

Falkirk Council

Title: Annual Audit Report 2015/16
Meeting: Joint Meeting of Pensions Committee and Pension Board
Date: 22 September 2016
Submitted By: Director of Corporate and Housing Services

1. Purpose of Report

- 1.1 This report invites the Pensions Committee and Board to note Audit Scotland's intention to issue an unqualified opinion regarding the Pension Fund Accounts for 2015/16.
- 1.2 This report also invites the Committee and Board to review Audit Scotland's Annual Audit Report on the Pension Fund for 2015/16. The report incorporates a "significant findings from the audit" section in accordance with the International Standard on Auditing - ISA 260.

2. Recommendations

2.1 The Pensions Committee and Board are asked to note:-

- (i) the proposed unqualified audit opinion for the Pension Fund for 2015/16 and**
- (ii) the Annual Audit Report for 2015/16 and the management actions proposed.**

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 2015/16 has been undertaken by the Council's external auditors, Audit Scotland.
- 3.3 The Annual Audit Report and covering letter from Audit Scotland, which are attached as Appendices, summarise the main findings from this year's audit and highlight to those responsible for governance any significant matters arising. The Letter of Representation (ISA580) referred to in the Audit Scotland covering letter will be completed by the Chief Finance Officer and returned to Audit Scotland.
- 3.4 2015/16 is the final audit being undertaken by Audit Scotland due to their tenure as Council auditors coming to an end. The audit for 2016/17 will be undertaken by Ernst and Young who have been appointed as Council auditors by Audit Scotland.

- 3.5 The audited accounts and the annual audit report will be published on the Fund and Council websites and circulated to employers in accordance with statutory requirements.

4. Audit Process and Outcome

- 4.1 The Annual Audit Plan was presented to the Pensions Committee and Board by Audit Scotland on 11 March 2016.
- 4.2 The Unaudited Annual Report and Accounts were presented to the Joint Meeting of Pensions Committee and Board on 22 June 2016 and submitted for audit prior to the statutory deadline of 30 June 2016.
- 4.3 The Annual Audit Report confirms that that the audit will be unqualified.

5. Considerations

- 5.1 In terms of IAS 260 reporting, two points were raised by Audit Scotland:
- The reconciliation between contributions paid to the Fund during 2015/16 and year end member listings had not been concluded by the time of the audit.
 - The length of time taken to update member records with information on year end listings meant that for a limited period member records (e.g. addresses) were not up to date.
- 5.2 Several other points were highlighted including:
- the requirement to report Regulatory breaches
 - staffing resources
 - the provision of administration performance indicators and benchmarks
 - the desirability of having a policy for tendering external services
- 5.3 Management responses have been included in Appendix 2 of the Audit report.
- 5.4 Audit Scotland will be in attendance at the meeting.

6. Conclusions

- 6.1 The Fund's external auditors, Audit Scotland, have completed their audit of the Fund's Annual Report and Accounts for 2015/16 and propose issuing an unqualified audit certificate.
- 6.2 Auditors have issued their Annual Audit Report to those charged with Fund governance.

6.3 Matters arising from the audit will be taken forward in preparing the 2016/17 accounts.

pp **Director of Corporate & Housing Services**

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

Date: 8 September 2016

Appendices

Appendix 1 – Audit Scotland letter with Proposed Independent Auditor's Report

Appendix 2 – Audit Scotland, Annual Audit Report

List of Background Papers: None

**Falkirk Council Pension Fund
Pensions Committee**

22 September 2016

Falkirk Council Pension Fund 2015/16 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 2015/16 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in 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 auditor's report on 22 September 2016 (the proposed report is attached at Appendix A).
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 misstatements be corrected. One monetary error was identified that was not processed through the financial statements by management. If adjusted this would decrease the Pension Fund Account and Net Assets Statement by £150,000. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that this adjustment was not material to the financial statements.
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 2016 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 2015/16 (the 2015/16 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 2015/16 Code of the financial transactions of the fund during the year ended 31 March 2016, 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 2015/16 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 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 Scotland
4th Floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

22 September 2016

APPENDIX B: Letter of Representation (ISA 580)

<< print on headed notepaper>>

Fiona Mitchell-Knight
Audit Scotland
4th Floor (South Suite)
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

22 September 2016

Dear Fiona

Falkirk Council Pension Fund Annual Accounts 2015/16

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 2016 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 2016 and its comprehensive net 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 Pensions Accountant, the following representations given to you in connection with your audit of Falkirk Council Pension Fund for the year ended 31 March 2016.

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 Managements Commentary, presents a balanced picture of 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).

Regularity of Financial Transactions

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

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 2015/16, and 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.
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 2016.

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 2015/16.
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.

Going Concern

12. The Pensions Committee has assessed Falkirk Council Pension Fund's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

13. 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 2015/16.
14. 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.

Bank Account

15. 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 therefore the balance owed to or due by the Council at any one time is not significant.

Investment assets and current assets

16. On realisation in the ordinary course of the Fund's business the investment and current assets shown in the net assets 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.

Liabilities

17. All liabilities have been provided for in the books of account as at 31 March 2016.

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 2016.

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 year-end reconciliation was not completed ***(briefly explain why)***.
20. ***(Please provide comments on what other sources of assurance are available in the absence of a complete year-end reconciliation. Also, explain the impact of delays on members' records due to delayed receipt of annual returns)***.

Reliance on third party services

21. ***(Please provide comments on your assessment of the use of management experts including the Custodian, Fund Managers and Actuary. Include reference to the design and operating effectiveness of complimentary user entity controls)***

Business continuity and disaster recover arrangements - Custodian

22. ***(Please provide comments on your assessment of the adequacy of business continuity and disaster recovery arrangements for Custodian services)***

Corporate Governance

23. I acknowledge as Chief Finance Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

24. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2016, which require disclosure.

Events Subsequent to the date of the Net Assets Statement

25. 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.
26. 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.
27. ***(Please provide comments on the impact of 'Brexit' and whether this is adequately disclosed in the annual report and accounts).***

Yours sincerely

Bryan Smail
Chief Finance Officer

Falkirk Council Pension Fund

Proposed 2015/16 Annual
Audit Report to Members
and the Controller of Audit

Key contacts

Fiona Mitchell-Knight, Assistant Director
fmitchell-knight@audit-scotland.gov.uk

Jim Rundell, Senior Audit Manager
jrundell@audit-scotland.gov.uk

Louise Dodds, Auditor
ldodds@audit-scotland.gov.uk

Audit Scotland
4th Floor (South Suite)
Athenaeum Building
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

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/about/).

The Accounts Commission has appointed Fiona Mitchell Knight as the external auditor of Falkirk Council Pension Fund 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.

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.

Contents

Key messages	3
Introduction	5
Audit of the 2015/16 financial statements.....	6
Financial management and sustainability	11
Governance and transparency	17
Best Value / Value for money	22
Appendix I: Significant audit risks	26
Appendix II: Action plan	30

Key messages

Audit of financial statements

- An unqualified auditor's report has been issued on the 2015/16 financial statements.

Financial management and sustainability

- Fund net assets at 31 March 2016 were £1,837.5 million, an increase of £37.7 million over the year reflecting the variable market conditions for investors during this period.
- The 2014 triennial valuation of the Fund reported that it had sufficient assets to cover 84.8% of its liabilities. A more recent interim valuation by the Fund's actuary estimated that the funding deficit had deteriorated to 77% primarily due to the continuing trend of falling gilt yields which have pushed up liability values.
- The Fund's long-term investment strategy includes an objective that the Fund has a reasonable chance of being fully funded over 20 years.
- The Fund currently receives more in contributions from employers and members than it pays out in benefits to pensioners.

Governance and transparency

- Internal audit arrangements have improved significantly with pension specific audit plans and reports submitted to the Pensions Committee.
- New governance arrangements have operated effectively during 2015/16 with the Pensions Committee and Pension Board meeting concurrently.
- The public can attend meetings of the Pensions Committee.
- The Pension Fund actively participates in the National Fraud Initiative.

Best Value / Value for Money

- The Fund's performance is subject to regular review and scrutiny by the Pensions Committee with fund managers regularly invited to attend Committee to account for their performance.
- The Fund investments outperformed their benchmarks over one, three and five years.
- The performance of one fund manager continues to remain under close scrutiny.
- The Fund only managed to issue 70% of annual pension statements by the prescribed date of 31 August 2016.



Outlook

- The global investment outlook remains volatile due to political and economic challenges including Brexit, a slowdown in the Chinese economy, weak growth in the Eurozone, recession in emerging markets and uncertainty about further interest rate rises in the USA.
- UK interest rates are at an all time low and there is continued uncertainty as to when they will rise. This increases the on-going financial pressures of the Fund which, ultimately, is likely to necessitate higher contributions from employers.
- Investment performance and scheme management costs are likely to come under increasing scrutiny. Scottish Ministers have already expressed an interest in the views of the national Scheme Advisory Board on fund structure and asset pooling. The Scheme Advisory Board has convened a working group with a view to producing an options paper in December.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Falkirk Council Pension Fund. The report is divided into sections which reflect our public sector audit model.
2. The management of Falkirk Council Pension Fund (FCPF) 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 I** lists the audit risks that we identified in the annual audit plan we issued in March 2016. It also summarises how we addressed each risk in arriving at our opinion on the financial statements.
6. **Appendix II** is an action plan setting out recommendations to address further risks identified during the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". The Pensions Committee should ensure that they are satisfied with proposed actions and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the external auditor of Falkirk Council Pension Fund will be Ernst and Young LLP. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 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 the Pension Fund have been prepared on the going concern basis. We are not aware of any events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern.
Other information	<ul style="list-style-type: none">• We review other information published with the financial statements including the management commentary. This is consistent with the financial statements.
Reporting by exception	<ul style="list-style-type: none">• We are required to report by exception as to whether the annual governance statement and governance compliance statement have been prepared in accordance with applicable guidance. We have nothing to report as a result of our review of these areas.

Submission of financial statements for audit

10. We received the unaudited financial statements on 24 June 2016, 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

11. 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 Pensions Committee in March 2016.
12. 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 2015/16 agreed fee for the audit was set out in the Annual Audit Plan. We did not carry out any work additional to our plan and the fee remains unchanged.
13. 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.
14. 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.

15. 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

16. 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).
17. 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.
18. 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 2015/16 at £7.891 million (10% of contributions per 2014/15 audited accounts).
19. Performance materiality was calculated at £3.945 million, to reduce to an acceptable level the probability of uncorrected and undetected

audit differences exceeding our planning materiality level. Also, we report on all misstatements greater than £100,000.

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

Evaluation of misstatements

21. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with management who agreed to amend the accounts.
22. In addition, we identified an error of £150,000 arising from Northern Trust's treatment of investment income from property funds at year end. This error has not been adjusted in the financial statements and we do not consider it to be material. However, if the error was adjusted it would decrease investment income by £150,000 and decrease the Fund's net asset position by the same amount. In future the Fund should ensure that accrued income is correctly recognised within the financial statements in line with accounting policies for each investment category.

The Local Authority Accounts (Scotland) Regulations 2014

23. Paragraph 9 of the 2014 Regulations requires a local authority to publish on its website a public notice detailing the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. Although the unaudited

accounts were available on the Fund's website, the public inspection notice was not. This is a breach of the Regulations and while it does not impact on our audit opinion we are required to bring this to your attention. The Fund should ensure that this requirement is met in future years.

Significant findings from the audit

24. 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 representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
25. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA 260

Year end reconciliations of employer / employee contributions

Employers submit monthly contribution remittances to the pension fund. These are processed through the ledger upon receipt. Reasonableness checks are carried out on the contributions at the time of receipt. These contributions are recorded onto a control spread sheet and pensions staff undertakes periodic checks to confirm that all remittances have been received and posted to the ledger. In previous years a year-end reconciliation was prepared between contributions recorded in the ledger and the detailed annual returns received by employers.

The year end reconciliation was incomplete at the time of audit. 25 out of 34 expected employer data returns were received by early July but two are still outstanding. Also, there is a significant amount of on-going queries.

Resolution: We confirmed that all monthly remittances were received in year. These were recorded on the controls spread sheet and updated in the ledger. The ledger is used to compile contribution values in the annual report and accounts. Therefore, assurance can be taken that contributions recorded in the financial statements are materially correct.

Appendix 2, Recommendation 1

Pension records

The year end data returns submitted by employers include information at an individual level. This information is used to update the pension administration system (Altair). However, as mentioned above, year end returns were outstanding at the time of audit and there were on-going queries. Consequently, this adds to the backlog of records waiting to be updated for changes such as change of address and new pay scale. The Pensions Manager regularly reminds employers of the need to submit year end returns timeously to allow him to maintain the accuracy of pension records. Despite this employers continue to be slow in submitting returns or are providing poor quality information that requires considerable staff resources to sort out.

Appendix 2, Recommendation 1

Future accounting and auditing developments

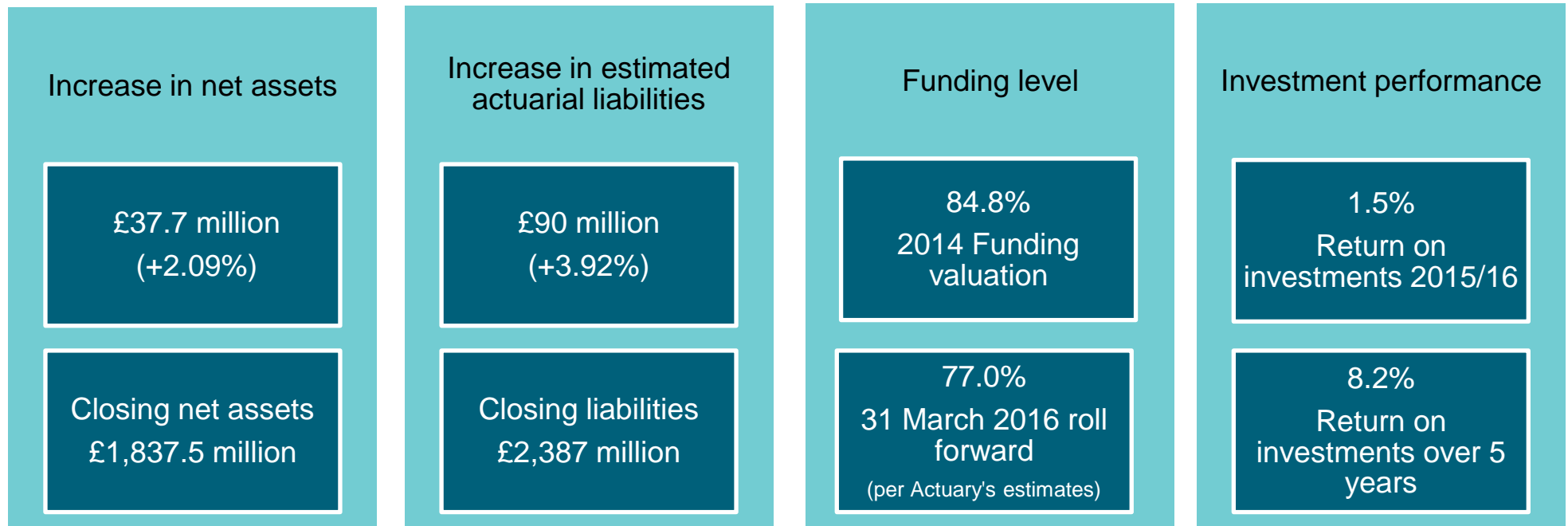
Code of Audit Practice

26. A new Code of Audit Practice will apply to all audits from financial year 2016/17. The Code outlines the objectives and principles to be followed by auditors and is part of the overall framework for the conduct of public audit in Scotland. Under the new Code, there will be a focus on four areas:
- Financial sustainability
 - Financial management
 - Governance and transparency; and
 - Value for money.
27. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on our website. This is irrespective of whether the body meets in public or makes documents such as Audit Committee papers routinely available on its own website.

Code of Practice on Local Authority Accounting

28. The financial statements of pension funds are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context.
29. From 2016/17, the following changes to the Code will apply:
- amendments to the format of the accounts to be consistent with the new Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015
 - new disclosure requirements for investments measured at fair value
 - recommendations for a new disclosure on investment management transaction costs in line with Cipfa's revised guidance on management costs.

Financial management and sustainability



Financial management

30. In this section we comment on the Pension Fund's financial outcomes and assess financial management arrangements.
31. Pension fund finances are independently assessed every three years by an actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming 3

year period and takes account of the strength of employer covenants and the fund's investment strategy.

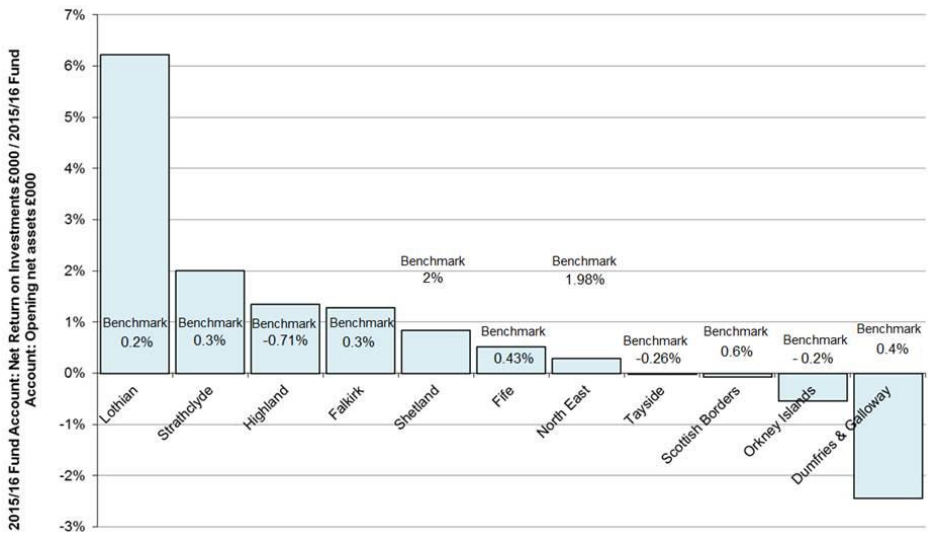
32. Setting the fund's investment strategy and monitoring performance against it are key aspects of financial management and sustainability. Investment strategy is a complex area and has to take account of factors such as the overall fund deficit, cash flows from dealing with members, the need to balance risk and returns and the maturity of fund membership.

33. Getting the investment strategy right for a fund is vitally important and often overshadows other aspects of financial management in relation to areas such as administration cost, for example. However, with financial pressures on councils and other employers these areas are coming under increased scrutiny.

Financial outcomes

34. 2015/16 has been a relatively poor year for investment performance for most funds across Scotland as illustrated below.

Exhibit 1: Net return on investments 2015-16



Source: Scottish LGPS Unaudited Annual Report and Accounts

35. Whilst most funds failed to achieve their benchmarks in 2015/16 FCPF achieved a return of 1.5% on its investments. This is above

the Fund benchmark of 0.3% for 2015/16 but behind the Fund's longer-term funding requirement of 6% per annum. However, three and five year performance returns are 7.2% and 8.2% respectively.

36. The net assets of the Fund increased from £1,799.8 million at 31 March 2015 to £1,837.5 million at 31 March 2016. This relatively small increase of £37.7 million (2.09%) reflected the volatile and variable market conditions faced by investors over the year.
37. During 2015/16 contributions to the Fund amounted to some £80.1 million. This was in excess of the benefits paid out which totalled £63.1 million.
38. At the same time, the Fund's Actuary, Hymans Robertson, estimated that pension liabilities had risen from £2.297 billion at 31 March 2015 to £2.387 billion at 31 March 2016 (a £90 million increase). The liabilities have been estimated by rolling forward cash flows and investment returns from the 2014 triennial valuation. The increase in fund liabilities reflects the sharp decline in the yield on government bonds.
39. The above liability figures do not appear in the financial statements as the accounts provide a snap shot in time and do not take account of the Fund's obligations to pay pensions after 31 March 2016.
40. In overall terms the Scottish LGPS funds showed better funding positions than their English counterparts at the 2014 triennial valuation. The weighted averages being 93.5% and 79.0% respectively. In the Scottish context, Falkirk Council Pension Fund was the lowest funded LGPS at 84.8%.

41. Based on roll forward valuations by the actuary, FCPF's funding level is estimated to be 77.0% as at 31 March 2016. However it should be recognised that not all funds have liabilities assessed on the same prudential scales. The use of differing actuarial firms and assumptions creates difficulties in direct comparisons.
42. This estimated funding level is an on-going concern of management and continues to be monitored closely. The Fund has commissioned work by the Actuary to assess whether more flexible assumptions can be adopted for the Fund in the future. In the interim, investment strategy has been reviewed and is now geared to reducing the risk of poor future funding outcomes in both the short and long term. Ultimately, however, cost mitigation may have to come through scheme amendment from the Scottish Government. Potentially this could include increased employee contributions or dilution of the accrual rate.
43. In 2015/16, a sub-group made up of Pension Committee members, officers and advisors carried out a review of asset allocation and manager performance. The sub-group's key recommendations were subsequently approved by the Pensions Committee, namely
 - to increase the proportion of Fund assets allocated to infrastructure and property
 - to reduce exposure to equities
 - to reduce investments in private equities
 - to undertake a 'Smart Beta' investment approach – an adapted style of passive management with a focus on a range of qualitative factors.
44. These actions have been agreed in the pursuit of reducing the risk of poor funding whilst attaining the same likelihood of reaching a fully funded status in the longer term.

Financial management arrangements

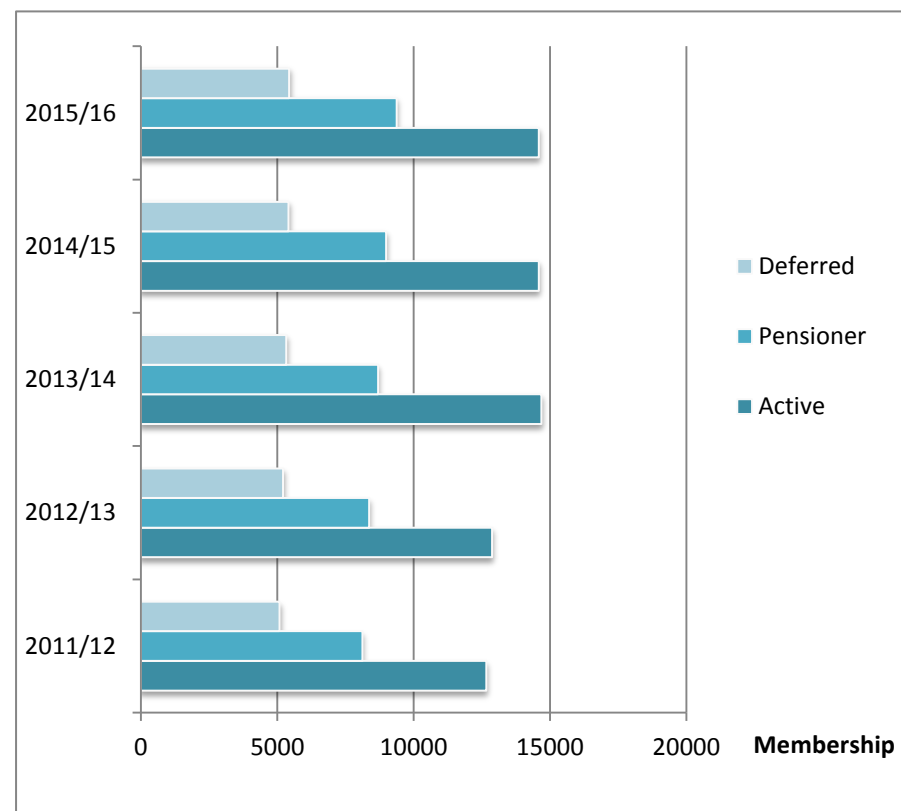
45. As auditors, we need to consider whether the Fund has established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - financial regulations are comprehensive and are current
 - reports monitoring performance against budgets are accurate and are provided regularly to members
 - monitoring reports do not just contain financial data but are linked to information about performance
 - those charged with governance provide a good level of challenge on significant variances and under performance.
46. The financial regulations of the administering authority apply to the Pension Fund. They are in the process of being reviewed to take account of organisational changes within the Council. Once revised the Pensions Committee should ensure that they are considered as part of its own review of internal financial control arrangements.

- 47. The Pension Committee receives regular performance monitoring reports covering performance in the current year as well as over the medium and longer-term.
- 48. Members actively scrutinise and challenge fund managers' performance. This is evident from our observations while attending the Pensions Committee (see also paragraphs 104 to 108 following).
- 49. We have concluded that the Fund's financial management arrangements are adequate.

Financial sustainability

- 50. 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.
- 51. In evaluating financial sustainability we look at various aspects of activity including membership levels, funding position and measures taken to address long-term recovery where there is a deficit.

- 52. Falkirk Council Pension Fund is a multi-employer fund with 10 scheduled bodies and 28 admitted bodies. Given the nature of these employers the funding risk associated with default is seen as relatively low overall. Currently, the Fund plans to recoup deficits over a 20 year period for most employers.
- 53. The new Local Government Pension Scheme (LGPS) includes a cost sharing arrangement which will cap employer costs in relation to current service. Additionally, the retirement age for most LGPS members going forward is linked to the state retirement age and this may also act to limit scheme liabilities for active members.
- 54. The current membership profile is shown at Exhibit 2 on page 15. The number of active members continues to outweigh the number of pensioners. This ensures that contribute rates continue to exceed benefits payable.

Exhibit 2: Falkirk Council Pension Fund Membership

Information Source: 2015/16 Falkirk Council Pension Fund Annual Report and Accounts

55. Following the 2014 triennial valuation the Actuary agreed employer contribution rates with individual employers for the period 2015 to 2018.

56. An element of these employer costs includes deficit recovery contributions to aid employers to return to a stable position. These have been allocated on a set percentage or fixed sums based on the affordability and risk profile of each employer. The approximate split of all contributions received in year is set out at Exhibit 3.

Exhibit 3: Contributions in 2015/16

	Administering authority	Other scheduled bodies	Admission bodies	Transferee admission bodies
Employee contributions	£5.918m	£9.906m	£2.018m	£0.046m
Employer contributions	£20.193m	£30.846m	£6.075m	£0.162m
Strain contributions	£0.921m	£1.875m	£0.232m	N/A
Deficit recovery contributions	£0.518m	£1.143m	£0.309m	£0.001m

Information Source: 2015/16 Falkirk Council Pension Fund Annual Report and Accounts and Working Papers

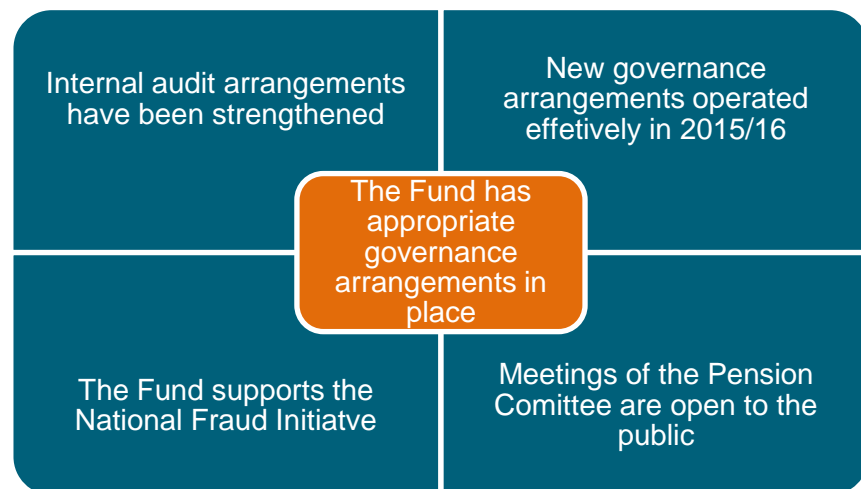
57. Contribution rates and deficit payments will be considered by the Actuary at the next triennial funding valuation scheduled for March 2017. Following this, officers will review and update the Funding Strategy Statement for the Fund.

58. Further details on investment performance have been included at paragraphs 109 to 112 of our report. The Fund earned modest returns in 2015/16 in the face of challenging market conditions. Interest rates are at an all time low and there is continued uncertainty as to when they will rise. This increases the on-going financial pressures of the Fund which, ultimately, is likely to necessitate higher contributions from employers.

Outlook

59. The financial outlook across the public sector and in local government in particular remains challenging. It remains to be seen whether, in the long term, recent revisions to the LGPS allow the scheme to remain affordable in its present state.
60. It is inevitable that management costs and investment performance will come under increasing scrutiny given the financial pressures faced by employers and employees alike. Pension funds may need to be more radical in their approaches to administration and investment going forward.

Governance and transparency



- 61. Falkirk Council is the administering body for Falkirk Council Pension Fund (FCPF). The council has delegated responsibility for governance to the Pensions Committee.
- 62. The Pensions Committee, supported by the Pension Board, is responsible for establishing arrangements to ensure the proper conduct of the affairs of FC PF. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.
- 63. As part of our work we reviewed various aspects of governance that apply to the Fund including standing orders, financial regulations,

Codes of Conduct for officers and members, anti-fraud and corruption arrangements.

- 64. Overall, we concluded that there are open and transparent arrangements in place, although there are some areas where practices could be improved.

Governance structure

- 65. The Public Service Pension Act 2013 introduced new governance arrangements for LGPS pension funds and from 1 April 2015 funds were required to introduce local pension boards. FC PF disbanded its Pension Panel when the Pension Board was created.
- 66. The remit of the Pension Board is to support the Pensions Committee in compliance with regulations and the requirements imposed by the Pension Regulator. The Pensions Committee and Pension Board met concurrently throughout 2015/2016.
- 67. The Pension Board consists of four employer representatives and four union representatives. The Chair is alternated on an annual basis between the representatives. If at least half the members of the Pension Board disagree with a decision of the Pensions Committee then they can request in writing that the Pensions Committee review that decision. There have been no requests to review decisions in 2015/16.
- 68. From our observations and attendance at the Pensions Committee and Pension Board during the year we concluded that the new governance arrangements were operating effectively.

69. A key aspect to the operating effectiveness of the Pension Board is the retention of knowledge and understanding to support the role. Falkirk Council, as Scheme Manager, should ensure training is provided to members to support them in their role.
70. The current Pension Fund training policy was approved by the former Investment Committee in March 2012. Management recognise that the policy needs updating and it is due to be updated in 2017. Having said that, training has been provided to members throughout the year. This was delivered in a number of ways including seminars, conferences and in-house training. Additionally, the Falkirk Council Pension Fund annual conference provides an opportunity to keep up to date with current developments.
71. Suitable training events were provided in year to enable Committee and Board members to maintain technical knowledge. However governance arrangements could be strengthened by maintenance of individual training records and more structured training plans.
72. Subject to the comments above we concluded that appropriate training is made available to members.
74. Additionally, the Committee were advised of the requirement to report breaches of the law to the Regulator and were given examples of what constitutes a breach.
75. The Pension Manager having reviewed the code identified two areas of non-compliance:
- failure to maintain accurate records (specifically missing home addresses for 500 records)
 - failure to issue all annual benefit statements by 31 August (70% issued by the prescribed date).
76. Members should monitor the situation carefully to avoid reputational damage. Members should also review whether the situation should be self-referred to the Pension Regulator.

Recommendation 2

Pension Regulator public service code

73. The Pension Regulator issued a code on the governance and administration of public service pension schemes, applicable from April 2015. In September 2015 the Pensions Committee was advised of the extended role of the Pension Regulator.
77. FCPF relies on a number of systems maintained by Falkirk Council including the ledger, payroll, trade payables and trade receivables. We tested controls within these systems as part of our audit of the council and concluded that there were no significant weaknesses although some areas for improvement were agreed with management.
78. We undertook testing of key processes relating to the administration of pensions within FCPF. We did not identify any significant weaknesses that we require to bring to your attention.

79. Furthermore, the Accounts Regulations 2014 require the Pension Committee to consider the findings of an annual review of the system of internal control.
 80. The Internal Audit Manager, in his Annual Assurance Report to the Pensions Committee, concluded that members could take substantial assurance on the Fund's arrangements, for risk management, governance and controls for the financial year to 31 March 2016.
 81. We concluded that no material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
- internal audit attendance at Committee to present audit findings and answer questions raised by members
 - provision of an Annual Assurance Report to Pensions Committee and Pension Board on the adequacy of the Fund's control environment.
83. Also, our review of Falkirk council's internal audit service concluded that the internal audit function complied with Public Sector Internal Audit Standards (PSIAS).
 84. Furthermore, we formally relied on aspects of internal audit work relating to pension fund administration and governance. In particular we relied on transactional testing of new members' contributions and pension calculations (including lump sum payments). The Internal Audit Manager in his report concluded that substantial assurance can be taken in relation to the adequacy of arrangements for Fund governance and the processing of pensions related transactions.
 85. Overall, we concluded that internal audit arrangements have been strengthened and that the internal audit service operates in accordance with Public Sector Internal Audit Standards.

Internal Audit

82. Internal audit provides members and management with independent assurance on risk management, internal control and corporate governance processes for the pension fund. Falkirk Council's internal audit provides the internal audit function for the Fund. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. Our review of the internal audit function considered aspects specific to the Pension Fund. We noted significant improvements since last year, specifically:
 - audit plans are now reported to the Pensions Committee
 - internal audit reports are submitted to Committee for scrutiny

ICT audit

86. In 2015/16 a new pension's administration system - Altair - was introduced. The roll out of this new system is continuing and in July 2016 a new payroll module went live.

- 87. The Altair system operates separately from the Falkirk Council network but within a hosted environment facilitated by Heywood (a major pension's software company in the UK). Access to the Altair system is controlled using passwords and these are regularly changed. Moreover, the Pensions Manager oversees access to the system.
- 88. In terms of contingency planning, Heywood back-up files overnight and conduct tests on accounts. Additionally, the CLASS group – the independent board overseeing the provision of Altair – requires information on on-going system developments including stress testing of security and disaster recovery arrangements.
- 89. We concluded that appropriate ICT access and security controls are in place for the Altair system.

Standards of conduct and arrangements for the detection and prevention of fraud and corruption

- 90. The financial regulations, standing orders, codes of conduct for officers and members and the anti-fraud & corruption strategy of the administering authority (Falkirk Council) apply to the Pension Fund. We reviewed these as part of our audit of the Council. A number of these arrangements have recently been updated while financial regulations have been reviewed and are subject to final approval. There are no matters in respect of these arrangements that we require to draw to the attention of members.
- 91. Falkirk Council Pension Fund actively participates in the National Fraud Initiative. A total of 422 matches have been identified to date.

248 matches have been investigated with priority given to pension cases relating to deceased members. No fraud has been identified and management are satisfied that the outstanding matches are irrelevant or minimal risk to the operations of the Fund.

- 92. We concluded that the Pension Fund has appropriate, and satisfactory, arrangements in place for the prevention and detection of fraud.

Transparency

- 93. Meetings of the Pensions Committee are open to the public except for confidential issues. Committee papers and minutes are also readily available on the council's website and there is a good level of transparency around Pension Fund business.
- 94. Also, the Pension Fund has a separate website where members of the pension scheme and the public can access various information including changes in pension legislation, auto enrolment, additional voluntary contributions and links to other useful sites. Some of this information is in the process of being updated.
- 95. In addition, the annual report and accounts are published on the Pension Fund's website. These are comprehensive and help ensure a good level of financial scrutiny and accountability.
- 96. We concluded that the Pension Fund has put in place arrangements that support openness and transparency.

Staffing resources

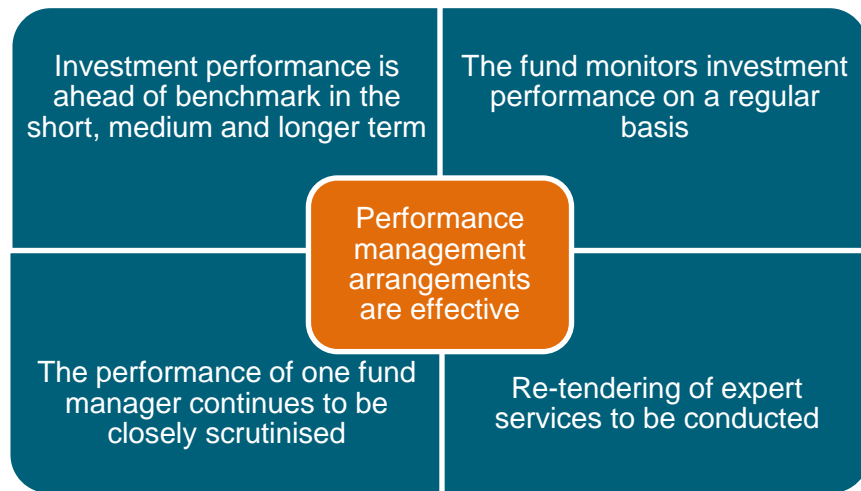
- 97. Last year we commented on the considerable pressure on staff in maintaining current levels of service particularly with the extra workload associated with the introduction of careers average pensions. These pressures continue to apply in 2015/16.
- 98. In 2015/16 two members of staff were recruited on a temporary basis to alleviate pressure. Whilst this has provided some flexibility and support it does not address the longer-term needs of the Fund.
- 99. Also, there is additional regulatory scrutiny from the Pensions Regular. As previously noted at paragraph 75 the Fund is at risk of breaching regulations. This situation is unlikely to improve until the current backlog of work is addressed.
- 100. It is important that the Fund has the right staffing complement to maintain a good level of service. The use of temporary or redeployed staff is not necessarily a long term solution particularly given the complexity of some of the pensions work. There needs to be a balance between those staff possessing specialist skills and knowledge compared to those with more general skills. The Fund should carry out a review of its resource needs to ensure that it has sufficient staff with the appropriate skills mix necessary to deliver an efficient and effective service.

Recommendation 3

Outlook

- 101. The introduction of the career average pension scheme has added considerably to the workload of pensions staff making it difficult to maintain individual records up to date.
- 102. New developments such as freedom and choice and the new single state pension (from April 2016) continue to add to administrative staff's workload. Moreover, local government is operating in a difficult financial climate where staff reductions are seen as a means of reducing costs. Inevitably this leads to a higher number of retirements and requests for pension projections. These will only add to the pressures facing pension staff.

Best Value / Value for money



- 103.** Administering authorities have a duty to ensure best value in the provision of services and to report performance publicly so that pension fund members, employers and other stakeholders know the quality of service being delivered and what they can expect in the future.

Performance Management

- 104.** The Pensions Committee meets on a quarterly basis. A review of fund managers' performance is a standing item on the committee's agenda. At each meeting, committee members receive a report outlining overall fund performance including an analysis of risks and

returns. The performance of individual investment managers is also reported on a quarterly basis to committee.

- 105.** The Pension Fund makes use of its own professional investment advisors to help them carry out a comprehensive review of individual manager's performance. Also, investment managers are regularly invited to attend the Pensions Committee to present to members and answer any questions they may have on performance.
- 106.** In addition, FCPF has a resourcing agreement with Lothian Pension Fund that provides additional support in monitoring the performance of investment managers.
- 107.** From our attendance at the Pensions Committee we can confirm that members, supported by their advisors, actively scrutinise the performance of managers. For example, Aberdeen Asset Management (AAM) were invited to attend the March 2016 meeting of the Pensions Committee to explain how they were going to address their relatively poor performance over the last few years. Members sought assurance that actions were being taken to improve performance in future.
- 108.** After considering AAM's presentation and responses to questions raised at the meeting, members in consultation with their professional advisers, agreed to retain AAM meantime subject to performance improving. Furthermore, terminating the contract with AAM would only crystallise losses. AAM as a gesture of goodwill, and in recognition of their need to improve performance, agreed to waive their management fees for one year.

Investment performance

109. The economies of scale and investment opportunities that larger funds benefit from are not available to FCPF. Having said that, the Fund's performance has remained positive against benchmark over one, three and five years as illustrated below:

Exhibit 4: Fund investment performance 1, 3 & 5 years

	2015/16 %per annum	3 years % per annum	5 years % per annum
Fund return	1.5%	7.2%	8.2%
Benchmark return	0.3%	6.0%	6.4%
Excess	1.2%	1.2%	1.8%

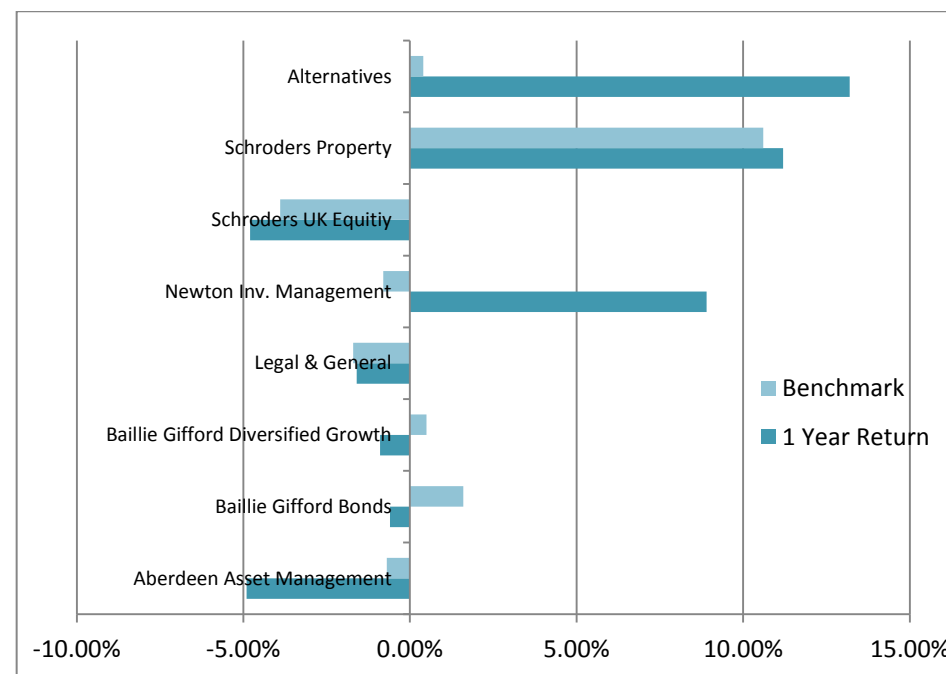
Source: Falkirk Council Pension Fund Annual Report & Accounts 2015/16

Fund manager performance

110. 2015/16 has been a very challenging year for investment managers due to a combination of factors including a slowdown in the Chinese economy, sluggish growth within the Eurozone, depressed oil prices and low yields on fixed interest securities.
111. The performance of fund managers has been varied as illustrated in Exhibit 5 opposite. Those fund managers dealing in equities have performed poorly in 2015/16 although Newton did achieve a return of 8.9% due largely to its holding of North American equities which performed relatively well.

112. Overall, four of the eight investment managers failed to achieve their benchmark with Aberdeen Asset Management's (AAM) returning the weakest performance. The Pensions Committee, as outlined in paragraphs 107 and 108 above, have decided to retain AAM but they remain 'on watch' to ensure that performance improves. Furthermore, terminating the contract with AAM would only crystallise losses.

Exhibit 5: Fund manager's performance in 2015/16



Information Source: Falkirk Council Pension Fund Annual Report and Accounts

Administrative performance

- 113. The workload of the pension administration section continues to grow primarily due to the introduction of the career average pension scheme from 1 April 2015. Other factors impacting on the administration workload include auto enrolment, freedom of choice and further implementation of modules on the Altair (pension administration system).
- 114. The Pensions Manager has developed a number of performance indicators to monitor administrative performance. These are included in the Fund's Annual Report.
- 115. There is an increasing trend in the annual administration cost per member which has risen to £29.08 in 2015/16 from £23.51 in 2014/15. The Fund is currently exceeding its benchmark of £25.00 per member by 16 per cent. Given that the targets were set in the early 2000s prior to the introduction of many features of the current LGPS, the benchmark may no longer be appropriate.
- 116. The Fund should ensure that there are appropriate benchmarks and performance indicators in place. These should be relevant to the Fund and publically reported to demonstrate how effectively the Fund is achieving value for money and statutory deadlines.

Recommendation 4

Tendering for services

- 117. It is good practice to tender for expert / specialist services at set intervals. This is to test the market and ensure that current providers deliver value for money.
- 118. We have noted that there are different practices in place across Scotland for the tendering of expert services. In Falkirk's case the Pensions Committee has been given delegated authority to appoint external advisers, investment managers and custodians, as required. However, there is no explicit policy covering the tendering for these services or the frequency of re-tendering.

Recommendation 5

- 119. Management have advised that an informal review of Custodian services was undertaken in 2015 and are content with the costs and services provision. Also, we have been advised that actuarial services are expected to be re-tendered in 2016/17.

National performance audit reports

- 120. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16 there were no reports issued which were directly related to pension fund matters.

Outlook

- 121. Going forward there will be pressure on funds to contain costs. This is in the context of increasingly complicated administrative arrangements and a more sophisticated investment programme. The operation of cost sharing mechanisms may increase the level of interest in pension fund business. We understand that the Government's Actuary Department (GAD) is currently undertaking a review in relation to cost sharing on behalf of Scottish Ministers.
- 122. In England and Wales there is a move towards the pooling of funds through collective investment vehicles. This is take advantage of the economies of scale and investment opportunities that large pension funds benefit from. Scottish Ministers have already indicated that this is an area where the views of the national Scheme Advisory Board may be requested in future.
- 123. Pension funds may need to reconsider the costs and benefits of shared services, procurement exercises and asset pooling.
- 124. The low interest rate environment and its impact on scheme liabilities remains a great challenge for the Fund in terms of how this can be satisfactorily managed. The recent Brexit vote means that Fund assets are likely to be existing in an atmosphere of volatile and unstable financial markets.

Appendix I: Significant audit risks

The table below sets out the significant financial statement audit risks and wider dimension risks we identified within our Annual Audit Plan. The table also sets out 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		
<p>Risk of management override of control</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> <p>Risk</p> <p>Management's ability to override controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluation of significant transactions that are outside the normal course of business • Focused testing of regularity and cut-off assertions during the financial statements audit. 	<ul style="list-style-type: none"> • We substantively tested a sample of high value journals at the year end and found no errors. • We examined management's accounting estimates for bias with focused review and testing of journals and accruals. • We carried out focused testing on significant items across all areas of the accounts. • We tested cut-off procedures as part of financial statements audit. <p><i>Our audit work did not identify any override of controls or any deliberate misstatements in the financial statements.</i></p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Administration performance</p> <p>Staff absences, the installation of the new administration system and increased administrative duties have resulted in a backlog of work and deterioration of overall performance.</p> <p>Risk</p> <p>There is a risk of breaches in regulatory administration requirements and members may not be able to retrieve requested information timeously.</p>	<ul style="list-style-type: none"> • Review of arrangements for monitoring potential breaches • Review of administration performance indicators and comparison against the previous year • Continued discussions with management about the potential for future breaches in Regulations 	<ul style="list-style-type: none"> • There are no set arrangements for monitoring of potential breaches but the Pensions Manager is knowledgeable of potential threats. • There is deterioration in the key performance indicators from the previous year which highlights the continued stresses that the administration section faces with new scheme arrangements and limited staff resources. <p>See Recommendation 2: <i>Management should provide updates to Committee on potential breaches. Actions should be ascertained to avoid these occurring and the Committee must consider whether self-referral to the Pensions Regulator is required in the event of default.</i></p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Pensions Board and Committee training</p> <p>Management should assist individual Pensions Board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties.</p> <p>Risk / recommendation</p> <p>Records of members training should be maintained to demonstrate steps taken to mitigate any skills and knowledge gaps and to comply with legal requirements.</p>	<ul style="list-style-type: none"> • Attendance at Committees / Boards • Review of individual committee attendance • Review of training provided to members in year • Consistency reviews of governance disclosures within Annual Report and Accounts 	<ul style="list-style-type: none"> • We confirmed that training events were made available to members in year and disclosure of the events listed in the Annual Report are consistent with our knowledge • We confirmed that the AGS and GCS were prepared in accordance with applicable guidance and disclosures are consistent with our understanding of the Fund. <p><i>Suitable training events were provided in year to enable members to maintain technical knowledge. However governance arrangements could be strengthened by maintenance of individual training records and more structured training plans.</i></p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Risk management</p> <p>The core risk register should be updated as part of an overall review of risk management arrangements.</p> <p>Risk / recommendation</p> <p>Effective risk management arrangements are required to deliver strategic and operational objectives.</p>	<ul style="list-style-type: none"> • Review of risk management arrangements • Review of disclosures within Annual Report and Accounts 	<ul style="list-style-type: none"> • We attended Committee and Board meetings throughout the year. • We reviewed the newly revised risk register. • We reviewed the Annual Report and Accounts for references to risk management arrangements. <p><i>The revision of the risk register is a significant improvement in the risk management arrangements.</i></p>

Appendix II: Action plan

Recommendation number AS reference	Paragraph ref.	Issue / Risk / Recommendation	Management action/response	Responsible officer / Target date
1. MKI Reference (78106)	25	<p>Pension Records / Year end data returns</p> <p>A significant number of employers are not submitting their year-end data returns to the Fund timeously or to an adequate standard.</p> <p>Risk</p> <p>The Fund is unable to maintain up to date members' records.</p> <p>Recommendation</p> <p>Management should continue to engage with employers to ensure that the detailed returns are completed accurately and within required timeframes.</p>	<p>Further engagement will be made with employers to improve the accuracy and completeness of year end returns.</p> <p>An administration strategy with provision to levy charges on employers providing inadequate data will be established.</p>	<p>Pensions Manager</p> <p>March 2017</p>

Recommendation number AS reference	Paragraph ref.	Issue / Risk / Recommendation	Management action/response	Responsible officer / Target date
2. MKI Reference (78106)	76	<p>Potential Pension Regulation Breaches</p> <p>There are two potential areas of non-compliance with the Pensions Regulations. These relate to the maintenance of accurate records and failure to issue 100% of benefits statements by 31 August.</p> <p>Risk</p> <p>Members do not have access to up to date records. Additionally, reputational damage may occur.</p> <p>Recommendation</p> <p>Potential areas of non-compliance should be monitored by the Pensions Committee and Board. Members should also review whether any issues should be self-referred to the Pension Regulator. If the Board does not do this the external auditor will consider discussing the non-compliance with the regulator.</p>	Breaches will be brought to the attention of Committee and Board on 22 September 2016.	Pensions Manager September 2016

Recommendation number AS reference	Paragraph ref.	Issue / Risk / Recommendation	Management action/response	Responsible officer / Target date
3. MKI Reference (78109)	100	<p>Staff Resources</p> <p>Temporary resources have been recruited to the pension administration team to alleviate workload pressures. This is not a long-term solution.</p> <p>Risk</p> <p>The Council is unable to fulfil its responsibilities as Fund Administrator.</p> <p>Recommendation</p> <p>The Fund should carry out a review of its resource needs to ensure that it has sufficient staff with the appropriate skills mix necessary to deliver an efficient and effective service.</p>	A proposal addressing concerns about staffing but recognising the need to balance costs with administrative obligations has been put to Senior Management.	Pensions Manager September 2016

Recommendation number AS reference	Paragraph ref.	Issue / Risk / Recommendation	Management action/response	Responsible officer / Target date
4. MKI Reference (78967)	116	<p>Administration Performance Indicators</p> <p>The Fund's admin performance indicators and benchmarks may no longer be appropriate given the increased demands of the LGPS.</p> <p>Risk</p> <p>The Fund is unable to demonstrate improvement and value for money.</p> <p>Recommendation</p> <p>The Fund should review its administration performance indicators to ensure that they are relevant and appropriate.</p>	<p>Performance indicators and benchmarks will be revised to ensure that they are fit for purpose.</p> <p>These will be reported to the Pensions Committee.</p>	<p>Pensions Manager</p> <p>September 2017</p>

Recommendation number AS reference	Paragraph ref.	Issue / Risk / Recommendation	Management action/response	Responsible officer / Target date
5. MKI Ref (78966)	118	<p>Tendering of Services</p> <p>The Pensions Committee has delegated authority to appoint external advisers and custodians. However there is no explicit policy covering the tendering for services or the frequency for re-tendering.</p> <p>Risk</p> <p>The Fund is unable to demonstrate that it is receiving value for money.</p> <p>Recommendation</p> <p>A formal policy for re-tendering of services should be established.</p>	A tendering exercise for actuarial services is already scheduled for later in 2016. Subject to other priorities, consideration will be given to bringing forward a policy proposal as suggested.	Pensions Manager December 2016