

FALKIRK COUNCIL

Subject: FALKIRK COUNCIL PENSION FUND - REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2014/15 AUDIT
Meeting: JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD
Date: 24 SEPTEMBER 2015
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report invites the Pensions Board and Committee to consider the Annual Audit Report 2014/15 incorporating ISA 260 Report to those charged with Governance.

2. BACKGROUND

- 2.1 Regulation 31A of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008 requires administering authorities to publish a pension fund annual report and accounts that are separate from the other accounts of the administering authority. The fund annual report and accounts also require to be subject to a separate audit.
- 2.2 The audit for 2014/15 was undertaken by the Fund's external auditors, Audit Scotland.

3. AUDIT PROCESS

- 3.1 The Annual Audit Plan was presented to the Pensions Committee on 12 March, 2015.
- 3.2 The Fund's Unaudited Annual Report and Accounts for 2014/15 were submitted for audit on 19 June 2015 in line with the required statutory deadline.
- 3.3 Annual Audit Report to those charged with governance summarises main findings from the 2014/15 Audit of Falkirk Pension Fund and draws attention to any significant matters arising from the audit of the financial statements prior to the formal signing of the independent auditor's report.

4. AUDIT OUTCOME

- 4.1 The ISA 260 reports that the audit will be unqualified.

5. MATTERS ARISING

5.1 In terms of IAS 260, there are two points to note:

- Annual Governance Statement has been revised since presenting unaudited accounts to members to reflect feedback from external audit
- Year end reconciliation between annual returns from employing bodies and the ledger was incomplete, because not all admitted bodies submitted their return. All the main admitted bodies have submitted now their annual return and any variances highlighted by the reconciliation are not material. All admitted bodies will be reminded to submit their annual returns timeously.

5.2 External Audit highlighted that the Pensions Committee should receive a copy of internal audit plans, specifying any pensions related items, to ensure that the scope of work is significant, to allow Committee to obtain independent assurance on internal controls and risk management.

5.3 The Local Authority Accounts (Scotland) Regulations 2014 introduced a new requirement from 2014-15 for all local authorities (including pension funds) to undertake an annual review of their control system and report this in an annual governance statement. Pension Committee should obtain an annual assurance report from Internal Audit giving their opinion on the control environment including the new pensions system.

5.4 Internal audit plan for the financial year 2014-2015 did not include any pension specific work. However, this was rectified by including specific pension work in the 2015/16 internal audit plan, submitted to the council's Audit Committee in April 2015. Subsequently the work was undertaken in early 2015-16 and reported to the management on the 15 July 2015. The Internal Audit report is covered in the General Governance Matters report.

5.5 The report also highlighted concerns about the staffing level in the pension administration team and the permanent accountant post.

5.6 Matters arising from the 2013-14 report to those charged with governance were subsequently addressed during 2014-15.

6. CONCLUSION

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

6.2 Matters arising from the audit will be taken forward in preparing the 2015/16 accounts.

7. RECOMMENDATION

- 7.1 Members are asked to approve the Proposed Annual Audit Report, incorporating ISA 260 report to those charged with governance from Audit Scotland.**

pp **Director of Corporate & Housing Services**

Date: 16 September 2015

Contact Officer: Bryan Smail/Justyna Korszen-Bennett

LIST OF BACKGROUND PAPERS

NIL

Falkirk Council Pension Fund

Proposed Annual Audit
Report to Members and
the Controller of Audit

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Fiona Mitchell Knight as the external auditor of Falkirk Council Pension Fund Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Falkirk Council Pension Fund and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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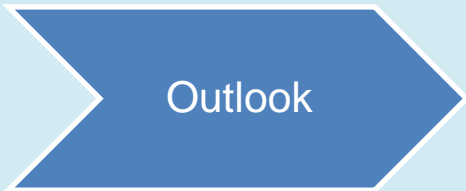
Website: www.audit-scotland.gov.uk

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• The independent auditor's report on the 2014/15 financial statements of Falkirk Council Pension Fund is unqualified.• No adjustments required to the Fund's financial statements.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The 2014 triennial valuation reported that the Fund's assets were sufficient to meet 84.4% of its liabilities. A more recent interim valuation by the Fund's actuary estimated that funding deficit had declined to 79.3%.• Fund net assets at 31 March 2015 were £1,799.8 million, an increase of £223.2 million (or 14.3%) over the year, reflecting the favourable market conditions for investors during the year.• The Fund has prepared an administration budget for the first time.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Overall, the Fund had effective governance arrangements in place during the year.• New governance arrangements were implemented from 1 April 2015 to comply with the Public Service Pension Act 2013. This included the establishment of a local Pension Board.• The Fund actively participates in the National Fraud Initiative.• A timescale has yet to be agreed for the recruitment and appointment of a permanent accountant.• Aspects of governance could be improved including the Internal Audit Manager providing the Pensions Committee with an annual assurance report on the systems of internal control.

 Performance	<ul style="list-style-type: none">• The Fund has good performance management arrangements.• The Fund achieved a 13.4% return on investments in 2014/15 compared to a benchmark target of 12.1%. Also, it outperformed benchmark targets over the medium and longer term.• All fund managers posted positive absolute returns on investment performance in 2014/15 reflecting a strong year for equities and bonds although performance of Aberdeen Asset Management continues to remain under close scrutiny.• Administration performance has deteriorated due to pressures on staff resources.
 Outlook	<ul style="list-style-type: none">• From the start of 2015/16, the Fund will provide benefits on a “career average” basis. This change will increase the complexity and workload of Fund administration.• The pensioners’ payroll system is due to transfer from the council’s Resourcelink system to a module on Altair. This will require good project management.• The global investment outlook continues to be marred by political and economic challenges.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Falkirk Council Pension Fund (the 'Fund'). The report is divided into sections which reflect our public sector audit model.
2. The management of the Fund is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Falkirk Council Pension Fund, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. **Appendix III** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Falkirk Council Pension Fund understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
7. We are grateful for the cooperation and assistance we received from officers during the course of the audit.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> The financial statements of Falkirk Council Pension Fund have been prepared on the going concern basis. We are not aware of any events or conditions that cast doubt on the Fund's ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, governance compliance statement and annual governance statement. We have nothing to report in respect of these statements.

Submission of financial statements for audit

8. We received the unaudited financial statements on 19 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

9. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Pension Committee on 12 March 2015.
10. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks

identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

12. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

13. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
14. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Falkirk Council Pension Fund we set our planning materiality for 2014/15 at £7.643 million or 10% of contributions (based on the audited 2013/14 accounts). We also report all misstatements greater than £100,000. Performance materiality was calculated at £3.822million, to reduce to an acceptable level the probability of

uncorrected and undetected audit differences exceeding our planning materiality level.

16. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

17. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. A small number of monetary errors were also identified that have been corrected; they had no impact on the bottom line figures.

Significant findings from the audit

18. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representation requested by the auditor

- other matters which in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

19. There has been a significant improvement in the disclosure of investment management expenses which now include direct expenses from private equity and infrastructure investments.
20. The table overleaf contains a summary of the significant findings that, in our view, require to be communicated to you in accordance with ISA 260.

Issue	Resolution
<p>Annual Governance Statement (AGS):</p> <p>The Annual Governance Statement contained a number of factual inaccuracies and potentially misleading information on the scope of internal audit work. External audit requested that a number of changes be made to the content of the AGS particularly in relation to internal audit.</p>	<p>The Annual Governance Statement revised to take accounts of points raised by external audit.</p>
<p>Year end reconciliation of employer / employee contributions:</p> <p>The monthly returns of employee and employer contributions received from admitted bodies are recorded on a controls spreadsheet by pensions staff. These are then posted to the ledger after checking to receipt through bank statements. Reasonableness checks are carried out on the contributions at the time of receipt. In previous years, a detailed check of contributions has been carried out at the year end when detailed data returns from employers have been received.</p> <p>The year end reconciliation was not complete at the time of our audit with returns still outstanding from 11 out of 37 admitted bodies. For those bodies where returns have been received the differences on reconciliations are immaterial relative to total contributions. Where returns are still outstanding the total value of contributions from those bodies is approximately £831,000 out of total contributions received of approximately £75,000,000 (1.1%) which is not material to the accounts.</p>	<p>The monthly checks performed on the remittance advices provide assurance that the figures in the ledger are reliable and materially correct. The ledger figures were used in compiling the Annual Report and Accounts.</p>

Recent developments

Public Services Pensions Act 2013

21. In terms of the 2013 Act, a number of significant changes to the Local Government Pension Scheme (LGPS) (Scotland) that apply from 1 April 2015 including those illustrated below:

Benefits from 1 April 2015 will build up on a career average basis at the rate of 1/49th of annual pensionable earnings

Normal Pension Age will be aligned with each member's own State Pension Age

The LGPS will have a national Advisory Board and local pension Boards

Revised governance arrangements

22. The 2013 Act is supported by a number of new sets of regulations including the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. These set out the new governance arrangements from 1 April 2015.
23. At a national level the new arrangements include the establishment of a Scheme Advisory Board. Its role is to:
- provide advice to Scottish Ministers on proposed changes to the LGPS (Scotland)
 - provide advice to Scheme Managers or the Scheme's Pension Boards on the effective and efficient administration of the Scheme and any funds within the Scheme.
24. The act also extends the powers of the Pensions Regulator to cover standards of governance and administration in the LGPS (Scotland).
25. Another key feature of the new governance arrangements is the requirement for a local Pension Board to be established from 1 April 2015 to assist the Scheme Manager (i.e. Falkirk Council) in securing compliance with the scheme rules and with the Pension Regulator's Codes of Practice. In the Governance and Transparency section of this report we comment on progress made in implementing these new arrangements.

Financial management and sustainability

Net Assets

Increase
£ 223.2m
(+14.2%)

Closing net assets
£1,799.8m

Investment Performance

Return on
investments
13.4 %

Benchmark
12.1 %

Funding Level

84.8%
As at latest
valuation date of
31 March 2014

79.3%
Per actuary
calculations as at
31 March 2015

Contributions vs Benefits

Contributions
£78.9m

Benefits
£58.5m

Financial management

26. In this section we comment on the Fund's financial outcomes and assess its financial management arrangements.
27. Pension fund finances are independently assessed every three years by the Fund's actuary. Employer contribution rates are determined by the actuary and used by the council as administering body to set an annual budget for the Fund's expenditure and income. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

28. The Fund reported an increase in net assets of £223.2 million (14.2%) to approximately £1.8 billion. The increase is due mainly to £27.1million from investment income and £188.7 million from increases in the value of investments as a result of favourable conditions in the equities market. The Fund has also benefited from investment in growth generating assets.
29. The Fund's Actuary, Hymans Robertson, have estimated that the Fund's liabilities have risen from £1.8 billion at 31 March 2014 to £2.2 billion at 31 March 2015. This is a result of falling gilt yields which in turn leads to a lower discount rate and higher values being placed on the Fund's liabilities.
30. It is important to note that the £2.2 billion does not appear in the financial statements as they do not take account of the Fund's obligations to pay pensions after the 31 March 2015.

Financial management arrangements

31. As auditors, we consider whether pension funds have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
32. We assessed the role and status of the proper officer against the Chartered Institute of Public Finance and Accountancy's *Statement on the role of the Chief Finance Officer in Local Government*. We concluded that, in relation to the Fund, the council as administering body generally complied with the statement's five principles. However, we have raised some concerns about whether the Pensions Section is sufficiently resourced to be fit for purpose (refer to paragraphs 87 to 89).
33. The Fund relies on the council's standing orders and financial regulations. The former were updated in May and take account of the new governance arrangements resulting from the Public

Services Pensions Act 2013. Financial regulations while comprehensive are due to be updated sometime later this year.

34. An administration budget was prepared for the first time in the current financial year while the budget for 2015/16 was reported to the Pensions Committee in March 2015. Also, the Fund's Annual Report and Accounts includes details of actual income and expenditure against approved budget with explanations for significant variances.
35. The Fund has good performance arrangements with regular review monitoring and review of investment managers' performance.

Conclusion on financial management

36. Overall, subject to comments on staff resourcing, we concluded that financial management arrangements are effective.

Financial sustainability

37. The Fund gives its members a guarantee that in exchange for contributions during their employment, the Fund will pay a pension until the end of each member's life. Financial sustainability means that the Fund maintains the capacity to meet the current and future needs of its members despite changes in investment performance and life expectancy.
38. In assessing financial sustainability we look at various aspects of activity, including the funding position, membership levels and long-term recovery measures where there is a deficit.

Funding position

39. One of the key objectives of the Administering Authority as set in the Fund's Funding Strategy Statement is to hold sufficient assets to meet the assessed cost of members' past service benefits. A funding level of 100% would be needed for this objective to be met at the valuation date.
40. The most recent triennial valuation of the Fund was completed during 2014/15. This valuation showed that the Fund's assets amounted to £1,577 million at 31 March 2014 and these were sufficient to meet 84.8% of its liabilities at that date. The funding shortfall was £283 million as illustrated below.

Table 1: Funding valuations 2008 to 2014

Fund Details	March 2008 £ million	March 2011 £million	March 2014 £million
Assets	947	1,199	1,577
Liabilities	(1,203)	(1,392)	(1,860)
Net Liability	(255)	(193)	(283)
Funding Level	78.7%	86.1%	84.8%

Source: Falkirk Council Pension Fund Annual Reports and Accounts

41. The current funding position represents a slightly weaker position than that reported in March 2011 when the funding position was 86.1% although still a stronger position than the 78.7% funding level reported in March 2008.

42. Hymans Robertson, also review the funding position annually and by their calculations the estimated funding position at 31 March 2015 was 79.3%. This is based on assets of £1,820 million and liabilities of £2,297 million which produces a net liability of £0.477 million. This weaker position is due primarily to the fall in gilt yields from 5.1% (March 2014) to 3.8% (March 2015) and reflects market uncertainty in the short term.
43. In reducing the funding deficit the factor most likely to have a beneficial effect is a rise in interest rates. This will drive up bond yields and reduce overall liabilities. Interest rates are not expected to increase until late next year.
44. Following the 2014 valuation, the Actuary has specified that the majority of Fund employers pay deficit contributions as a fixed sum rather than as a percentage of pay. This will provide greater certainty for the Fund over the level of deficit contributions that it receives.
45. Fund membership has remained fairly stable over the year. Also, there has been an increase in active members with numbers rising from 12,939 in 2010/11 to 14,589 in 2014/15; an 11% increase. Furthermore, there was surplus of contribution income over the over the cost of pensions with contributions of £79.8 million exceeding benefits of £58.9 million by £21.3 million. This surplus contributes towards the Fund's requirement to provide current and future needs of members.
46. It is important that the Fund closely monitors membership and contribution levels so that it can continue to pay benefits from its regular contribution inflow.
47. The Investment Strategy is under review. The aim of the strategy will be to return the Fund to a positive funding position in the longer term.
48. An investment sub-group has been formed to oversee the construction of a gradual de-risking plan to enable the Fund to allocate more assets to fixed income as the funding level improves and thereby reduce the exposure to investment risk.
49. Subsequently review will cover the mix of assets to be targeted in order to meet its objectives. Determination of managers for the asset mix will then be considered.

Conclusion on financial management

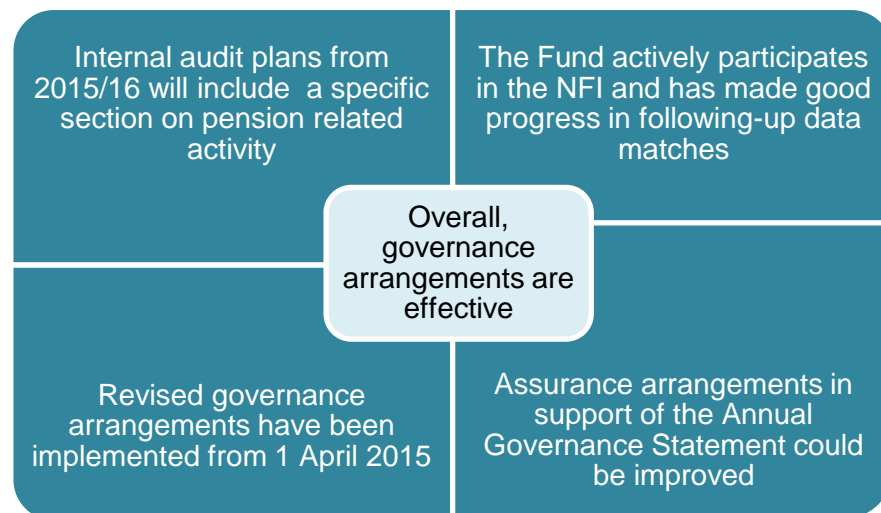
50. Overall, we concluded that, despite the current deficit, the Fund is financially sustainable because of increasing contribution levels and the long-term view of investments.

Outlook

51. It is clear that the outlook for public spending remains very challenging and the need for spending constraints and budget reductions will continue. Any further staff reduction schemes introduced by employers will place pressures on the Fund from increased administration workloads and reductions in member contribution levels.

- 52. The Public Service Pensions Act 2013 is designed to ensure the continued sustainability of the LGPS. In particular, the introduction of the 'employer cost cap' which will shift some of the risk of future rises in scheme costs onto members.
- 53. The Scottish LGPS Advisory Board is being formed with effect from 1 April 2015 under section 7 of the Public Service Pensions Act 2013. It is expected to operate at national level and will have members drawn from employers, trade unions, professional advisors and bodies such as the Pensions Regulator and the National Association of Pension Funds.
- 54. The UK Government's pension initiatives including auto enrolment, freedom and choice and abolition of contracting out means that the pace of pension reform remains challenging.

Governance and transparency



55. Falkirk Council is the administering body for the Fund. Members and management of the council are responsible for establishing governance arrangements for the Fund. This to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
56. As part of our planning work on the council audit we reviewed various aspects of governance that also apply to the Fund including standing orders, financial regulations, Codes of Conduct

for officers and members and anti-fraud and corruption arrangements.

57. Overall we concluded that these arrangements are adequate and support governance arrangements. We also concluded that the Fund conducts its business in an open and transparent manner.

Governance structures

58. The main governance structures in place during 2014/15 are summarised below:
- **Pensions Committee.** This committee comprised six councillors from Falkirk Council and three co-opted members drawn from the Union, Employer and Pensioner groupings. This committee has delegated authority to maintain and administer all aspects of Fund business including governance, formulating investment policy, managing assets, accounting and funding matters.
 - **Pension Panel.** This consisted of 15 members representing the interests of scheme members, employers and pensioners. Its role was to support the Pensions Committee in scrutinising the activities of the Fund.
59. As previously mentioned at paragraphs 22 to 25 new governance arrangements came into force on 1 April 2015. These were discussed and agreed by the Pensions Committee in December 2014 and were ratified by Falkirk Council in the same month.

- 60. The main change has been the dissolution of the Pensions Panel and its replacement by a local Pension Board in compliance with the Public Service Pension Act 2013. The Board's role is to assist the Scheme Manager (i.e. Falkirk Council) in ensuring compliance with the rules relating to scheme governance and administration.
- 61. These changes were included in the Governance Policy and Compliance Statement reported to the first joint meeting of the Pensions Committee and Pension Board on 26 June 2015. The Committee and Board plan to meet concurrently to avoid duplication and ensure that business is focused and streamlined.
- 62. Based on our observations and through attendance at the Pensions Panel and Pension Committee during the year we concluded that the governance arrangements were operating effectively. Also, good progress has been made in implementing revised governance arrangements to comply with the requirements of the Public Service Pension Act 2013.

Transparency

- 63. Transparency means that scheme members have access to understandable, relevant and timely information about how the Fund is taking decisions and how it is using its resources. Members should also be able to hold the Fund to account for the decisions it makes.
- 64. The meetings of the Pensions Committee are open to the public. Committee agenda, papers and reports are published on Falkirk Council's website (save the occasional exempt paper) which is

easy to access and navigate around. The Committee papers and reports provide comprehensive information on all aspects of the Fund's activities including investment performance and the performance of individual companies used by the Fund to manage its portfolio investments.

- 65. The Fund also has its own dedicated website where members can access a range of information including new pensions regulations, the Annual Report and Accounts and the role of the Pensions Committee.
- 66. Scheme members also receive an annual statement that provides details of benefits accrued, information on topical pension issues and a review of the Fund's progress. Due to current staffing issues there is a delay in the deferred members' statements being processed but active members' statements have been administered.
- 67. Overall we concluded that the Fund is open and transparent in the way it conducts its business with scheme members and the public is able to attend regular meetings of the Pension Committee.

Internal control

- 68. As auditors we concentrate on the significant systems and the key controls within them to provide us with assurance on the accuracy and reliability of figures generated by those systems. For those systems provided by the council (e.g. trade payables, trade receivables and ledger) we carried out a mixture of testing and reliance on the work of internal audit.

69. For pension specific systems (e.g. pension's administration and investments) we carried out a high level review of controls because testing in previous years' had not identified any significant control weaknesses. A recent internal audit report issued on 15 July also concluded that substantial assurance can be placed on governance arrangements and on key controls within pension related systems (e.g. pensioner payroll).

70. Based on the work carried out we concluded that systems were operating effectively and no significant issues were identified that require to be brought to the attention of members.

Internal audit

71. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. The Fund's internal audit service is provided by Falkirk Council's internal audit function.

72. We are required by international auditing standards to make an assessment of the internal audit function and the extent to which we can formally rely on their work. We concluded that the internal audit function operated in accordance with the Public Service Internal Audit Standards and had sound documentation standards and procedures in place. Consequently, we were able to take assurance on aspects of internal audit work where systems (e.g. trade receivables) are shared with the authority and the Fund.

73. In our 2013/14 Annual Audit Report and 2014/15 Annual Audit Plan we highlighted that the internal audit plan for the council, in the 2014/15 financial year, did not include any pension specific work. Management subsequently addressed this by including a pension section within the council's 2015/16 internal audit plan. While this plan was submitted to the council's Audit Committee in April 2015 it was not presented to the Pensions Committee for consideration.

Recommendation 1

74. In future, the Internal Audit Manager (or his representative) plans to attend the Pension Board, as required, to present audit findings and answer questions raised by members.

75. The Pension Fund section of the council's internal audit plan for 2015/16 outlines the work to be undertaken, namely:

- a review of the arrangements for the governance and management of the Fund; and
- transactional testing

although, an outline of the scope of internal audit work was not detailed in the audit plan.

76. This work was undertaken early in 2015/16 and reported to management on 15 July. The transactional testing covered transfer values, contributions and pension payments with samples drawn from the 2014/15 financial year.

Annual Governance Statement

77. The Local Authority Accounts (Scotland) Regulations 2014 introduced a new requirement from 2014/15 for local authorities, or appropriate committee, to undertake a review at least once in each financial year of the effectiveness of its system of internal control and consider findings before approving an Annual Governance Statement.
78. In the case of the Falkirk Council Pension Fund, the Pensions Committee has delegated responsibility for governance issues. At its meeting on the 26 June 2015 the committee approved the Annual Governance Statement but without full consideration of the system of internal control. In particular, the committee did not receive an Annual Assurance Report from internal audit in which the Audit Manager is required to provide an opinion on the adequacy and effectiveness of the system of internal control. Also, in terms of the 2014 Accounts Regulations the Pensions Committee must from time to time assess the efficiency and effectiveness of the internal audit function in accordance with recognised standards and practices in relation to internal auditing.

Recommendation 2

Arrangements for the prevention & detection of fraud & corruption and maintaining standards of conduct

79. The Fund has adopted the policies used by Falkirk Council for preventing and detecting fraud. Also, the Fund is governed by the Council's Code of Conduct for Members and Officers. Additionally, all members are expected to apply the Standards Commission Scotland's Councillors' Code of Conduct. We reviewed these arrangements as part of our planning of the council and concluded that they were adequate.

National Fraud Initiative

80. The Fund also participates in the National Fraud Initiative. This is a biennial counter fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different systems, to identify data matches that might suggest the existence of fraud or error.
81. The Fund has made good progress to date in investigating data matches with 242 out of 415 (58%) matches investigated by July 2015. This level of review exceeds the minimum requirements. All high risk matches have been reviewed and the remaining cases are categorised as low risk or areas where investigation is not required. No frauds or potential frauds have been identified by this date. The Internal Audit Manager also maintains oversight of the NFI process to monitor progress in investigating matches.
82. Overall we concluded that pension fund staff is proactive in reviewing and investigating NFI matches.

Data migration to Altair system

- 83. During the course of 2014/15, Pension Fund records migrated from the in-house Pensions Administration System (PAS) to an externally hosted system (i.e. Altair). As part of our audit we carried out sample testing of records both before and after the migration process for completeness and accuracy.
- 84. Our audit work did not identify any significant risks affecting the overall completeness and accuracy of membership data. Furthermore, during the migration process there was discussion between management and the system provider (Heywood). This was evident prior to, during and post implementation stages of the migration process.
- 85. Fund administration staff also carried out their own testing of the system. However, a clear audit trail was not maintained detailing the extent of the testing or findings resulting from this work. There are plans to transfer the pensioners' payroll to a new system in the near future. It is important when the transfer takes place that a clear audit trail of checks is put in place to assess the effectiveness of the process.
- 86. Overall, the migration from the old to the new pension administration system was successful and our testing of the migration process did not identify any significant issues that require to be brought to the attention of members.

Staff resources

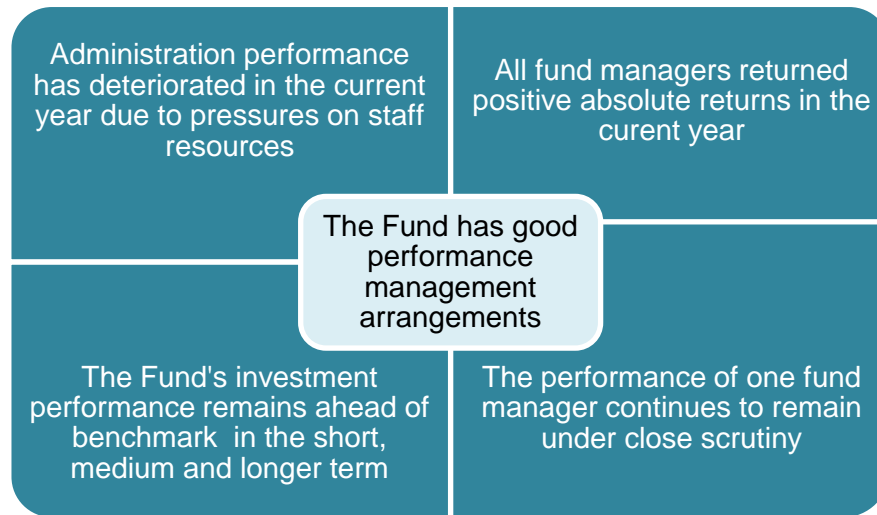
- 87. The Fund's administration section has been carrying a vacancy for a pension fund accountant post since September 2014. An accountant was seconded from corporate finance in April 2015 to provide accounting support and help in the preparation of the financial statements.
- 88. Since then the secondee has secured a promoted post within corporate finance and it is not clear how long they will be able to continue to provide support to the Fund. Also, there is no clear timeframe for appointing a permanent fund accountant. At the same time the pensions manager is off on long term planned leave and the pension fund accountant could normally be expected to cover some of his responsibilities.
- 89. There are other staffing issues which could also have an adverse impact on the work of the Fund's administration section. The section is under considerable pressure to maintain current levels of service due to one staff member being on long term absence while another very experienced member of staff has recently retired. This has resulted in a backlog of processing and is reflected in a deterioration of performance against administration targets as summarised in paragraphs 104 to 109. Also this has meant that individual records on the Altair system have not been fully updated. The pressures on staff will only increase with the introduction career average pensions.

Recommendation 3

Outlook

- 90. The introduction of career average pensions from 1 April 2015 will increase administrative workloads but could also generate more enquiries from Fund members seeking clarification of their benefits on an ongoing basis.
- 91. The pensioners' payroll system is due to transfer from the council's Resourcelink system to a module on Altair. This was originally scheduled for autumn 2015 but has now been deferred until a later date. This will require a lot of careful planning and testing.

Best Value



92. The Fund has a duty to ensure Best Value in the provision of services and to report performance publicly so that fund members, employers and other stakeholders know the quality of service being delivered and what they can expect in the future.
93. The Fund is covered by the overall Best Value arrangements of the council as the administering authority. A recent Best Value audit reported in August did not identify any specific actions for the pension fund to address. The council is preparing an action plan in response to the findings from the audit. The council's auditors will report on progress.

Performance management

94. The Pension Committee meets on a quarterly basis to review performance. The Committee is helped in its work by professional advisers. It is normal practice for two investment managers to present at the quarterly meetings of the Committee. This gives members and their advisers the opportunity to hold managers to account for their activities and performance. From our attendance at Committee we can confirm that members actively scrutinise performance.
95. The Pension Fund Manager and Chief Finance Officer regularly meet with investment managers to discuss performance and investment strategy. In addition, the Fund has a Resourcing Agreement with Lothian Pension Fund and this provides additional support in the areas of investment manager monitoring and performance.
96. Overall, we concluded that the Fund has good performance management arrangements in place.

Investment performance

97. In recent years there has been considerable volatility in the financial markets which has affected investment return particularly in the wake of the global financial crisis of 2008/09 and more recently within the Eurozone due to the threat of 'Grexit'.
98. The Fund's performance has remained positive over the short, medium and longer term as illustrated in the table overleaf.

Table 2: Investment performance

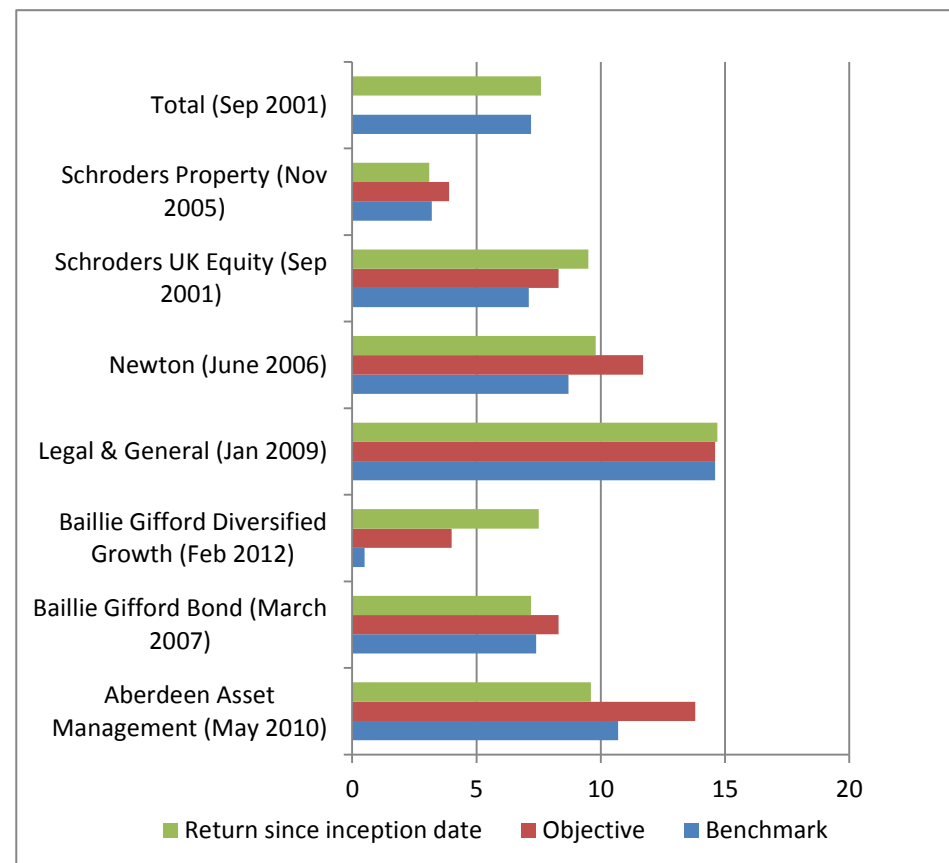
	2014/15 % per annum	3 years % per annum	5 years % per annum
Fund return	13.4	12.0	9.7
Benchmark return	12.1	9.8	7.9
Excess	1.3	2.2	1.8

Source: Falkirk Council Pension Fund Annual Report & Accounts 2014/15

Fund manager performance

99. All fund managers returned positive absolute returns in 2014/15 helped by the strong performance from equities and bonds. However, performance against benchmark has been more varied.
100. Most investment managers achieved their benchmark performance in 2014/15. Three fund managers failed to achieve their benchmark although in two cases only marginally. However, one manager (Aberdeen Asset Management) disclosed a significant level of underperformance as was the case last year.
101. A recent presentation from Aberdeen Asset Management to the joint meeting of the Pension Board and Pensions Committee failed to adequately address all members' concerns. We have been advised that this manager continues to be placed 'on watch' to ensure better performance in future.

102. Fund managers performance varies against different performance standards with only two fund managers exceeding their specified objectives as illustrated below.

Graph 1: Fund manager performance

Source: Falkirk Council Pension Fund - Pension Committee June 2015

- 103.** The Fund takes a long-term view of its investments and it expects fund managers to achieve their prescribed targets over longer periods of time. The Pensions Manager liaises closely with fund managers to monitor performance. Any significant risks or concerns about fund managers not being able to meet their objectives in the longer term would be raised with the Pensions Committee.

Administration performance

- 104.** The Pensions Manager has developed a range of service standards to monitor administration performance. These are monitored on a regular basis and are reported to the Pensions Committee annually. Work is in progress to ensure that similar performance reports can be generated on the new pension administration system (Altair).
- 105.** The main indicators used to monitor and review administration performance are summarised in the following table covering the last three years.

Table 2: Administration performance 2012/13 to 2014/15

Standard	Target	2012/13	2013/14	2014/15
Annual admin. cost per member	Under £25 per member	£14.50	£15.77	£23.51
Staff / member ratio	1:2500 to 1:3200	1:2972	1:3237	1:3307
No. of complaints received	Zero	1	3	4
Answer ad hoc queries in 14 days	70%	73%	73%	65%

Source: Falkirk Council Pension Fund Annual Report & Accounts 2014/15

- 106.** The increase in administration costs per member is primarily due to the implementation of the Altair system. It was introduced to help cope with the administrative demands of the career average pension scheme from 1 April 2015. Further costs will be incurred in 2015/16 as additional modules of Altair are implemented.
- 107.** Performance in responding to ad hoc queries within the 14 days has deteriorated against the 14 day performance standard as outlined in table 2 above. This is due primarily to above average workflow in year and staff being involved in other tasks e.g. preparation for the implementation of Altair. The situation has been exacerbated by staff absences as a result of maternity leave and long term sickness absence. This has caused an additional

burden on remaining pension administration staff and is reflected in the higher staff / member ratio as outlined in table 2.

108. A representative from Heywood (provider of Altair) will be providing additional support to staff to aid IT processing difficulties throughout 2015. This should help to improve administration performance. In the meantime administration staff are prioritising their work to ensure that there is minimal impact on essential tasks.
109. Administration performance has deteriorated due to a combination of circumstances. Additional resources are to be made available to improve performance. At the same time administration staff have focussed on core business to minimise the impact on service delivery although some backlogs are inevitable.

National performance audit reports

110. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15 there were no reports issued which were directly related to pension funds.
111. A number of local government reports were issued during the year and some of the topics covered may be of general interest to members i.e.
- Scotland's public finances – a follow-up :progress in meeting the challenges (June 2014)
 - Update on developing financial reporting (March 2015)

- An overview of local government in Scotland (March 2015)

112. These and other performance audit reports are readily accessible on Audit Scotland's website (www.audit-scotland.gov.uk).

Outlook

113. There is considerable pressure on public bodies to make savings with many reducing their workforce through voluntary severance and as a consequence a large number of member and employer retirement estimates can be expected. There is a risk that these pressures may prompt some employers to leave the scheme.
114. Low interest rates combined with a relaxed monetary policy have resulted in high equity valuations and low yields on fixed interest securities. Against this background, investment managers are going to find it difficult to achieve positive returns in 2015/16.
115. Continued turmoil in the Middle East and Ukraine together with persistent weaknesses in the Eurozone economies creates uncertainty in the financial markets. Also, the UK government's commitment to hold a referendum on continued membership of the European Union is adding to this uncertainty and there is the risk that these factors could have a negative impact on asset valuations.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

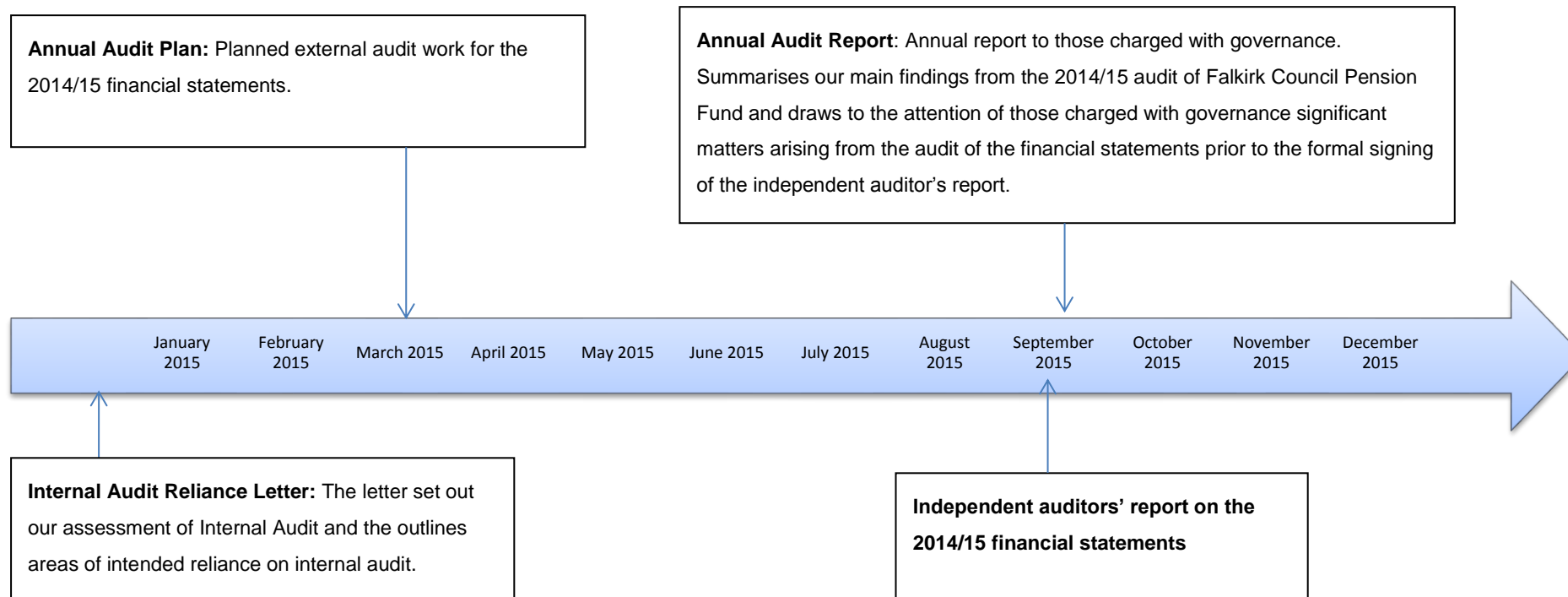
Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement in the financial statements		
<p>Accountancy staff</p> <p>At the time of submitting our Annual Audit Plan to the Pensions Committee there was no pension fund accountant in post. There was a risk of the financial statements being submitted to external audit late and there was also an increased risk of errors within the accounts due to a lack of specialist accounting knowledge and support.</p>	<ul style="list-style-type: none"> • Update provided to the external audit team on filling the accountant post • The financial statements and working papers were provided to the external audit by 30 June 2015. 	<p>An accountant was seconded to the pensions section in April 2015. The Pension Fund Annual Report and Accounts were prepared on time for audit and there were no significant issues arising from the audit.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Annual Governance Statement (AGS)</p> <p>From 2014/15 Pension Funds are required to include an Annual Governance Statement in their accounts. This is in addition to the Governance Compliance Statement (GCS) already required under pension administration regulations. The 2014 Accounts also require the Fund to undertake an annual review of system of control and report this in the AGS or combined AGS and GCS. Internal audit's plan for 2014/15 did not include any specific work on the Fund. This could affect the level of assurance given on the review of internal controls while there is also the risk of AGS disclosures being incomplete.</p>	<ul style="list-style-type: none"> • The Fund prepared 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. • Internal audit testing of pensions' transactions relating to 2014/15 is scheduled for 2015/16. • Participation in the National Fraud Initiative. • The Pensions Section is subject to the council's wider framework of control including Financial Regulations, Codes of Conduct and Schemes of Delegation. 	<p>We carried out the assurance procedures as planned and we asked for amendments to the AGS included in the unaudited accounts. A revised AGS was received and we concluded that this reflected the Fund's governance arrangements and was consistent with our knowledge of its control environment.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Investment Management Expenses</p> <p>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 members may not be able to gauge whether best value is being achieved.</p>	<ul style="list-style-type: none"> • The Fund followed, as far as practical, Cipfa's newly published guidance which sets out a framework for the consistent disclosure of expenses. • Consulted with other pension funds and practitioners, as appropriate, on disclosures 	<p>We carried out the assurance procedure as planned and concluded that the accounting and disclosure of management expenses was more transparent and in line with extant guidance issued by the Chartered Institute of Public Finance & Accountancy (Cipfa).</p>
<p>Management override of controls</p> <p>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.</p>	<ul style="list-style-type: none"> • Quarterly performance reports from Fund Managers. • Reports from the Pension Fund Custodian. • Scrutiny of accounts and performance by the Pensions Committee. 	<p>We carried out the assurance procedures as planned and did not identify any instances of management override of controls.</p>

Appendix II – Summary of local audit reports 2014/15

Summary of Falkirk Council Pension Fund local audit reports 2014/15



Appendix III – Action plan

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 19 / 73	<p>Issue</p> <p>Internal audit plans, while submitted to the council's Audit Committee, are not presented to the Pensions Committee for consideration.</p> <p>Risk</p> <p>The internal audit plan may not cover all the areas required by members in carrying out their annual review of the Fund's governance and internal control environment.</p> <p>Recommendation</p> <p>Internal audit plans should be presented to the Pensions Committee for consideration.</p>	From 2016/17, Internal Audit Plans will be presented to the Pensions Committee for consideration.	Internal Audit Manager	March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 20 / 78	Issue The Pensions Committee did not receive an Annual Assurance Report from Internal Audit when conducting their review of the governance and internal control framework of the Pension Fund	A summary of Internal Audit's findings on Pensions Governance and Transactional Testing work is to be included in a report to the 24 September meeting of the Pensions Committee.	Internal Audit Manager	September 2015
	Risk The Pensions Committee may not have all the information available to them to undertake their annual review of systems of internal control as required by the 2014 Accounts Regulations.	From 2015/16, the Internal Audit Manager will present an Annual Assurance Report to the Pensions Committee.	Internal Audit Manager	April 2016
	Recommendation (2) The Pensions Committee should receive an Annual Assurance Report from the Internal Audit Manager on the work carried out by internal audit on the systems of control.			

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 21 / 89	<p>Issue</p> <p>At present the Pensions Section is not sufficiently resourced to be fit for purpose. In particular, there is no clear timeframe for appointing a permanent pension fund accountant.</p> <p>Risk</p> <p>The council is unable to fulfil its responsibilities as Fund Administrator.</p> <p>Recommendation (3)</p> <p>The council needs to ensure that sufficient and appropriate resources are in place to administer the Pension Fund effectively. Priority should be given to appointing a permanent Pension Fund Accountant.</p>	<p>The Section has faced a “perfect storm” of staff absences due to long term sickness, maternity leave and departures allied with concurrent diverse and significant developments relating to Pensions.</p> <p>Interim arrangements were put in place to deal with the accountant vacancy and a permanent recruitment will take place aligned with the return to work of the Pensions Manager.</p> <p>The developing relationship with Lothian provides additional support and resilience.</p> <p>The staffing position will be kept under review.</p>	Chief Finance Officer	December 2015

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Website:

www.audit-scotland.gov.uk

Falkirk Council Pension Fund
Pensions Committee

24 September 2015

Falkirk Council Pension Fund Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed 'significant findings' in the attached annual audit report sets out the issues identified. This report will be issued in its final form after the financial statements have been certified
2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified independent auditor's report on 24 September 2015 (the proposed report is attached at Appendix A). There are no anticipated modifications to the auditor's report.
3. In presenting this report to the Pensions Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
5. As part of the completion of our audit we seek written assurances from the Chief Finance Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Chief Finance Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Appendix A: Proposed Independent Auditor's Report

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

I certify that I have audited the financial statements of Falkirk Council Pension Fund for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Pension Fund Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

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

Respective responsibilities of the Chief Finance Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the fund during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and

- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matter

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

24 September 2015

Appendix B: ISA 580 - Letter of Representation

<signed copy to be provided on headed paper>

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

24 September 2015

Dear Fiona,

Falkirk Council Pension Fund Annual Accounts 2014/15

1. This representation letter is provided in connection with your audit of the financial statements of Falkirk Council Pension Fund for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Falkirk Council Pension Fund, as at 31 March 2015 and its income and expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Pensions Manager and the Pension Accountant, the following representations given to you in connection with your audit of Falkirk Council Pension Fund for the year ended 31 March 2015.

General

3. I acknowledge my responsibility and that of Falkirk Council Pension Fund for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Falkirk Council Pension Fund have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including the Management Commentary, presents a balanced picture of the Falkirk Council Pension Fund and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Legality of Financial Transactions

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

Financial Reporting Framework

7. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and in accordance with the requirements of Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003 including all relevant presentation and disclosure requirements.
8. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Falkirk Council Pension Fund for the year ended 31 March 2015.

Accounting Policies & Estimates

9. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
10. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Actuarial Assumptions

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

Fraud

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

Corporate Governance

13. I acknowledge, as the officer with responsibility for the proper administration of the Fund's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. I have reviewed the Annual Governance Statement and confirm that it has been prepared in accordance with Delivering Good Governance in Local Government. Also, I have reviewed the Corporate Governance Compliance statement and the disclosures I have made comply with the guidance from the Scottish Ministers. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2015 which require disclosure.

Related Party Transactions

14. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Management Expenses

15. I have worked with fund managers and the fund custodian to ensure that pension fund management expenses disclosed in the 2014/15 accounts are in accordance with the Cipfa Guidance Accounting for Local Government Pension Scheme Management.

Investment Assets and Current Assets

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

Investment Liabilities and Current Liabilities

17. All liabilities have been provided for in the books of account as at 31 March 2015.

Contractual commitments

18. All outstanding call payments due to unquoted limited partnership funds have been fully included in the accounts for the period to 31 March 2015.

Employer / Employee Contributions

19. The contribution figures recorded in the accounts represent actual payments made by employing bodies on a monthly basis throughout the year and processed through the ledger. Normally a year-end reconciliation is carried out between the ledger and annual returns from employing bodies to ensure any changes in the year have been correctly accounted for. This provides an additional source of assurance of the total amount of contributions received in the year. The majority of year end returns have now been received and reviewed but the reconciliation has not been completed.

To ensure correct contributions are received from employers/ employees during the year a monthly check is carried between expected contributions based on payroll information and actual payments received. Payments received are posted to the ledger after checking and the ledger figures are used in preparing the accounts. The year-end reconciliation between the annual returns from admitted bodies and the ledger is an additional check. All the main admitted bodies have submitted their annual returns and any variances highlighted by the reconciliation are not material. We will continue to remind all admitted bodies of the need to submit their annual returns timeously and investigate the reasons for variances.

Bank Account

20. The fund maintains a separate bank account but some payments are initially processed through the Council's bank accounts. The transactions for the fund processed through the Council's bank

accounts are promptly repaid or transferred and consequently the balance owed to or due by the Council at any time is not significant

Events Subsequent to the Net Asset Statement

21. There have been no material events since the date of the Net Assets Statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
22. Since the date of the Net Assets Statement no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice. Global equity markets experienced sharp declines in August 2015 (FTSE100 declined by 9%). However, this market volatility falls within the bounds of expectation as highlighted in the note 18 of the Annual Report and Accounts. Potential price movement in equities (developed markets) is expected at 20%. 9% fall is in line with expectation.

Yours sincerely

Bryan Smail
Chief Finance Officer