiona has been an Assistant Director of Audit Scotland since 2007, following 6 years as the Senior Audit Manager for a number of local authority bodies including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has over 20 years' experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors.
Jim Rundell, MA (Hons) CPFA, Senior Audit Manager	Jim has 30 years public sector audit experience mostly in the local government and health areas. He has worked on both the City of Edinburgh Council audit and the NHS Greater Glasgow and Clyde audit. Jim has been a Senior Audit Manager for 17 years. He is also the Audit Services Group's 'risk champion' and recently he updated Audit Scotland's Risk Strategy and Policy Framework.
Louise Dodds, BA(Hons), Auditor	Louise joined Audit Scotland in 2011 as part of the professional trainee graduate scheme having studied accountancy at Glasgow Caledonian University. She is at the final stage of qualification with the Institute of Chartered Accountants of Scotland (ICAS). Experience with Audit Scotland has primarily covered local government and health sectors.
Toby Freer, BA(Hons), Auditor	Toby has worked on varied Central Government audits since joining Audit Scotland in October 2012. He is currently on the professional trainee graduate scheme studying for the ICAS professional accountancy qualification.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for Falkirk Council Pension Fund in 2014/15.



Appendix II: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as “an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.”

In this section we identify a range of risks facing Falkirk Council Pension Fund, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Falkirk Council Pension Fund and its officers, with the auditor’s role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Audit Risk		Source of assurance		Assurance procedure	
Audit risk of material misstatement in financial statements					
Accountancy staff At the date of this report there is no Pension Fund Accountant. There is a risk of the financial statements being submitted to external audit late and there is also an increased risk of errors within the accounts due to a lack of specialist accounting knowledge and support.		• Updates to be provided to the external audit team on plans to fill the accountant post (possibly from the redeployment of staff from the finance section). • The financial statements and supporting working papers will be provided to external audit by 30 June 2015.		• A working papers checklist will be provided to management detailing the minimum upfront working papers required. • Testing of financial statements compliance with the Code of Practice.	

Audit Risk	Source of assurance	Assurance procedure
Annual Governance statement From 2014/15 Pensions Funds are required to include an Annual Governance Statement (AGS). This is in addition to the Governance Compliance Statement already required under pension administration regulations. The 2014 Accounts Regulations also require the Pension Fund to undertake an annual review of the system of internal control and report this in the AGS or combined AGS and GCS. Internal Audit's plan for 2014/15 does not include any specific work on the Pension Fund. This could affect the level of assurances given on the review of internal controls and there is also the risk that disclosures may be incomplete.	• The Fund will comply with the requirement to prepare an Annual Governance Statement. • regular reporting of financial information including accounts and investment performance to the Pensions Committee. • Previous years' work carried out by external audit including remedial actions taken in response to recommendations raised. • Internal audit testing of pension of 2014/15 data is scheduled for early 2015/16. • Participation in the National Fraud Initiative. • The Pension Section is subject to the council's wider framework of control including Financial Regulations, Codes of Conduct, Schemes of Delegation, etc.	• Review arrangements put in place to provide assurances on the completeness and accuracy of the AGS. • Check that information disclosed in AGS is consistent with our knowledge of the Fund's control environment.

Audit Risk	Source of assurance	Assurance procedure
Investment Management Expenses Accurate presentation and disclosure of investment management costs has been a contentious issue for Pension Funds. There is a risk that these will not be presented correctly in the financial statements and that members may not be able to gauge whether best value is being achieved.	- The Fund will follow, as far as practical, Cipfa's newly published guidance which sets out a framework for the consistent disclosure of expenses. - Consult with other Pension Funds and practitioners, as appropriate, on disclosures.	- Review presentation and disclosure of management expenses to check compliance with extant guidance. - Consult with our technical staff on the adequacy of disclosures.
Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	- Quarterly performance reports from Fund Managers. - Reports from the Pension Fund Custodian. - Scrutiny of accounts and performance by the Pension Committee.	- Detailed testing of journal entries. - Review of accounting estimates for bias. - Evaluating significant transactions that are outside the normal course of business. - Focused testing of regularity and cut-off assertions during the financial statements audit.

Falkirk Council Pension Fund External Audit Update



Prepared for the Falkirk Council Pensions Committee - March 2015

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Introduction	4
Management commentary	4
Annual Governance Statement /Governance Compliance Statement.....	5
Approval and publication of local authority accounts (including pension fund annual accounts)	7

Introduction

1. The Local Authority Accounts Regulations (Scotland) Regulations 2014 introduced a number of key changes which impact on the financial statements of local authorities (including Pension funds), including the introduction of a:
 - a management commentary (see details at paragraphs 4 to 8).
 - an annual governance statement (see details at paragraphs 8 to 15).
2. The regulations also require that the annual accounts to include
 - A statement of responsibilities prepared in accordance with the Code of Practice in Local Government Accounting in the United Kingdom (the *Code*) 2014/15 as adapted by paragraph 5 of finance circular 7/2014
 - A remuneration report or statement that no remuneration report is required because no persons have received remuneration that requires to be disclosed.
3. Additionally, the regulations set out the process for approving the unaudited and audited annual accounts.

Management commentary

4. Pension Fund regulations already require a report on management and performance to be included in the annual accounts. The 2014 regulations introduce a requirement from 2014/15 for the annual accounts to include a management commentary. This is to take into account the relevant provisions of the Government financial reporting manual (FReM) in respect of management commentaries.
5. Separate guidance from the Scottish Government is currently being drafted which will align to the reporting requirements in the FReM. The FReM requires the management commentary to comprise:
 - a **strategic report** that includes
 - a fair review of the fund's business and a description of the principal risks and uncertainties it faces. The FReM states that, while the report should be self-standing and comprehensive, it is permitted to provide a summary with adequate cross-references to other documents where they provide the full information required
 - an analysis using financial and other key performance indicators
 - the main trends and factors likely to affect the future development, performance and position of the fund's business
 - additional explanations of amounts included in the fund's financial statements.
 - information on social, community and human rights issues, including information about any policies of the fund in relation to those matters and the effectiveness of those policies
 - a description of the body's strategy and business model

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- a breakdown showing at the end of the financial year the number of persons of each gender who were directors, senior managers and employees of the body.
 - a **directors' report** disclosing the matters required by sections 416 of the Companies Act 2006 and Schedule 7 of The Large and Medium-sized companies and Groups (Accounts and Reports) Regulations 2008 (as amended) with additional matters required by FReM paragraph such as sickness absence data and personal data related incidents.
6. The management commentary in the audited annual accounts requires to be signed by the [proper officer, the Convener of the Pensions Committee and the Chief Executive of the Council](#). There is no requirement for the unaudited version to be signed.

Auditors' responsibilities

7. Auditors are required to read the management commentary and express an opinion in the auditor's report as to whether it is consistent with the financial statements. An inconsistency is anything in the management commentary that contradicts information contained in the audited financial statements. Inconsistencies include
- differences between amounts or narrative appearing in the financial statements and the management commentary
 - differences between the bases of preparation of related items where the figures are not directly comparable and the different bases are not disclosed
 - contradictions between figures in the financial statements and the narrative explanation of those figures in the management commentary.

Annual Governance Statement /Governance Compliance Statement

8. Regulation 5 of the 2014 regulations introduces a new requirement from 2014/15 for local authorities (including Pension Funds) to undertake an annual review of their system of internal control and report this in an annual governance statement. Regulation 8(2) requires the annual governance statement to be published as part of the annual accounts
9. The regulations require the annual governance statement to be prepared in accordance with proper practices in relation to internal control, which are those set out in *Delivering good governance in local government: framework* published by CIPFA and SOLACE.
10. Pension administration regulations require an administering authority to prepare and publish a Governance compliance statement for the pension fund. The statement is required to provide detail regarding the delegation of the pension fund function, and set out the extent to which the governance arrangements for the pension fund comply with [guidance from the Scottish Ministers](#).
11. Auditors are required to review the governance compliance statement and annual governance statement (or combined governance statement where that option is chosen) and report by exception in the auditor's report if they do not comply with relevant requirements. Auditors are also required to identify any information that is apparently materially incorrect based on, or

materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit.

Compliance with requirements

Annual governance statement

12. Local authorities (including pension Funds) under the 2014 regulations are responsible for ensuring that the financial management of the pension fund is adequate and effective and that there is a sound system of internal control. They are required to conduct a review at least once in each financial year of the effectiveness of its system of internal control. The findings of the review require to be considered at a meeting of the committee whose remit includes audit or governance (i.e. Pensions Committee). This should also include the findings of any assessment of the efficiency and effectiveness of its internal auditing service.
13. Following consideration of the review findings, the committee is required to approve an annual governance statement (AGS). The AGS being part of the annual accounts should be approved before the end of June (best practice).
14. The AGS should be prepared in line with *Delivering good governance in local government* and an [addendum](#). In summary, the following information should be included in the statement
 - An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
 - An indication of the level of assurance that the systems and processes that comprise the pension fund's governance arrangements can provide.
 - A brief description of the key elements of the governance framework
 - A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of Pensions Committee and Panel, internal audit and other explicit reviews/ assurance mechanisms.
 - An outline of the actions taken, or proposed, to deal with significant governance issues including an agreed action plan.
 - A specific statement on whether the fund's financial management arrangements conform with the governance requirements of the *CIPFA Statement on the role of the chief financial officer in the local government pension scheme*; and, where they do not, an explanation of how they deliver the same impact.
15. There is no requirement for the unaudited version to of the AGS to be signed although it is best practice for it to be approved prior to inclusion in the annual accounts.

Governance compliance statement

16. The administration regulations require the governance compliance statement to set out the following details relating to the delegation of the pension fund function
 - the terms, structure and operational procedures of the delegation

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- the frequency of any committee or sub-committee meetings
 - whether such a committee or sub-committee includes representatives of employing authorities or members and, if so, whether those representatives have voting rights.
17. Guidance from Scottish Ministers sets out nine principles (e.g. structure; representation; selection and role of lay members; voting, etc) against which administering authorities should measure their governance arrangements. Where compliance does not meet a principle, there is a requirement to set out any reasons for non-compliance in the statement.

Consistency with financial statements and auditors knowledge

18. Auditors are required to read the governance compliance statement and annual governance statement (or combined governance statement) to identify any material inconsistencies with the financial statements. An inconsistency arises when information in the statement contradicts information contained in the financial statements.
19. Audit Scotland does not require appointed auditors in the public sector to provide an explicit opinion on consistency with the governance statements. Auditors should instead report a material inconsistency.
20. The administration regulations allow an authority the option of giving details of where the governance compliance statement can be obtained rather than including it in the annual report. The auditors' responsibilities to read and report on the statement continue to apply. The 2014 regulations require the annual governance statement to be included in the document and not just simply referred to. This would also apply to a combined governance statement.

Approval and publication of local authority accounts (including pension fund annual accounts)

21. From 2014/15, the 2014 regulations provide for the approval and publication of local authority annual accounts, including the pension fund annual accounts as detailed below

Unaudited accounts

22. Regulation 8(5) introduces new requirements for the proper officer under [section 95](#) of the 1973 Act to ensure that the financial statements give a true and fair view of the pension fund's financial position and transactions and that the statement of responsibilities accurately reflects the proper officer's responsibilities.
23. Regulation 8(6) requires the proper officer to certify the above by signing and dating the statement of responsibilities and the net assets statement and then submit the annual accounts to the appointed external auditor no later than 30 June.
24. Regulation 8(8) introduces a new requirement to publish the unaudited annual accounts on the website of the authority until the date on which the audited annual accounts are published.

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25. Regulation 8(9) introduces a requirement for the authority, or a committee whose remit includes audit or governance (i.e. Pensions Committee) to consider the unaudited annual accounts at a meeting by 31 August.

Approval of audited accounts

26. Regulation 10 sets out the process for the consideration and signing of the audited annual accounts as follows
- The Pensions Committee (whose remit includes audit or governance) is required to meet to consider whether to approve the audited annual accounts for signature.
 - In making this consideration, the regulations require elected members to have regard to any report made, or advice provided, on the annual accounts by the proper officer or auditor (e.g. ISA 260 communication).
 - The Pensions Committee is required to aim to approve the audited annual accounts for signature no later 30 September.
27. Immediately following approval, the statements which form part of the annual accounts require to be signed and dated by the following individuals
- the management commentary by the [proper officer, the Chief Executive and the Convener of the Pensions Committee](#)
 - the statement of responsibilities by the [Chief Executive and the proper officer](#). The [Convener of the Pensions Committee](#) is also required to certify that the annual accounts have been approved for signature, and the proper officer is required to re-certify that the financial statements give a true and fair view
 - the annual governance statement by the [Chief Executive and the Convener of the Pensions Committee](#)
 - the remuneration report (if required) by the [Chief Executive and the Convener of the Pensions Committee](#)
 - the net assets statement by the **proper officer to authorise** the financial statements for issue using the form of words set out in the *Code*.
28. Following signature, the proper officer is required to provide the signed annual accounts to the auditor. Regulation 10(8) requires any further reports made on the annual accounts by the auditor after they have been approved the annual audit report to also be considered by the Pensions Committee.

Publication of audited accounts

29. Regulation 11 requires an authority to publish on its website the signed pension fund audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December. Copies of these documents should remain on the website for at least five years. Any statutory reports on the accounts under section 102 of the 1973 Act should also be published on the website for every year to which the report relates.