

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest is a shield divided into four quadrants. The top-left quadrant shows a city skyline with a diagonal beam of light. The top-right quadrant depicts a stag's head with antlers. The bottom-left quadrant shows a three-masted sailing ship on wavy water. The bottom-right quadrant features a grizzly bear standing on a rocky outcrop. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

Agenda Item 3

Minute

Draft

FALKIRK COUNCIL

Minute of Joint Meeting of the Pensions Committee and Board held on Thursday 22 September 2022 at Lesser Town Hall, Falkirk at 10.00 a.m.

Present:

Committee:-

Councillors - Falkirk Council:-

Lorna Binnie (Convener)

Jim Flynn

Iain Sinclair

Euan Stainbank

Andy Douglas, Unison

Douglas MacNaughtan, Pensioner Representative

Councillor Bryan Quinn, Clackmannanshire Council

Board:-

Tony Caleary, Unison, Stirling Council

Sandy Harrower, Unite

Ed Morrison, SCRA

George Murphy, Stirling Council

Attending:

Catherine Carruthers, Pensions Manager

Sophie Dick, Graduate

Justyna Korszen-Bennett, Senior Accountant

David Macleod, Internal Auditor

Sarah McPhee, Senior Internal Auditor

Brian Pirie, Democratic Services Manager

Amanda Templeman, Chief Finance Officer

Also in attendance:

Albert Chen, Lothian Pension Fund

Bruce Miller, Lothian Pension Fund

Olga Potapova, EY

Hassan Rohium, EY

PE.14 Apologies

Apologies were intimated on behalf of David Morgan, SEPA and David Wilson, Unison, Clackmannanshire Council

PE15. Declarations of Interest

There were no declarations.

PE16. Minute

Decision

The minute of the joint meeting of the Pensions Committee and Board held on 25 August 2022 was approved.

PE17. Internal Audit Annual Assurance Report for 2021/22

The Committee and Board considered a report by the Internal Audit, Risk and Corporate Fraud Manager providing an update on Internal Audit work undertaken in respect of the Falkirk Council Pension Fund during 2021/22, and providing an assurance on arrangements for risk management, governance, and control based on that work.

Two minor discrepancies between the actual and expected contribution rates had been identified. The Internal Auditor clarified this discrepancy was on the employer's side. The Pensions Section had contacted the employer and rectified the issue.

Decision

The Committee and Board:-

- (1) noted that Internal Audit could provide substantial assurance in respect of the Fund's arrangements for risk management, governance, and control for the year to 31 March 2022.**

PE18. Internal Audit Plan for 2022/23

The Committee and Board considered a report by the Internal Audit, Risk and Corporate Fraud Manager providing a Falkirk Council Pension Fund Internal Audit Plan for 2022/23 and sought the approval of that Plan.

Internal Audit's work during 2022/23 would include Pension Fund Transactional Testing. The purpose of the work was to ensure that:

- new member contributions to the Pension Fund were properly calculated;
- the correct values of pension rights either transferred into, or out of, the Pension Fund have been received or paid;
- the correct pension payments were paid to retiring Fund members;
- the correct lump sum payments were made in respect of deceased Fund members; and
- the controls around i-Connect (electronic transfer of data from employers creating starters and leavers) are operating effectively

The work would also include a follow up review of the recommendations made within the 2021/22 Internal Audit review of internal and external assurances provided to the Pension Fund Manager on the Fund's cyber security arrangements.

Following a question on whether the upcoming External Audit should be incorporated into the Internal Audit Plan for 2022/23, the Senior Internal Auditor clarified that it was built into the Internal Audit Plan for Falkirk Council.

The Board sought for clarity on whether the additional assurance work would be focused on the merger of Falkirk Council Pension Fund with Lothian Pension Fund. The Senior Internal Auditor explained that focus would mainly be placed on Transactional Testing and the follow-ups to cyber security recommendations. In terms of work relating to the merger, this was ongoing and therefore had no end-date as it would only finish once the merger was complete.

Decision

The Committee and Board:-

- (1) agreed the proposed Falkirk Council Pension Fund Internal Audit Plan 2022/23; and**
- (2) noted that an Annual Assurance Report will be provided.**

PE19. Annual Audit Report 2021/22

The Committee and Board considered a report by the Director of Transformation, Communities and Corporate Services providing the Annual Audit Report on the Pension Fund by the Fund's external auditors, Ernst & Young LLP (EY).

The Fund audit for 2021/22 has been undertaken by the external auditors, EY. The 2020/21 was the fifth year of the original five-year appointment for EY but in view of the Covid-19 pandemic, EY's appointment as Fund auditor was extended to cover the 2021/22 financial year.

The Audit Report indicated that:

- the audit opinion would be unqualified (subject to finalisation of subsequent events and completion procedures)
- EY was satisfied with the Going Concern basis of accounts preparation
- other information included in the Fund Annual Report was consistent with the financial statements
- in relation to matters reportable by exception (such as the failure to keep adequate accounting records), EY had nothing to report, and

- the audit of wider scope work, focusing on Financial Sustainability, Governance and Transparency, Financial Management and Value for Money, raised no issues and was all rated “green” in the EY report.

The audit identified two unadjusted differences which Management has chosen not to adjust on the grounds of materiality. These differences were:

- £19 million in relation to the undervaluation of private equity and other complex investments because the valuation for some assets as at 31 March 2022 was not available when the unaudited Annual Report and Accounts was published, meaning the accounts were based on the best available information. More up to date information was now available during the audit which results in a difference arising, and
- £9.4 million relating to the reversal of corporate action posted by the Custodian to the incorrect period (April 2022).

The total base audit fee for the 2021/22 audit has been set by EY at £28,430 (£29,650 in 2020/21).

The overall materiality limit set by EY for the audit was £32m (i.e. 1% of Fund assets), with the tolerable error level set at £16m (50% of overall materiality). The level of audit differences to be reported to Committee was set at £250k.

In the course of the audit, EY had identified two audit differences over £250k of £19m and £9.4m. Management had chosen not to adjust the accounts for these differences, noting that the financial statements were prepared with the best information available at the time of preparation in line with required statutory guidelines. An explanation for not adjusting the financial statements for the identified differences was included in the letter of representation.

Decision

The Committee and Board noted:-

- (1) the Annual Audit Report for 2021/22;**
- (2) the intended unqualified audit opinion, and**
- (3) the two identified audit differences**

The Committee agreed:-

- (1) the letter of representation addressed to EY from the Chief Finance Officer and Chair of the Pensions Committee, and**
- (2) the response to the EY letter of 26 July 2022 addressed to the Pensions Committee.**

PE20. Audited Pension Fund Annual Report and Accounts 2021/22

The Committee and Board considered a report by the Director of Transformation, Communities and Corporate Services providing the audited version of the Pension Fund Annual Report and Accounts for 2021/22.

The committee asked what allowance had been allocated to align the raise in pensions as set out by the UK Government. The Pensions Manager explained that the annual pension increase was dictated and enshrined into legislation – this figure was decided upon the movement in consumer prices between September 2021 to September 2022.

Decision

The Committee approved the signing of the Audited Pension Fund Annual Report and Accounts 2021/22 and their publication on the Fund website.

PE21. General Governance Matters

The Committee and Board considered a report by the Director of Transformation, Communities and Corporate Services providing an update on miscellaneous matters related to Falkirk Pension Fund business.

Decision

The Committee and Board noted the report.

PE22. Market Review and Fund Manager Performance

The Committee and Board considered a report by the Director of Transformation, Communities and Corporate Services providing an update on recent investment market developments, the Fund's strategic allocation and performance and on the monitoring activity of the Fund's investment mandates during the most recently completed quarter.

Following a question on whether the ongoing conflict in Ukraine presented a risk, and if so what mechanisms were in place to monitor the impact, Mr Chen explained that the volatility experienced thus far in the year was due to this conflict. In terms of how to prepare for risk, according to Mr Chen, was to have a diverse portfolio and range of strategies – for example, invest in different types of equity fund or debt. He assured the committee and Board that the Fund was currently well positioned.

Decision

The Committee and Board noted:-

- (1) recent investment market developments;**
- (2) the Fund's strategic allocation;**
- (3) the Fund's performance for the period ending 30 June 2022, and**
- (4) the investment monitoring activity of the JISP.**

PE23. Engagement and Voting Activity

The Committee and Board considered a report by the Director of Transformation, Communities and Corporate Services providing and update on the engagement and voting activity undertaken by the Fund during Quarter 2 of 2022.

Decision

The Committee and Board noted:-

- (1) the report, and**
- (2) the reports provided by Hermes EOS.**

PE24. Exclusion of Public

Agreed in terms of Section 50A(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 9 of Part 1 of Schedule 7A to the said Act.

PE25. Merger Update

The Committee and Board considered a report by the Director of Transformation, Communities and Corporate Services providing an update on the proposed merger of Falkirk Council Pension Fund (the Fund) with Lothian Pension Fund (LPF).

Decision

The Committee and Board noted the report.

PE26. Joint Investment Strategy Panel Update

The Committee and Board considered a report by the Director of Transformation, Communities and Corporate Services summarising the key matters discussed at the meeting of the Joint Investment Strategy Panel (JISP) on 6 September 2022.

Decision

The Committee and Board noted the report.