



Falkirk Council Pension Fund

**Annual Audit Report to Members
and the Controller of Audit - year
ended 31 March 2020**

24 September 2020



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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Falkirk Council Pension Fund (the Pension Fund) for financial years 2016/17 to 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the Pension Fund and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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Executive Summary: Key Conclusions from our 2019/20 audit

We intend to issue an unqualified audit opinion on the Pension Fund's 2019/20 financial statements

We updated our risk assessment in response to the global pandemic, and as a result placed additional focus on:

- ▶ the adequacy of the Pension Fund's disclosures in relation to the pandemic; and
- ▶ management's assessment of going concern.

Financial Statements

Our audit of the Pension Fund's financial statements for the year ended 31 March 2020 is complete in all material aspects. Based on the work performed, we identified one adjusted error of £0.9 million in relation to the classification of a delayed creditors payment around year end. We additionally identified one audit difference of £6.5 million in relation to the valuation of investments at 31 March 2020 and one difference of £4 million in disclosures relating to unfunded commitments. Management chose not to adjust these differences on the basis of materiality.

The draft financial statements and supporting working papers were of a good quality. We worked with the Pension Fund Manager and Senior Accountant to make enhancements to the Management Commentary and notes to the financial statements to reflect the implications of the Covid-19 global pandemic on the financial statements, and the Fund's activities.

We concluded that the other information subject to audit, including the applicable parts of the Governance Compliance Statement and the Annual Governance Statement were appropriate. We were satisfied that the Annual Governance Statement reflects the requirements of the *Delivering Good Governance Framework*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19. The information given in the Governance Compliance Statement is considered to be consistent with the financial statement and the report had been prepared in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018.

Going Concern

Management is required to conclude on the going concern basis of preparation in the financial statements. As a result of the unprecedented impact of Covid-19 both on the Fund's operations and the financial markets, we placed additional emphasis on management's assessment of going concern, and particularly the need to report on the impact of market volatility on the Fund's funding levels.

Covid-19 had a significant impact on the financial position of the Fund resulting in a fall in asset value of 6.6%. However, the most recent asset valuation has shown that assets are already recovering despite there being ongoing market uncertainty. The Pension Fund has a long-term investment strategy with assets held for the purpose of funding the scheme's pension benefits.

Wider Scope

We summarise the conclusion we reached in response to our work on the wider scope dimensions below.

Financial Sustainability

The Pension Fund has appropriate arrangements in place for the triennial valuation taking place as at 31 March 2020. Assumptions have been approved by Pensions Committee and Board with limited changes from the previous valuation. The Fund's funding position has been significantly impacted by Covid-19 with a large decrease in the Fund's asset valuation as at 31 March 2020.

Collaboration with Lothian Pension Fund has continued throughout 2019/20 with further developments expected in the coming year.

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Governance and Transparency

Due to Covid-19, the Pensions Committee and Board did not hold meetings for seven months. The Pension Fund should ensure that appropriate arrangements are established to ensure that remote meetings can be held in a timely manner.

We consider the Governance Statement to be consistent with our findings from our audit procedures and recognise that sufficient detail was included in relation to the impact of Covid-19 on the Fund.

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Financial Management

The Pension Fund has established core financial management arrangements, and we are satisfied that these are adequate for the current management of its financial activities. We did however note that the 2020/21 budget was not approved until August 2020 and have highlighted this within our governance review.

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

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Value for Money

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

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

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Introduction

As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the Pension Fund by at least 12 months, to 2021/22.

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Falkirk Council Pension Fund (“the Pension Fund”). Our appointment term has recently been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

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

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

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Pension Fund employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Pension Fund in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management.

Our independence

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

Scope and Responsibilities

The Code sets out the responsibilities of both the Pension Fund and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Pensions Committee on 13 August 2020.

The impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in February 2020, and our Annual Audit Plan was scheduled to be presented to the Pensions Committee and Board in March 2020, however this meeting was cancelled due to Covid-19. We recognise that the pandemic has had a profound impact on the Pension Fund both operationally and financially. As a result, we revisited our planning assessments for the 2019/20 audit and our updated audit approach was outlined within our Audit Plan Addendum presented alongside our Annual Audit Plan to Pensions Committee and Board in August 2020.

While the impact occurred late in the financial year, the financial results of the Pension Fund were adversely impacted by the significant market volatility caused by Covid-19. There were no additional transaction streams before 31 March 2020 that would require new accounting policies or treatments.

Notwithstanding that Covid-19 has presented a significant operational challenge to the Pension Fund, we have not identified any new financial statement risks. There are, however, a number of areas of the financial statements that have been impacted by Covid-19, including:

- ▶ **Governance Statement:** The Pension Fund moved to critical service delivery in March 2020 at the commencement of the lockdown. The governance statement captures how the control environment changed during the period and what steps were taken to maintain a robust control environment during the disruption.
- ▶ **Disclosures and estimates:** Additional disclosures were required throughout the financial statements, including the management commentary, to reflect the additional risks facing the Pension Fund and how these have impacted the key judgements and estimates made in preparation of the financial statements. These include disclosures on significant events after the balance sheet date.
- ▶ **Going concern:** In accordance with the CIPFA Code of Local Government Accounting, the Pension Fund should prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. Covid-19 has created increased financial pressures throughout the public sector and there is ongoing volatility in financial markets. The results of this assessment are reported in Section 2 on page 16.

The ongoing disruption to financial markets resulting from Covid-19 has a significant impact upon the financial statements.

The financial statements have been updated to reflect the impact of Covid-19 on the Pension Fund's financial position and performance.

We remain satisfied that the values reported to you in our Audit Planning Addendum for planning materiality, tolerable error and our audit threshold for reporting differences remain appropriate.

Adaption to remote working

Our audit fieldwork was completed remotely as a result of the Scottish Government's lockdown restrictions. There were two key impacts:

- ▶ Additional work was required to assess the format of evidence provided and where necessary, procedures were performed to validate the authenticity of evidence.
- ▶ All contact with the Pension Fund's finance team and Pensions Manager was conducted via virtual meetings. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £49.8 million. We reviewed our assessment of materiality which we communicated in our Audit Plan and due to the impact of Covid-19 decreased our tolerable error from 75% to 50% of planning materiality. The decrease in tolerable error reflected the increased risks identified in relation to the yearend accounting process, financial statements preparation and subsequent audit risk from the impact of Covid-19 and remote working. We also updated our materiality figures for the year end net assets position reported in the unaudited 2019/20 financial statements with the updated figures shown below.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Overall Materiality	Tolerable Error	Nominal amount
£46.5 million	£23.25 million	£250,000
2% of the Pension Fund's net assets	Materiality at an individual account level	Level that we will report to committee

As outlined in our Annual Audit Plan and Audit Plan Addendum, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Key Management Personnel disclosure and Related Party Transactions.

Financial statement audit

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

- ▶ whether they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom.

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

Wider Scope audit

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

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

Our findings are summarised in Section 3 of this report.

Financial Statements audit

Introduction

The Pension Fund's Annual Accounts provide the Pension Fund with an opportunity to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

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

The Plan highlighted one area that we identified as a fraud risk, which is a presumed risk for all entities in line with auditing standards, related to the risk of fraud through management override of controls to misstate the year end valuation of Fund investments. We recognise the valuation of complex investments held by the Fund at year end as a significant audit risk in itself. This assessment was not changed as a result of the impact of Covid-19.

Compliance with Regulation

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Pension Fund to prepare financial statements, ensure their availability for public inspection and consideration by the board or a committee with an audit or governance remit. Schedule 6 of the Coronavirus (Scotland) Act 2020 allowed the Pension Fund to postpone submitting the unaudited financial statements to auditors and publishing the audited financial statements until it was reasonably practicable to do so. No delay was necessary for the Pension Fund, and we received the draft financial statements for audit on 29 June 2020, in line with planned timescales.

The inspection notice was published by Falkirk Council on the Council's behalf on 17 June 2020, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

The Regulations were amended to allow the Pension Fund to delay preparation of the financial statements. However, the draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

Audit Outcomes

The unaudited financial statements were prepared to a good standard. Our audit of the Pension Fund's financial statements for the year ended 31 March 2020 is complete in all material aspects.

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

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

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

We made a number of recommendations in respect of presentational changes to the unaudited accounts, to ensure compliance with accounting standards and good practice. All changes have been made in the updated financial statements with one exception, in relation to the disclosure of unfunded commitments at yearend in note 25 to the financial statements (where a difference is noted of £4 million between the financial statements disclosures and supporting fund manager statements).

In respect of core audit work, we identified one adjusted difference of £0.9 million in relation to the categorization of a delayed cash transfer to the Council at year end which is reflected in the updated financial statements. This relates to a creditor payment made on behalf of the Pension Fund by Falkirk Council which was approved prior to year end but paid in the new financial year. One unadjusted difference above our reporting threshold was identified of £6.5 million in relation to valuation of private equity and other complex investments due to more up-to-date information being available during the audit. Management has chosen not to adjust the difference on the basis of materiality. We have outlined our work in this area in more detail on page 14 of this report.

Our audit opinion

Element of opinion

Basis of our opinion

Conclusions

<p>Financial statements</p> <ul style="list-style-type: none"> ▶ Truth and fairness of the financial transactions of the Fund during the year and of the amount and disposition of its assets and liabilities ▶ Financial statements in accordance with the relevant financial reporting framework 	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable</p> <p>We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.</p>	<p>We propose to issue an unqualified audit opinion on the 2019/20 financial statements for the Falkirk Council Pension Fund.</p>
<p>Going concern</p> <ul style="list-style-type: none"> ▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting 	<p>We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis</p> <p>Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.</p>	<p>In accordance with the work reported on page 16 we have no matters to report.</p>
<p>Other information</p> <ul style="list-style-type: none"> ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit 	<p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> ▶ Review of committee and board minutes and papers, regular discussions with management, our understanding of the Pension Fund and the wider sector. 	<p>We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>
<p>Matters prescribed by the Accounts Commission</p> <ul style="list-style-type: none"> ▶ Management commentary / annual governance statement / Governance Compliance Statement are consistent with the financial statements and have been properly prepared. 	<p>Our procedures include:</p> <ul style="list-style-type: none"> ▶ Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records. ▶ Reviewing the content of narrative disclosures to information known to us. ▶ Our assessment of the Annual Governance Statement against the Delivering Good Governance Code. 	<p>We intend to issue an unqualified opinion.</p>
<p>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> ▶ there has been a failure to achieve a prescribed financial objective, ▶ adequate accounting records have been kept, ▶ financial statements are not in agreement with the accounting records, or ▶ we have not received the information we require. 	<p>We have no matters to report.</p>

Significant and fraud audit risks

Management override of Investment Asset Valuations

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

We have determined that the way management could be most likely to override controls is by manipulating the value of the year-end investment asset balances posted in totality to the accounts at year-end. Our procedures around this aspect of the risk are outlined on page 14.

Our procedures to address the risk around management override included:

Risk of Fraud

- ▶ We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Testing on Journal Entries

- ▶ We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained all journals posted by management to record the transactions of the Pension Fund, which are hosted on the Falkirk Council financial ledger. We subsequently identified risk criteria for the journals and tested any relevant journals considered to be at higher risk of misstatement to understand the basis for the transaction and agree to third party supporting evidence. We did not identify any exceptions as a result of our testing.

Investment balances

- ▶ We have obtained third party confirmations of the Fund's externally held investment balances at the Pension Fund's year end 31 March 2020 from both custodians and investment managers. We have investigated any differences in valuation between these sources and agreed the final balance for investments in the accounts.

Judgements and Estimates

- ▶ We agreed with management's assessment that there are no material accounting estimates included in the financial statements that have a direct impact on the Fund's financial statements beyond the estimates used by third parties to value assets in which the Pension Fund has investments.

Accounting Policies

- ▶ We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Pension Fund to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under IFRS or the Code.

Valuation of complex investments - Significant risk

As of 31 March 2020, the Fund held investments of £2.3 billion, of which 70% (£1.6 billion) were classified as Level 2 and Level 3 investments, meaning there are not publicly quoted prices in place for these types of investments in an active market. We have therefore assigned a significant risk to the valuation of Private Equity and Infrastructure Funds, Managed Property Funds and Pooled Investments. Around 50% of the pooled investments are in listed equities. Our audit focus around this risk is focused on the remaining harder to value assets included in pooled investments.

Our procedures to address this risk included:

- ▶ Where fund managers complete controls' reports, we obtained the reports for all material investments and reviewed qualifications or exceptions that may affect the audit risk and scope. Where the period covered by the Fund manager controls' reports differ from the Pension Funds balance sheet date, we have obtained bridging letters for the period between report dates and financial statements date. No issues that could affect the risk or scope of the audit were identified.
- ▶ We have reviewed the basis of valuation for unquoted investments to assess if they are in line with the accounting policy and in accordance with the CIPFA Code of Practice on Local Government Accounting requirements.
- ▶ For managed property funds and pooled investments we tested all material balances to lower testing thresholds of (10% of tolerable error) and agreed all balances sampled to third party fund managers' reports.
- ▶ For private equity and infrastructure we obtained the most up-to-date financial statements for each investment, and capital statements to the Fund's Financial Statements date. We have considered the audit opinions for the Fund's share of the investment based on its percentage ownership.

We identified a number of differences between the Pension Fund recorded balances and the confirmations received from Fund managers. We confirmed this occurred where valuations gains to 31 March 2020 were not reported to the Pension Fund before the unaudited accounts are prepared, but are available by the time of the audit of the financial statements.

The total differences identified were £6.5 million for private equity, infrastructure and private debt and pooled investments (2018/19: £4.5 million). Management has chosen not to adjust the accounts for the differences, noting that the financial statements are prepared with the best information available at the time of preparation in line with required statutory guidelines. If the Pensions Committee agrees not to adjust the financial statements for the identified difference, an explanation for not doing should be included in the letter of representation.

Managed Property Funds

At 31 March 2020 the Pension Fund owned £138.6 million worth of investment in pooled property funds. The outbreak of the Novel Coronavirus declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020 has impacted global financial markets.

Market activity is being impacted in many sectors and as at the valuation date in relation to property assets, valuers did not consider that they can rely upon previous comparable market evidence to fully inform opinions of value. Valuations are therefore reported on the basis of "material valuation uncertainty" as per VPS3 and VPGA10 of the RICS Red Book Global. Consequently, less certainty - and a higher degree of caution - is attached to the valuation than would normally be the case. 100% confirmations for all material investments selected for our testing came with a material uncertainty clause being attached. RICS guidance has clarified a material valuation uncertainty clause is not a disclaimer of opinion (and they are not saying the valuation cannot be relied upon) rather it is used to explain that less certainty can be attached to the valuation than would otherwise be the case.

To gain the required assurance over the valuation of these balances we performed additional substantive procedures of the pooled property funds as of 31 March 2020, including additional key items testing, agreement to audited financial statements of investments where possible including review of the relevant auditor opinions, and agreement of the Net Assets Value on a per unit basis from the financial statements.

Based on the results of the above procedures, we are comfortable that the uncertainty attached to the valuation of the managed property funds cannot be of a material size for Pension Fund financial statements as a whole. We are also satisfied that the uncertainty has been appropriately disclosed by management in the financial statements.

Our conclusions

- ▶ Our testing has not identified any material misstatements relating to investment valuations testing. Based on work completed, one unadjusted difference of £6.5 million was identified. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

Going concern

In accordance with the CIPFA Code of Practice on Local Government Accounting, the Pension Fund prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. CIPFA bulletin 05 (closure of the 2019/20 financial statements) states that while there is likely to be a significant impact of Covid-19 on local authority financial sustainability, the rationale for the going concern basis of reporting has not changed.

The rationale for going concern remains the same, but we placed increased focus on management's assertion of going concern and disclosures relating to financial sustainability as a result of the uncertainty and unprecedented budget pressures caused by Covid-19.

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements. In particular, we considered the need to report on the impact of financial market volatility on the Pension Fund and the impact of Covid-19 on both admitted and scheduled bodies of the Fund and their ability to continue to make required contributions. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements.

The Pension Fund experienced a fall in asset value of approximately 6.6% and held £2.3 billion of assets at 31 March 2020. The latest asset valuation performed in June 2020 shows signs of market recovery with assets valued at £2.5 billion, however it is acknowledged that there is ongoing uncertainty. The Fund's assets are held for the long-term purpose of funding the scheme's benefits and the investment strategy in place is designed for this purpose. The Fund's investment portfolio includes a number of liquid assets including £82 million of in-house managed cash and £1.6 billion in listed equities.

To date, employer contributions to the Fund have remained materially unchanged and there is therefore no current expectation that this will change. In relation to dealings with members, the Fund are forecasting a positive cashflow position.

The triennial valuation is taking place as at 31 March 2020 with early indications that contributions will remain relatively constant. As part of this exercise, the Fund and Fund actuary will have affordability discussions with all scheduled and admitted bodies of the Fund.

The Pension Fund has therefore concluded that there are no material uncertainties around its going concern status.

Our conclusions

- ▶ We are satisfied that the Pension Fund remains a going concern.
- ▶ We challenged management on the adequacy of some of the disclosures in relation to going concern and the expected medium term impact of Covid-19, and a number of improvements were made to disclosures in the financial statements.



Wider Scope dimensions

Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the Pension Fund's arrangements for the four wider scope audit dimensions.

We apply our professional judgement to risk assess and focus our work on each of the dimensions. In doing so, we draw upon conclusions expressed by other bodies including the Pension Fund's internal auditors, along with national reports and guidance from regulators and Audit Scotland. For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Pension Fund's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

The Wider Scope dimensions

Financial Management:

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

Financial Sustainability:

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

Governance and Transparency:

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

Value for Money

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

Financial Sustainability

The Pension Fund has appropriate arrangements in place for the triennial valuation taking place as at 31 March 2020. Assumptions have been approved by Pensions Committee and Board with limited changes from the previous valuation. The Fund's funding position has been significantly impacted by Covid-19 with a large decrease in the Fund's asset valuation as at 31 March 2020.

Collaboration with Lothian Pension Fund has continued throughout 2019/20 with further developments expected in the coming year.

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Triennial Valuation

The Local Government Pension Scheme rules require a fund valuation to be undertaken every three years by an independent actuary. The Fund's next triennial valuation will take place as at 31 March 2020 and will be performed by the Fund's actuary, Hymans Robertson. In order to assess the level of Fund solvency, the actuary will evaluate the assets and liabilities at 31 March 2020. The funding position for the triennial will be impacted by the lower asset position due to the impact of Covid-19 on investment returns as illustrated in Exhibit 1. The Fund investment return over inter-valuation period between 2017 and 2020 was 4.5% compared to a target of 10.9% predominantly due to Covid 19.

Exhibit 1: Recent valuations and the estimated position for March 2020

	Assets	Liabilities	Deficit
2014 Valuation	£1,577 million	£1,860 million	£283 million
2017 Valuation	£2,219 million	£2,403 million	£184 million
2020 Estimated Position	£2,366 million	£2,876 million	£510 million

Source: Falkirk Council Pension Fund Valuations Assumptions report

The Valuation assumptions were agreed by the Pensions Committee in August 2020 with marginal changes made to the pension and salary increases assumptions and the remainder remaining in line with the previous valuation. A draft Funding Strategy statement will be approved by the Pensions Committee and Board for circulation to Employers and Unions in September before being ratified in December. The initial results report will be presented to the Committee in December before final sign off in March 2021.

Impact of Covid-19 on the Fund

The impact of Covid-19 on the finances of contributing employers has led to three smaller Fund employers asking for a deferral of contributions with an initial deferral period of 3 months being allowed on the basis that a formal repayment schedule is subsequently agreed. Scottish ministers and the Pensions Regulator agreed that deferral of contributions is permissible in these extreme circumstances.

The Fund's investment strategy was subject to review in collaboration with the Fund's partners Lothian Pension Fund and Fife Pension Fund in 2018/19. The strategy is designed to support the Fund in achieving the aim of being fully funded over a rolling 20 year period from the Fund valuation date. Due to the long-term nature of this strategy, no revisions were required as a result of the market volatility. The strategy will be subject to review once the results of the triennial valuation are known.

Collaboration with Lothian Pension Fund and Fife Council Pension Fund

In line with previous years, the Pension Fund has continued to extend its collaborative relationship with the Lothian and Fife Pension Funds, with all parties participating in a Joint Investment Strategy Panel to deliver greater efficiencies and providing a platform to further the engagement with the Funds.

The Fund entered into two shared service agreements with Lothian Pension Fund's subsidiary entities, LPFE Ltd and LPFI Ltd: one for investment management and advisory services and one for access to specialist legal advice. Separate from the ongoing national review into the structure of LGPS, management continue to have discussions with Lothian Pension Fund to consider how the Fund's working relationship can be placed on a more integrated and mutually beneficial footing.

Financial Management

The Pension Fund has established core financial management arrangements, and we are satisfied that these are adequate for the current management of its financial activities. We did however note that the 2020/21 budget was not approved until August 2020.

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

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

Fund financial management arrangements

We give consideration to the financial management arrangements in place at the fund through our financial statement audit procedures. No significant matters were noted throughout the course of our work in respect of financial management. In particular, we considered changes to the internal control environment resulting from the remote working arrangements with no significant changes noted.

Internal audit scrutiny of financial management arrangements

We have also considered the results of the Pension Fund's Internal Audit findings for the year in relation to financial management. The Internal auditor issued a report in the year in relation to the operational controls associated with the calculation of new member contributions, for paying or receiving transfer values, for refunding contributions, and for making payments to retiring members or in respect of deceased Fund members. In all matters the internal auditor noted the processes were, in general, working effectively with no recommendations in this area.

Budget monitoring and approval

The Pension Fund prepares a Fund budget for review and approval by the Pensions Committee and Board. The budget focuses on controllable expenditure. Updates on performance against the budget are presented to the Pensions Committee during the year. For 2019/20, the Fund delivered an underspend against budget of £1.2 million largely due to a reduction in investment management expenses arising from the transition of two mandates to more cost effective alternatives.

The 2020/21 budget was scheduled to be approved by Pensions Committee in March 2020. Due to the cancellation of this meeting due to Covid-19, the budget was not approved until August 2020. The Fund should allow the budget to be approved that alternative arrangements are in place in future to ensure the budget can be approved as close to the start of the new financial year as possible as explained further on page 21.

Governance and Transparency

Due to Covid-19, the Pensions Committee and Board did not hold meetings for seven months. The Pension Fund should ensure that appropriate arrangements are established so that remote meetings can be held in a timely manner.

We consider the Governance Statement to be consistent with our findings from our audit procedures and recognise that sufficient detail was included in relation to the impact of Covid-19 on the Fund.

A
M
B
E
R

Recommendation 1:
The Pensions Committee and Board did not meet for a period of seven months during Covid-19. The Pension Fund should ensure that appropriate arrangements are established so that remote meetings can be held in a timely manner.

Covid-19 Governance Arrangements

Like all other public bodies in Scotland, the Pension Fund moved to revised governance arrangements at the beginning of the UK lockdown period. The Pension Fund held its first virtual Pensions Committee meeting on 16 August 2020, seven months after the last meeting was held. In the interim period between meetings, members updates were provided on two occasions with the meeting papers for the cancelled March meeting being circulated and a newsletter update being provided in May 2020. While it is recognised that the Pensions Committee and Board have limited decision making authority due to the nature of the Pension Fund, members were unable to perform their scrutiny and challenge role for over half a year. The Fund should ensure that suitable arrangements are established to enable meetings to be held remotely in line with the agreed schedule in future.

Internal audit activity in the year

Internal audit activity appears appropriate and proportionate to the risks affecting the Fund, and arrangements are in place for management and members to monitor and act on key risks. Internal audit reviewed two areas during the year in line with their annual audit plan: transactional testing and business continuity. One recommendation was identified in relation to business continuity whereby it is recommended that the Fund's Business Continuity Plan should be updated to reflect lessons learned from activating the business continuity arrangements.

Fund Governance Statement and Governance Compliance Statement

We have reviewed the annual governance statement and governance compliance statement prepared for the Fund for 2019/20 and agree that it is consistent with our findings from our audit procedures. The Fund Governance Statement included sufficient detail of how Covid-19 impact the Fund's activities and governance arrangements.

Governance around Fund investments

Responsible investing has been an area of increased attention within LGPS in recent years. During 2019/20, the Fund became a member of both the Institutional Investors Group on Climate Change (IIGCC) and the Climate Action 100+ Group. The Fund is currently exploring options to run a mandate focused on sustainable investment.

Future Fund Structure

Following a consultation on the current structure of the Local Government Pension Schemes in Scotland in summer 2018, the Scheme Advisory Board ('SAB') met in April 2019 to consider the consultation responses. A proposal to undertake further analytical work based on the responses was agreed with Scottish Ministers and a sub-group of the SAB are taking this forward. However, due to the impact of Covid-19, it is anticipated that the outcome of this work will be delayed.

The Fund updated their risk register in August 2020 to reflect the direct risks arising from Covid-19 on Fund activities.

Risk Management arrangements

The Fund has an up-to-date risk management policy which outlines the risk management strategy for the Fund. The Pension Fund's risk register is subject to regular review by senior officers at bi-annual meetings attended by the Board Chairs. If any new risks are identified or risk levels are heightened, the Pensions Committee and Board will be provided updates.

The Fund's risk register was updated in August 2020 to include a specific Covid-19 risk. This new risk sits alongside the existing risk on the register in relation to 'loss of staff from a pandemic'.

Assurance Map

During 2019/20, the Pension Fund, in conjunction with internal audit, drafted an assurance map. The Assurance map builds on the three lines of defence model and outlines the internal and external sources of assurance for the Pension Fund and how they contribute to managing existing risks. The Assurance Map was approved by the Pensions Committee and Board in January 2020 and will be subject to further consideration as part of the Pension Fund's existing risk management arrangements.

Value for Money

GREEN

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

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

Fund performance in 2019/20

The Fund's achieved a return of (6.6)% in 2019/20, against benchmark return of 0.3%. This adverse performance was largely due to market volatility during the year particularly in the last quarter, driven by the impact of Covid-19. The Fund's valuation at 31 December 2019 was £2.68 billion and this fell to £2.32 billion in March 2020, a decrease of approximately 13%. The fund has not met their benchmark return over the 1, 3 and 5 years however is performing above benchmark over 10 years. Analysis against the LGPS Scottish average investment return (using 2018/19 data) shows that the Fund is above average against the 1 year investment returns. However, the Fund is marginally below average against the 3 year and 5 year investment returns.

Exhibit 2: Falkirk Council Pension Fund Investment Performance

Year	2017/18	2018/19	2019/20	Average
Fund return	3.1%	8.5%	-6.6%	1.7%
Benchmark return	2.5%	6.8%	0.3%	3.2%
LGPS Scotland Average return	5.4%	7.1%	-	6.25%
Administration costs per member	£22.32	£22.41	£25.96	£23.56
Investment management expenses	£10,053k	£11,290k	£14,546k	£11,963k
Total Fund unit costs per member	£337	£367	£463	£389

Source: Falkirk Council Pension Fund 2019/20 Unaudited Financial Statements, Falkirk Council Pension Fund 2018/19 audited Financial Statements; Falkirk Council Pension Fund 2017/18 Audited Financial Statements

The total unit costs per member (which encompass investment management, administration and oversight and governance costs) have been on a downward trajectory since 2014/15. However, in 2018/19 and 2019/20 they have increased significantly (£97 increase in 2019/20 compared to 2018/19). With respect of administration costs, these have been reflecting increases in staffing levels to support service delivery and the 2019 pay settlement. These remain within the Scottish average of £20 to £30 per member.

Investment management expenses have increased by £85 per member. This is due to the inclusion of costing information available from the Cost Transparency Initiative. In the short-term, it is expected that these costs will increase as more so called 'hidden' costs are identified and reported.

Scrutiny of Fund Manager Performance

We have considered fund manager performance through review and attendance at the Pension Committee and Board. During 2019/20, the Pension Fund has ended one of its investment mandates held with an under-performing fund manager demonstrating that performance is actively monitored and that action is taken where this is not in line with the Fund's expectations. We have concluded that there is an appropriate level of scrutiny of fund manager performance which supports the Fund in complying with their investment principles.



Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Pensions Committee and Board

D - Action plan

E - Follow up of prior year recommendations

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

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

Financial Statements and related reports

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

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

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

Standards of conduct / prevention and detection of fraud and error

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

Standards of conduct / prevention and detection of fraud and error

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

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

Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

Appendix B: Independence and audit quality

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

Matters that we are required to communicate

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

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 19 March 2020.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the Pension Fund consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Pensions Committee on 24 September 2020.

Audit Fees

	2019/20	2018/19
Component of fee:		
Expected auditor remuneration	£21,490	£21,000
Additional fee in relation to Covid-19 procedures	TBD	-
Total auditor remuneration	TBD	£21,000
Audit Scotland fixed charges:		
Pooled costs	£2,100	£2,040
Audit support costs	£1,300	£1,320
Total fee	TBD	£24,360

The expected fee for the Pension Fund is set centrally by Audit Scotland and assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

We were required to undertake significant additional audit procedures in the year to address the additional risks identified, the reduced materiality levels and subsequent additional testing of investment balances resulting from the direct and indirect consequences of Covid-19. We are discussing the final fee for the 2019/20 audit with the Fund's Chief Finance Officer and will report this to the Committee when finalised in our 2020/21 Annual Audit Plan.

Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2019 UK Transparency Report can be accessed on our website at https://www.ey.com/en_uk/who-we-are/transparency-report-2019. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

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

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

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

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

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

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

The most recent audit quality report which covers our work at the Pension Fund since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920>.

Appendix C: Required communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Pensions Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan Annual Audit Plan Addendum</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan Annual Audit Plan Addendum Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Pensions Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Pensions Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>

Required communication

Our reporting to you

Related parties

Significant matters arising during the audit in connection with the entity's related parties including, when applicable:

- ▶ Non-disclosure by management
- ▶ Inappropriate authorisation and approval of transactions
- ▶ Disagreement over disclosures
- ▶ Non-compliance with laws and regulations
- ▶ Difficulty in identifying the party that ultimately controls the entity

No significant matters have been identified.

Independence

Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence

Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:

- ▶ The principal threats
- ▶ Safeguards adopted and their effectiveness
- ▶ An overall assessment of threats and safeguards
- ▶ Information about the general policies and process within the firm to maintain objectivity and independence

Annual Audit Plan

This Annual Audit Report - Appendix B

Internal controls

Significant deficiencies in internal controls identified during the audit

This Annual Audit Report - no significant deficiencies reported

Subsequent events

Where appropriate, asking the Pensions Committee whether any subsequent events have occurred that might affect the financial statements.

We have asked management and those charged with governance. We have no matters to report.

Material inconsistencies

Material inconsistencies or misstatements of fact identified in other information which management has refused to revise

This Annual Audit Report

Appendix D: Action Plan

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the Pension Fund or management to action.

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The Pensions Committee and Board held its first remote meeting in August 2020, seven months after the last meeting was held. While officers did provide updates on Fund activities to members, members were unable to provide an appropriate level of challenge and scrutiny during this period.	The Pension Fund should ensure that appropriate arrangements are established for holding remote governance meetings. <i>Grade 2</i>	Management acknowledge that the seven months hiatus between meetings was not ideal. However, by common consent, the circumstances occasioned by the Covid-19 pandemic were highly exceptional. Management note that online meetings are now being held routinely across the Council and are confident that alternative arrangements are now in place to enable Committee and Board to carry out their respective roles for as long as physical meetings are not possible. Responsible officer: Chief Finance Officer/ Chief Governance Officer Implementation date: August, 2020

Appendix E: Errors identified during the audit

This appendix sets out the adjusted and unadjusted differences identified during the audit.

Adjusted differences				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Adjustment relating to classification of delayed cash transfer to the Council</i>			Dr Cash £909,456 Cr Creditors £909,456

Unadjusted differences (financial statements)				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	<i>Timing difference in relation to investments</i>		Dr Return on investments £6,485,721	Cr Investment Assets £6,485,721

Unadjusted differences (financial statement disclosures)		
No.	Description	Impact
1	<i>Overstatement of outstanding capital commitments</i>	Outstanding capital commitments are overstated by £3.98 million.

Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the Pension Fund, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB			
MAR	<ul style="list-style-type: none"> Audit planning; setting scope and strategy for the 2019/20 audit; completing walkthrough procedures 	Annual Audit Plan	January - March 2020
APR			
MAY			
JUN			
JUL	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Audit clearance meeting	August 2020
AUG	<ul style="list-style-type: none"> Conclude on results of audit procedures 	Certify Annual Financial Statements	September 2020
SEP	<ul style="list-style-type: none"> Issue opinion on the Pension Fund's financial statements 	Issue Annual Audit Report	

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