

The background of the slide features the coat of arms of the Government of Nunavut. It is a shield divided into four quadrants. The top-left quadrant shows a yellow diagonal cross on a blue background. The top-right quadrant depicts a white caribou head with large antlers on a blue background. The bottom-left quadrant shows a white sailing ship on a blue background. The bottom-right quadrant features a white eagle with spread wings on a blue background. Above the shield is a crown with four points, each topped with a white flower. A white banner at the bottom of the shield contains the text "ANE FOR A'".

Agenda Item 5

Annual Audit Report 2018/19

Falkirk Council

Subject: Annual Audit Report 2018/19

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 26 September 2019

Submitted by: Director of Corporate and Housing Service

1. Purpose of Report

- 1.1 This report invites the Pensions Committee and Board to consider the Annual Audit Report of the Pension Fund by EY - the Fund's external auditors.

2. Recommendations

2.1 The Pensions Committee and Board are asked to note:

- i) the Annual Audit Report for 2018/19 (see appendix 1);
- ii) the intended unqualified audit opinion (see Page 8 of report); and

2.2 The Pensions Committee is asked to agree:

- i) the letter of representation addressed to EY from the Chief Finance Officer and Chair of the Pensions Committee (see appendix 2).
- ii) the response to the EY letter of 7 May 2019 addressed to the Pensions Committee (see appendix 4).

3. Background

- 3.1 Local Authority Pension Funds are required to publish financial statements and an annual report, separate from those of the administering authority, and to have these documents audited.
- 3.2 The Fund audit for 2018/19 has been undertaken by the external auditors, EY (i.e. Ernst and Young LLP). 2018/19 is the third year of their five year appointment.
- 3.3 The Annual Audit Report, which is attached at appendix 1, summarises the main findings from this year's audit and highlights to Committee and Board any matters of significance.

- 3.4 Formal auditing standards require that certain undertakings and representations are obtained from management and from those responsible for governance. This includes providing Auditors with confirmation of oversight arrangements and assurances in relation to matters such as financial accuracy, transparency, fraud and regulatory compliance.
- 3.5 The necessary undertakings and representations are contained in the:
- Letter of Representation from the Chief Finance Officer and Chair of the Committee (see appendix 2)
 - Letter from those charged with governance (see appendix 3 for EY letter of 7 May 2019 and appendix 4 for the proposed response)
- 3.6 The response from those charged with governance was circulated to Committee members on 3 September. No comments seeking alteration have been received.
- 3.7 A senior member of the EY audit team will be present at the meeting to discuss the Audit Report.

4. Audit Process and Outcome

- 4.1 The Annual Audit Plan was presented to the Pensions Committee and Board by EY on 21 March 2019.
- 4.2 The Unaudited Annual Report and Accounts for 2018/19 were submitted for audit prior to the statutory deadline of 30 June 2019 having been presented for consideration to the Joint Meeting of Pensions Committee and Board on 27 June 2019.
- 4.3 The Annual Audit Report indicates that the Audit Opinion is unqualified (subject to finalisation of subsequent events and completion procedures).

5. Considerations

- 5.1 No matters of material significance have been raised by the audit.
- 5.2 On Page 10 of the Audit Report, EY refer to an unadjusted difference of £4.5m. This relates to the valuation of private market assets (e.g. infrastructure). These valuations rely on statements being provided timeously by external managers. The nature of the investments means that valuations tend to lag the reporting period by up to 6 months. The asset valuations for the 2018/19 accounts have been based on the available manager valuations at the point of preparing the unaudited accounts. The EY preference is for the accounts to be updated should any new valuations be received between the submission of the unaudited and audited accounts. As well as being below the limit for materiality, adjusting the accounts would have certain implications around performance measurement and consequently management have chosen not to adjust.

6. Internal Audit Work

- 6.1 Internal Audit work in recent years has concentrated on a series of strategic “big ticket” items including the migration of administration arrangements to a new system; the migration of the pensioner payroll to a new system; revised governance arrangements in 2015 and 2017; new LGPS benefits arrangements; i-connect, etc.
- 6.2 The question was raised at the June meeting as to how Committee and Board could gain assurance that all operational areas and associated risks were being addressed by the audit regime and that these were being done on a systematic basis.
- 6.3 The Internal Audit Manager has indicated that the type of assurance map envisaged by Board members has recently been developed for the Council and the intention is to develop a similar document for the Pension Fund. Work on this has commenced and the detailed assurance map will be brought to the December meeting for further discussion and noting. It is recognised that this will be informed by the risk register (as it will map the sources of internal and external assurance against each of the very high, high, and medium ranked risks) and going forward will be a key element in the development of the annual internal audit plan for the Fund.

7. Implications

Financial

- 7.1 It is essential that the financial management of the Fund is independently reviewed through the audit process to ensure that member and employer interests are being appropriately safeguarded.

Resources

- 7.2 There are no additional resources required as a result of this report.

Legal

- 7.3 The report confirms that the Fund has met its obligations in relation to producing an audited annual report and accounts.

Risk

- 7.4 Failure to complete the audit process satisfactorily could undermine the confidence of stakeholders in the financial management of the Fund.

Equalities

- 7.5 There are no equality issues arising from this report.

Sustainability/Environmental Impact

7.6 There are no sustainability/environmental issues arising from this report.

8. Conclusions

8.1 The Fund's external auditors, EY, have completed their audit of the Fund's Annual Report and Accounts for 2018/19 and are intending to issue an unqualified audit opinion.

Director of Corporate & Housing Services

Author: Alastair McGirr, Pensions Manager
01324 506333 alastair.mcgirr@falkirk.gov.uk

Date: 11 September 2019

Appendices

Appendix 1 – Annual Audit Report for 2018/19 from EY

Appendix 2 – Letter of Representation from Chief Finance Officer dated 17/09/19

Appendix 3 – EY Letter to those charged with governance dated 7 May 2019

Appendix 4 – Draft response to EY letter dated 7 May 2019

List of Background Papers:

None



Falkirk Council Pension Fund

**Annual Audit Report to Members
and the Pensions Committee
and Board - year ended 31 March
2019**

26 September 2019

Contents page

Section	Auditor Responsibility	Page
Executive summary	Summarise the key conclusions from our audit	03
Financial statements accounting and audit matters	Provide an opinion on audited bodies' financial statements Review and report on, as appropriate, other information such as the annual governance statement, management commentary and remuneration report	06
Wider scope audit	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none"> ▸ financial position and arrangements for securing financial sustainability ▸ suitability and effectiveness of corporate governance arrangements ▸ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets 	11
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards: Appendix A: audited body's responsibilities Appendix B: independence and audit quality Appendix C: required auditor communications	20

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Falkirk Council Pension Fund (the Pension Fund) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Pension Fund and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together with the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients 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 Recipient'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, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary

Financial statements: Audit Opinion

We have concluded our audit of the Pension Fund's financial statements for the year ended 31 March 2019. We identified one audit difference of £4.5 million related to the valuation of investments at 31 March 2019, and one difference of £3 million in the disclosures around unfunded commitments, which management chose not to adjust on the basis of materiality. We have no further unadjusted differences to report.

We concluded that the other information subject to audit, including the Management Commentary and Annual Governance Statement, were appropriate.

Presentation and disclosures

The draft financial statements and supporting working papers were generally of good quality. We worked with the Pension Fund Manager to draw upon good practice to make improvements to the Management Commentary and other minor disclosure amendments, which have been reflected in the updated financial statements.

Wider Scope: Financial Management

The Pension Fund has established core financial management arrangements, and we are satisfied that these are adequate for the current management of its financial activities.

No significant matters for improvement in financial management arrangements have been noted through internal audit activity in the year or through our own observations through the course of our procedures.

Financial Sustainability

The Pension Fund continues to review its investment strategy and arrangements to ensure it is meeting its target for full funding over a rolling 20 year period.

It is expected that the Fund's investment strategy going forward will continue to increase focus on its joint investment arrangements with Lothian Pension Fund.

Governance and Transparency

We have no significant matters to report in respect of the Fund's governance and transparency arrangements during the year.

Management has made good progress in implementing recommendations from internal and external audit in the year. No significant findings were noted from internal audit activity in the year.

Value for money

We have no significant matters to report in respect of the management's arrangements for securing value for money for the Fund.

Management's fund performance and investment and administration costs remain comparable with the majority of Scottish Pension Funds. Arrangements are in place to scrutinise the performance of Fund managers.



1 Introduction

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of the Falkirk Council Pension Fund (“the Pension Fund”) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both members of the Pension Fund and the Controller of Audit, and presented to both Pension Fund’s management and those charged with governance. After consideration by the Pension Fund, this report is provided to Audit Scotland and published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Pension Fund. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Pension Fund employs best practice and, if applicable, where practices can be improved. We use these insights to form our audit recommendations to support the Pension Fund in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. In particular, for the 2018/19 audit, we have considered the effectiveness of management’s implementation of recommendations raised from our previous audit work. These are highlighted throughout the report together with our judgements and conclusions regarding current arrangements.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Scope and Responsibilities

The Code sets out the responsibilities of both the Pension Fund and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Audit Committee on 21 March 2019.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2018/19 financial statements. We can confirm that we carried out our audit in accordance with the plan. As part of our yearend audit procedures we updated our materiality levels to reflect the most recent financial information for the Fund, these are outlined below. In accordance with the plan, we have set our reporting threshold to communicate the details of errors identified at £250,000.

Overall Materiality	Tolerable Error	Nominal amount
£49.8 million	£24.9 million	£250,000
2% of the Pension`s Fund net assets	Materiality at an individual account level	Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative materiality, we apply lower materiality levels to the audit of key management personnel disclosures and Related Party Transactions.

Financial statement audit

We are responsible for conducting an audit of the Pension Fund's financial statements. We provide an opinion as to:

- ▶ Whether they give a true and fair view of the financial position of the Pension Fund as at 31 March 2019 and its expenditure and income for the year then ended; and
- ▶ Whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial sustainability;
- ▶ Financial management;
- ▶ Governance and transparency; and
- ▶ Value for money.

Our findings against each dimension are summarised in Section 3 of this report.



Financial Statements audit

Introduction

The Pension Fund Annual Accounts enables the Fund to demonstrate accountability for its resources and its performance in the use of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The Plan highlighted one area that we identified as a fraud risk, which is a presumed risk for all entities in line with auditing standards, related to the risk of fraud through management override of controls to misstate the year end valuation of Fund investments. We recognise the valuation of complex investments held by the Fund at year end as a significant audit risk in itself.

Compliance with Regulations

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Pension Fund to prepare financial statements, ensure their availability for public inspection and consideration by the Pensions Committee and Board.

The Pension`s Fund unaudited financial statements were considered by the Pensions Committee and Board on 27th June 2019, prior to their submission to us for audit, and in advance of the deadline of 30 June. The inspection notice was published on 17th June 2019, in accordance with Regulations.

Financial statement audit outcomes

The unaudited financial statements were prepared to a good standard. We identified one unadjusted audit difference in relation to the valuation of private equity and other complex investments at the balance sheet date.

We read the management commentary and compared the content against the information in the financial statements and against the statutory requirements. We concluded that the management commentary met the requirements placed on the Pension Fund.

We reviewed the Annual Governance Statement within the financial statements against the required guidance. We were satisfied that it met the requirements and was consistent with both the governance framework and key findings from relevant audit activity.

Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations (2014).

We made a number of recommendations in respect of presentational changes to the unaudited accounts, to ensure compliance with accounting standards and good practice. All changes have been made in the updated financial statements with one exception, in relation to the disclosure of unfunded commitments at yearend in note 25 to the financial statements (where a difference is noted of £3 million between the financial statements disclosures and supporting fund manager statements).

In respect of our core audit work we identified one audit difference above our reporting threshold, of £4.5 million in relation to the valuation of investments. Management has chosen not to adjust on the basis of materiality. We concur with this assessment and have outlined our work in this area in more detail on page 10 of this report.

Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
Financial statements <ul style="list-style-type: none"> ▶ Truth and fairness of the state of affairs of the Pension Fund at 31 March 2019 and the amount and disposition at that date of its assets and liabilities ▶ Preparation of the financial statements in accordance with the relevant financial reporting framework 	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable.</p> <p>We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.</p>	<p>We propose to issue an unqualified audit opinion on the 2018/19 financial statements for Falkirk Council Pension Fund.</p>
Going concern <ul style="list-style-type: none"> ▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting 	<p>We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis.</p> <p>Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.</p>	<p>We have no matters to report.</p>
Other information <ul style="list-style-type: none"> ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit 	<p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> ▶ Review of committee and board minutes and papers, regular discussions with management, our understanding of the Pension Fund and the wider sector. 	<p>We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>
Matters prescribed by the Accounts Commission <ul style="list-style-type: none"> ▶ The information given in the Management Commentary/ Governance Compliance Statement/ Annual Governance statement are consistent with the financial statements and have been properly prepared. 	<p>Our procedures include:</p> <ul style="list-style-type: none"> ▶ Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records and supporting schedules ▶ Reviewing the content of narrative disclosures to information known to us. 	<p>We intend to issue an unqualified opinion.</p>
Matters on which we are required to report by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> ▶ adequate accounting records have been kept, ▶ financial statements are not in agreement with the accounting records, or ▶ we have not received the information we require. 	<p>We intend to issue an unqualified opinion.</p>

Significant and fraud audit risks

Management Override of Investment Assets Valuations

Our Annual Audit Plan recognises that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

We have determined that the way management could be most likely to override controls is by manipulating the value of the year-end investment asset balances posted in totality to the accounts at year-end. Our procedures around this aspect of the risk are outlined on the following page.

Our procedures to address the risk around management override included:

- ▶ We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud. We have not identified any material weaknesses in controls or evidence of material management override.
- ▶ We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained all journals posted by management to record the transactions of the Pension Fund, which are hosted on the Falkirk Council financial ledger. We subsequently identified risk criteria for the journals and tested any relevant journals considered to be at higher risk of misstatement to understand the basis for the transaction and agree to third party supporting evidence. We did not identify any exceptions as a result of our testing.
- ▶ We have obtained third party confirmations of the Fund's externally held investment balances at the Pension Fund's year end 31 March 2019 from both custodians and investment managers. We have investigated any differences in valuation between these sources and agreed the final balance for investments in the accounts.
- ▶ We did not identify any significant unusual transactions outside the normal course of business.
- ▶ We agreed with management's assessment that there are no material accounting estimates included in the financial statements that have a direct impact on the Fund's financial position, beyond the estimates used by third parties to value assets in which the Pension Fund has investments. We consider the accounting policies adopted by the Fund to be appropriate. There are no significant accounting practices which materially depart from what is acceptable under IFRS or the Code.
- ▶ We have considered the actuarial assumptions disclosed. As these are obtained from a third party there is minimal scope for management to manipulate these.

We did not identify any instances of evidence of management override of controls.

As outlined in our audit plan there is a significant audit risk around the valuation of complex investments. We completed our audit procedures around these balances held by the Fund in line with those outlined in our plan.

Valuation of complex investments – Significant risk

As of 31 March 2018, the Fund held investments of £2.3 billion, of which around 52% (£1.2 billion) were classified as Level 2 and Level 3 investments, meaning there are not publicly quoted prices in place for these types of investments in an active market. We have therefore assigned a significant risk to the valuation of Private Equity and Infrastructure funds, Managed Property Funds and Pooled Investments. Around 50% of the pooled investments are in listed equities, our audit focus around this risk is focused on the remaining harder to value assets included in pooled investments.

Our procedures to address this risk included:

- ▶ Where fund managers complete controls' reports, we obtained for all material investments and reviewed for qualifications or exceptions that may affect the audit risk and scope. Where necessary, we have obtained bridging letters for the period between report dates and financial statements date where they differ. No issues that could affect the risk or scope of the audit were identified.
- ▶ We have reviewed the basis of valuation for unquoted investments to be satisfied that it is in line with the accounting policy and CIPFA requirements.
- ▶ For managed property funds and pooled investments we tested all material balances to lower testing threshold of (10% of the tolerable error) and agreed all balances samples to third party fund managers' reports.
- ▶ For private equity and infrastructure we have obtained the most up to date financial statements for each investment, and the capital statement the Financial Statements' date. We have considered the audit opinions for the fund to identify possible issues with the valuation and recalculated the Fund's share of the investment based on its percentage ownership.

We identified one audit difference – a £4.5 million understatement of investments, which management has chosen not to adjust.

We identified a number of differences between the Pension Fund recorded balances and the confirmations we received from fund managers. We confirmed this occurred where valuation gains to 31 March 2019 were not reported to the Pension Fund before the unaudited accounts are prepared, but are available by the time of the audit of the financial statements.

The total differences identified were £4.5 million for private equity and infrastructure (2017/18: £8.6 million). Management has chosen not to adjust the accounts for the differences, noting the financial statements are prepared with the best information available at the time of preparation in line with required statutory guidelines.



Wider Scope Dimensions

Introduction

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the Pension Fund's arrangements for each of the four wider scope audit dimensions.

We apply our professional judgement to risk assess and focus our work on each of the dimensions. In doing so, we draw upon conclusions expressed by other bodies including the Pension Fund's internal auditors, along with national reports and guidance from regulators and Audit Scotland. For each of the dimensions, we conclude on our assessment on the adequacy of the Pension Fund's arrangements throughout the year and at the yearend, as well as the overall pace of improvement where issues have been identified in the past.

The Wider Scope Dimensions

Financial Management:

- ▶ considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial Sustainability:

- ▶ considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

Governance and Transparency:

- ▶ is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Value for Money

- ▶ considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

Financial Management

The Pension Fund has established core financial management arrangements, and we are satisfied that these are adequate for the current management of its financial activities.

No significant matters for improvement in financial management arrangements have been noted through internal audit activity in the year or through our own observations through the course of our procedures.

With the significant financial challenges facing public sector bodies, it is essential that the Pension Fund has robust financial management arrangements to ensure that it can continue to deliver on its responsibilities.

Fund financial management arrangements

We give consideration to the financial management arrangements in place at the fund through our financial statement audit procedures. No significant matters were noted through the course of our work in respect of financial management. In particular we considered management's arrangements for preparation of the financial statements at yearend, and its approach to monitoring, and following up where applicable, the timing of contribution payments from employers both throughout the year.

Internal audit scrutiny of financial management arrangements

We have also considered the results of the Pension Fund's Internal Audit findings for the year in relation to financial management. The Internal auditor issued a report in the year in relation to the operational controls associated with the calculation of new member contributions, for paying or receiving transfer values, for refunding contributions, and for making payments to retiring members or in respect of deceased Fund members. In all matters the internal auditor noted the processes were, in general, working effectively. One low risk recommendation was made in respect of ensuring that written procedural instructions are prepared in relation to the preparation of monthly contributions received from Fund employers.

Processes and controls around submission of employer returns

In our 2017/18 annual audit report we made a recommendation in respect of the timeliness and quality of employer returns submitted to the Fund at the financial yearend, and have followed up on the actions undertaken in the year to address this. In 2018/19 we have noted that management reported a breach in relation to 2017/18 returns, and raised the matter with employers at regular meetings and engaged with the Pensions Regulator on specific areas of concern as they deem material.

In particular, a training event was held with employers in November 2018 in conjunction with the Pensions regulator which included a focus on the employers' responsibilities with respect to providing accurate and timely data. We have concluded that in 2018/19 there has been improvement in the process since last year. However, management has noted this will require a level of ongoing scrutiny to ensure the quality and timeliness of submissions continues to improve going forward, as the pressures on employers' own financial management resources are likely to continue in the current public sector funding environment.

Following our recommendation in the 17/18 audit, we have witnessed improvements in the process for employer returns in the year. This will continue to be an area of focus going forward.

Financial Sustainability

The Pension Fund continues to review its investment strategy and arrangements to ensure it is meeting its target for full funding over a 20 year period.

It is expected that the Fund's investment strategy going forward will continue to increase focus on its joint investment arrangements with Lothian Pension Fund.

Ensuring the long term sustainability of the Fund is of key strategic importance. This includes ensuring contributions, investment income and ability to liquidate investments are sufficient to cover benefits over the short term and the fund as a whole can meet its estimated liabilities as they crystallise over the longer term.

2017/18 saw the Fund conclude its triennial Funding Valuation of 31 March 2017. The results saw improvements in the funding level of the Fund from 85% at the 2014 valuation to 92% now. Following the valuation, it became evident that the affordability of revised contribution rates for smaller bodies was challenging. Management has secured arrangements for larger bodies to formally take on a number of smaller bodies' share of assets and liabilities.

Fund investment strategy

A review of the Fund's investment strategy has taken place over the course of 2018/19 with the Fund's collaborative partners, Lothian Pension Fund and Fife Pension Fund. The review, supported by Hymans Robertson, has resulted in limited change with the Fund's current allocation of capital to various asset classes determined to be consistent with its funding aims of positioning employer contributions at an affordable level, to achieve the aim of being fully funded over a rolling 20 year period from the Fund valuation date. The review aims to define high level strategy in terms common to each of the three funds in order to facilitate greater collaboration and efficiency in the implementation of the strategy.

As outlined in the Fund's statement of investment principles and in line with prior years, the future projected strategic allocation of investments shows a significant divestment from the current allocation, however the current allocation is within the permitted limits. Meeting the objective allocation as it is outlined will continue to increase the significance of the role of the Fund's new Joint Investment Strategy Panel as new investments are sought.

In recent years, the Fund has extended its collaborative relationship with Lothian Pension Fund and Fife Pension Fund, with the Joint Investment Strategy Panel providing a platform to further the engagement with the Funds. The model allows the Pensions Committee and Board to focus on developing investment strategy - the main determinant of return - with the implementation being delegated to the Chief Finance Officer.

Governance and Transparency

We have no significant matters to report in respect of the Fund's governance and transparency arrangements during the year.

Management has made good progress in implementing recommendations from internal and external audit in the year. No significant findings were noted from internal audit activity in the year.

We have reviewed the adequacy of governance arrangements in place at the Pension Fund. In particular, we consider and report on whether these are appropriate and operating effectively and if there is effective scrutiny, challenge and transparency on decision-making.

Pension Fund governance arrangements

The key governance functions of the Fund are achieved through the Pensions Committee and Pensions Board who meet four times per year. Management ensures those charged with governance receive sufficient information on a routine basis to promote a reasonable level of scrutiny and challenge of the performance of the Fund. The Fund's Training Policy was updated and approved by the Pensions Committee and Board in December 2018 and outlines the Fund's approach to ensuring that those charged with the governance have the necessary knowledge and skills required to support them in their roles. In line with the policy, Management advise members of upcoming training events through the general governance update presented at each Committee meeting and attendance is monitored and reported. Management ensures transparency of Fund governance arrangements through timely publication of key meeting minutes and papers, and public access to governance meetings is limited only where it qualifies as exempt information under Schedule 7A of the Local Government (Scotland) Act 1973.

Policies and procedures

Management have indicated that they are developing a policy register to record when key policies and procedures are to be reviewed to ensure they are relevant and up to date. Management considers all key policies and procedures on an ongoing basis to ensure they remain relevant and up to date. Where matters driving change are identified policies are updated and subject to scrutiny through the relevant Committee or Board. Through the course of our audit work we have not identified any policies and procedures that are out of date or not subject to the appropriate review and approval. In 2017/18 we raised a recommendation around the Fund's business continuity and conflict of interest documentation and arrangements. We have confirmed through our review this year these actions have been addressed by management.

Management has made good progress in respect of implementation of internal and external audit recommendations through the year.

Internal audit activity in the year

Internal audit activity appears appropriate and proportionate to the risks affecting the Fund, and arrangements are in place for management and members to monitor and act on key risks. There were no specific recommendations raised in relation to governance during 2018/19. The Annual Governance Statement noted that 2 low risk internal audit recommendations remained outstanding:

- ▶ Ensuring written procedural instructions are prepared on the monthly contributions received from Fund employers; and
- ▶ Establishing an Access Control Policy for the Pensions Administration system.

We have also confirmed through the year that all previously outstanding external audit recommendations have been addressed in the year.

Fund Governance Statement

We have reviewed the annual governance statement prepared for the Fund for 2018/19 and agree that it is consistent with our findings from our audit procedures.

Governance around Fund investments

Responsible investing has been an area of increased attention within LGPS in recent years. The Fund's Statement of Investment Principles highlights that the Fund's fiduciary duty means that the pursuit of financial return is its paramount concern. However, non-financial considerations may be taken into account where it does not involve any risk of financial detriment. Recognising the concerns of its stakeholders, the Fund has sought to engage with members on the topic through inclusion of a detailed section on their approach to responsible investment.

Future Fund structures

A consultation on the review of the current structure of the Local Government Pension Schemes in Scotland was launched in summer 2018 by the Scheme Advisory Board with consultees asked to consider four structural options:

- ▶ The Status Quo of 11 funds
- ▶ Increased collaboration between the Funds
- ▶ Pooling of assets
- ▶ Fund merger (e.g. one Fund or several Funds)

A working group was established by the Fund consisting of Committee and Board members to evaluate management's proposed response before sharing and seeking approval from the Pensions Committee and Board in December 2018. The Fund submitted a response in support of a three Fund structure as it believed that this would support improved decision making, result in fee savings from scale investing and lead to better management of key person/system risks.

The Scheme Advisory Board ('SAB') met in April 2019 to consider the consultation responses and it was determined that there was not an appetite for pooling and SAB now intends to commission more work to assess further the feasibility of moving to a merged structure.

The future of LGPS structure in Scotland remains an area of ongoing consideration going forward.

Preparations for EU Withdrawal

We noted within our Annual Audit Plan that Audit Scotland had highlighted preparations for EU withdrawal as a risk across public sector bodies. We drew on good practice guidance from Audit Scotland to assess the Fund's readiness for Brexit as at the planned departure date of 29 March 2019, and its subsequent readiness following the planned postponement to 31 October.

The Fund has recognised the uncertainties existing around the anticipated withdrawal from the EU and has added "Brexit" as a risk in its risk register. The most material anticipated impact on the Fund is likely to be on the value of its assets as a consequence of the potential adverse economic impact in the UK and an undermining of consumer and business confidence.

The consequences of Brexit have been considered throughout the year at the quarterly meetings of the Joint Investment Strategy Panel with the focus being on whether any tactical investment change is warranted. The Panel has noted ongoing pressure on UK equities but is content that as a long term investor no immediate action is required. The Panel also noted that a disruptive Brexit may challenge the UK economy and lead to a further devaluation of sterling against major currencies. Given that many of the Fund's assets are overseas assets denominated in foreign currency, a collapse in sterling would boost Fund valuations. In that circumstance, the judgement would be whether from a tactical perspective overseas assets should be sold to lock in gains.

In general terms, management consider the risks around Brexit to be part of the wider climate of uncertainty and geo political risk in which the Fund operates. Management will continue to monitor developments closely in advance of and following the UK's withdrawal. The Pension Committee and Board will continue to be kept informed of the latest deliberations and risks. The Fund notes the significant uncertainty around the current situation and is committed to ensuring it reacts rapidly to address matters as they develop in advance of and subsequent to 31 October.

In our view the Fund has undertaken an approach to assessing the impact of anticipated EU withdrawal (both at 29 March and in anticipation of the revised withdrawal date) which is reasonable in line with the nature of the Fund's activities.

Value for Money

We have no significant matters to report in respect of the management's arrangements for securing value for money for the Fund.

Management's fund performance and investment and administration costs remain comparable with the majority of Scottish Pension Funds. Arrangements are in place to scrutinise the performance of Fund managers.

Value for money is focused on how the Pension Fund effectively utilises its resources and the arrangements in place to ensure the Fund performance is as robust as possible over the short, medium and longer term. We consider this through a review of the Pensions Committee and Pensions Board activity in the year, as well as the wider arrangements in place across the Pension Fund to make best use of its resources.

Fund performance in 2018/19

The Fund's achieved a return of 8.5% in 2018/19, against benchmark return of 6.8% above benchmark. This was the joint second highest compared with other Scottish local government pension schemes (returns achieved between 9.5% and 4% per the published LGPS unaudited annual report and accounts 2018-19). Fund investment performance against benchmark was also strong with the Fund exceeding benchmark by 1.7% across 1 year, and by 1.3% across 3 year and 5 year investment returns. However, analysis against the LGPS Scottish average investment return (using 2017/18 data) shows that the Fund is below average against the 1 year, 3 year and 5 year investment returns.

The total unit costs per member (which encompass investment management, administration and oversight and governance costs) over the last 4 years have been on a downward trajectory since 2014/15, however in 2018/19 has increased significantly (£30 increase compared to 2017/18). With respect of administration costs, these have been reflecting increases in staffing levels to support service delivery. These remain within the Scottish average of £20-£30 per member.

Investment management expenses have also returned to 2014-15 levels after three years of reductions. In general, these fees are based on the market value of investments, and therefore can increase or decrease as the value of these investments change.

Scrutiny of fund manager performance

We have considered fund manager performance through review of minutes and attendance at the Pension Committee and Board. We have also reviewed the Fund's statement of investment principles which has been subject to review in March 2019 in conjunction with Fife Pension Fund and Lothian Pension Fund. The revised SIP, similar to the investment strategy, seeks to set out a common set of investment principles that supports all three funds in achieving their investment targets and provides a basis to expand collaboration activity. We have concluded that there is appropriate level of scrutiny of fund manager performance which supports the Fund in complying with their investment principles.

Exhibit 1: Falkirk Council Pension Fund Investment Performance

Year	2016/17	2017/18	2018/19	Average
Fund return	20.0%	3.1%	8.5%	10.5%
Benchmark return	18.4%	2.5%	6.8%	9.3%
LGPS Scotland average return	21.4%	5.4%	-	-
Administration costs per member	£18.11	£22.32	£22.41	£21.0
Investment management expenses	£9,791k	£10,053k	£11,290k	£7,118k
Total Fund unit costs per member	£340	£337	£367	£348

Source: Falkirk Council Pension Fund 2018/19 Unaudited Financial Statements; Falkirk Council Pension Fund 2017/18 Audited Financial Statements; Falkirk Council Pensions Fund 2016/17 Audited Financial Statements.



Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Pensions Committee

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

Appendix B: Independence and audit quality

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Pension Fund.

Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 21 March 2019.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the Pension Fund consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Pensions Committee on 26 September 2019.

Audit Fees

	2018/19	2017/18
Component of fee:		
Total agreed auditor remuneration	£21,000	£17,360
Audit Scotland fixed charges:		
Pooled costs	£2,040	£1,540
Audit support costs	£1,320	£1,110
Total fee	£24,360	£20,000

Matters that we are required to communicate

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 EY 2018 UK Transparency Report, volumes one and two, can be accessed on our website at <https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the Pension Fund since appointment can be found at: https://www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf

Appendix C: Required Communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Annual Audit Plan We request written representation from you in respect of key matters arising during the course of our audit, and in accordance with auditing standards. A copy of this letter is provided for your consideration and signature at the time of approval of the financial statements
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about the Pension Fund's ability to continue for the 12 months from the date of our opinion.
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	This Annual Audit Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Pensions Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	This Annual Audit Report

Required communication	Our reporting to you
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Pensions Committee and Board into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Pensions Committee may be aware of 	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p> <p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.</p>
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>No significant matters have been identified.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p>Subsequent events</p> <p>Where appropriate, asking the Pensions Committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>

Enquiries to: Bryan Smail
Telephone: (01324) 506300
Your Ref: HR/RJ/OP/FPF
My Ref: Supn/AM
Date: 18 September, 2019
E-mail: bryan.smail@falkirk.gov.uk

Mr Hassan Rohimun
Associate Partner
Ernst & Young LLP
2 St Peter's Square
Manchester
M2 3DF

Dear Mr Rohimun,

Falkirk Council Pension Fund - Annual Audit 2018/19
Letter of Representation

This letter of representations is provided in connection with your audit of the financial statements of Falkirk Council Pension Fund ("the Fund") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 01 April 2018 to 31 March 2019 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2019, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with Local Authority Accounts (Scotland) Regulations 2014 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 that are free from material misstatement, whether due to fraud or error.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified on the grounds of materiality.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have shared with you all reports to the pension Regulator in the year and post yearend up to the date of this letter. We have concluded that the matters identified in our reporting do not have an impact on the accuracy of the financial statements.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - Involving financial improprieties
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others
 - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of the Pensions Committee and Board (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period up to the latest meeting on 26 September 2019.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. In particular the disclosures made in respect of the potential impact of the McCloud and GMP rulings on future fund payments to members is based on the best information available at the yearend.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities relating to litigation and claims, both actual and contingent.

E. Subsequent Events

1. Other than matters described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information other than the financial statements and auditor reports.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.
2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

J. Actuarial valuation

1. The latest report of the actuary, Hymans Robertson as at 31 March 2019 and dated 12 April 2019 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists (Hymans Robertson) that we have engaged to value actuarial present value of promised retirement benefits and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Private Equity Investments

1. We are satisfied that the valuation of the private equity appropriately reflects fair value.

Yours sincerely,

Chief Finance Officer

Chair of the Pensions Committee

The Pensions Committee
Falkirk Council Pension Fund
c/o Falkirk Council
Municipal Buildings
Falkirk
FK1 5ZF

07 May 2019

Ref: HR/RJ/OP/FPF

Direct line: 07971 532541

Email: hrohimun@uk.ey.com

Falkirk Council Pension Fund

Dear Sirs,

Understanding how the Pensions Committee gains assurance from management

Auditing standards require us to formally update our understanding of your arrangements for oversight of management processes and arrangements annually. Therefore, I am writing to ask that you please provide a response to the following questions.

1) How does the Pensions Committee, as 'those charged with governance' at the Fund, exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Fund, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Fund code of conduct);
- encouraging employees to report their concerns about fraud; and
- communicating to you the processes for identifying and responding to fraud or error?

2) How does the Pensions Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

3) Is the Committee aware of any:

- breaches of, or deficiencies in, internal control; and
- actual, suspected or alleged frauds during 2018/19?

4) Is the Committee aware any organisational or management pressure to meet financial or operating targets?

5) How does the Pensions Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2018/19?

6) Is the Pensions Committee aware of any actual or potential litigation or claims that would affect the financial statements?

7) How does the Pensions Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

8) What does the Pensions Committee consider to be the related parties that are significant to the Fund and what is its understanding of the relationships and transactions with those related parties?

9) Does the Pensions Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?

Thank you for your assistance. If you have any queries in respect of this letter please contact Rob Jones or Olga Potapova at rjones9@uk.ey.com / opotapova@uk.ey.com.

Yours sincerely,

Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

Enquiries to: Alastair McGirr
Telephone: (01324) 506333
Your Ref: HR/RJ/OP/FPF
My Ref: Supn/AM
Date: 3 September, 2019
E-mail: alastair.mcgirr@falkirk.gov.uk

Hassan Rohimun
Associate Partner
Ernst & Young LLP
2 St Peter's Square
Manchester
M2 3DF

Dear Mr Rohimun,

Falkirk Council Pension Fund

Understanding how the Pensions Committee gains assurance from management

I refer to your letter of 7 May, 2019 and now have pleasure in setting out the Committee's responses to the points you have raised.

For ease of reference I have repeated your questions in my reply and inserted the Committee response in turn beneath each of these.

1. How does the Pensions Committee, as 'those charged with governance' at the Falkirk Council Pension Fund, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
In general, the Committee places substantial reliance on the proven and robust framework of internal controls as tested and built on by successive pieces of Internal and External audit work. The Committee also relies on Internal Audit work to inform its understanding of internal controls and on regular updates from officers in relation to the Fund's key risks. The greatest risk of material misstatement relates to the valuation of the Fund's assets. In this regard, both Committee and Board have access to investment manager reports and can compare managers' own valuations with those derived independently by the Custodian.
 - identifying and responding to risks of fraud in the Pension Fund, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist:
The Committee places reliance on a combination of Internal Audit work; External Audit reporting; its scrutiny of fund documentation including accounts and manager reports; and the opportunity to question officers at quarterly meetings. Further assurance is taken from the Audit and Assurance reports which are made available from the Fund's investment managers and which are referenced in the Annual Report.

In relation to the risk of pensioner fraud, the Fund participates in the National Fraud Initiative – a two yearly exercise which matches Fund records with DWP deceased pensioner records.

- communicating to employees its view on business practice and ethical behaviour;

The Fund has developed its own Conflicts of Interest Policy which is publicised on the Fund website. In addition, both Pensions Committee and Board currently operate in accordance with the Code of Conduct for Councillors’ and the “Nolan Principles”. A Code of Conduct for Members’ and Officers also exists to ensure respective parties understand the standards expected of them.

- encouraging employees to report their concerns about fraud; and

A Whistleblowing Policy was approved by the Council’s Executive in September 2016. In general, the Committee and Board seek to promote a culture of openness and accessibility by publicising their contact details on the Fund website.

- communicating to you the processes for identifying and responding to fraud or error?

The Council’s Financial Regulations and wider Standing Orders provide a framework within which the risk of fraud and error can be assessed.

2. How does the Pensions Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

The Committee relies on work undertaken by Internal Audit (supplemented by External Audit reporting) to provide reassurance in relation to fraud and breaches of internal control. Internal Audit activity includes sample testing across a range of transactions including pension and lump sum payments. The Committee is also aware that the Pensions Section operates a segregation of duties approach in its operations to ensure that no-one person is responsible for end to end transactions. The pensions administration and the financial information systems are both fully auditable. As intimated above, the Fund participates in the two yearly National Fraud Initiative and finds this an effective means of identifying fraud.

3. Is the Committee aware of any:

- breaches of, or deficiencies in, internal control; and
- actual, suspected or alleged frauds during 2018/19?

The Committee is not aware of any breaches of, or deficiencies in, internal control nor any actual, suspected or alleged frauds during 2018/19.

4. Is the Committee aware of any organisational or management pressure to meet financial or operating targets?

The Committee is not aware of any organisational or management pressure to meet financial or operating targets. Indeed, as demonstration of its support towards ensuring adequate levels of resourcing, the Committee approved an increase in the Pension Fund budget for 2019/20 in March, 2019.

5. How does the Pensions Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2018/19?

The Committee relies on Internal Audit work (supplemented by External Audit reporting) and ongoing management review as to the adequacy and proportionality of the established control framework.

The Committee also takes comfort from the skills, knowledge and experience of the officers engaged in Pension Fund business; the involvement of professional advisers in Fund business (e.g. Fund Actuary); the wider support network available to officers from other LGPS Funds in Scotland; and the fact that the key administration system is pre-programmed with a comprehensive suite of member calculations and is maintained by an experienced and reputable provider.

The work of the Committee is also supported and scrutinised by a Pension Board comprising Trades Union and employer representation.

In terms of non-compliance in 2018/19, the Committee is aware that a number of annual benefit statements for members were not issued by the statutory deadline of 31 August 2018. This was due to an employer not submitting its annual return to the Pension Fund timeously because of issues with a new payroll system. The matter was reported to the Pensions Regulator. Statements were subsequently issued and once the circumstances had been fully explained to the Regulator no action was taken against the Fund. Beyond that, the Committee is not aware of any other instances of non-compliance during 2018/19.

6. Is the Pensions Committee aware of any actual or potential litigation or claims that would affect the financial statements?

The Pensions Committee is not aware of any actual or potential litigation or claims that would materially affect the financial statements. It is noted that the Fund is pursuing two legal actions in conjunction with a number of other investors in respect of a former and an existing holding. The claims are being pursued on a “no win, no fee” basis. The outcomes are likely to be the subject of lengthy judicial processes in the US and in Australia. Any recovery made by the Fund will not be material in the context of the financial statements.

7. How does the Pensions Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

As a statutory public service pension scheme, any decision to wind up the Local Government Pension Scheme or dissolve, merge or alter the structure of local authority pension funds will be subject to wide consultation by the Scottish Government in advance of any implementation date. The Committee is aware that a consultation into the long term structure of the Scheme in Scotland was launched in the summer of 2018. The options being considered range from maintaining the status quo of the 11 Scottish Funds to merging all Funds into a single entity. Conceivably, the Falkirk Fund could be subsumed within a larger Fund. However, any such change would take a number of years to progress and would be require to be the subject of statutory legislation. On that basis, for the present time, the going concern approach remains appropriate.

8. What does the Pensions Committee consider to be the related parties that are significant to the Fund and what is its understanding of the relationships and transactions with those related parties?

The related party which the Committee considers significant to the Fund is Falkirk Council. Although the Fund's governance arrangements include the representation of various employers and member groupings, the statutory responsibility for maintaining and administering the pension fund rests with Falkirk Council.

The Pensions Section staff are employed by Falkirk Council and key systems (e.g. pensions administration, creditor payments, ledger, online facilities) all operate within Falkirk Council's IT framework.

In processing the monthly pensioner payroll, payments are initially made using Falkirk Council's banking facilities with full re-imbursement being made by the Pension Fund to Falkirk Council on the date of payment.

The relationship allows member benefits to be serviced in a cost effective and efficient manner by avoiding the need for parallel or duplicate systems.

9. Does the Pensions Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?

The Pensions Committee has no concerns regarding the Fund's relationship or transactional activity with Falkirk Council and recognises the Council's role as the body charged by statute with maintaining and administering the pension fund.

I hope that you find these responses helpful. If you wish to discuss any of these in more detail, please feel free to contact either myself, Bryan Smail (Chief Finance Officer) or Alastair McGirr (Pensions Manager).

Yours sincerely

Councillor Adanna McCue
For and on behalf of the Pensions Committee of Falkirk Council Pension Fund