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|  | <p>Local Pension Board</p> <p>29 November 2017</p> |
| <p style="text-align: right;">Title</p> | <p>External Auditor’s Report on Pension Fund’s 2016-17 Financial Statements</p> |
| <p style="text-align: right;">Report of</p> | <p>Assistant Chief Executive</p> |
| <p style="text-align: right;">Wards</p> | <p>All</p> |
| <p style="text-align: right;">Status</p> | <p>Public</p> |
| <p style="text-align: right;">Urgent</p> | <p>No</p> |
| <p style="text-align: right;">Key</p> | <p>No</p> |
| <p style="text-align: right;">Enclosures</p> | <p>Appendix A – ISA 260 report</p> |
| <p style="text-align: right;">Officer Contact Details</p> | <p>Gillian Clelland, Assistant Director of Finance, CSG 0208 359 5310</p> |

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| <p>Summary</p> |
| <p>This report considers the report from the external auditors on matters arising from the audit of the 2016/17 Pension Fund Accounts.</p> |

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| <p>Recommendations</p> |
| <p>That the Board:</p> |
| <p>1. Note the matters raised by the external auditor in respect of the audit of the 2016/17 Accounts and Annual Report and the actions taken by management in response to the findings.</p> |

1. WHY THIS REPORT IS NEEDED

- 1.1 The Board's role is to assist the administering authority in securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme. The Board's terms of reference also includes "ensuring the effective and efficient governance and administration of the Pension Fund". As part of the annual audit of the Pension Fund Financial Statements the auditors provide a report setting out any matters they have identified including weaknesses in the control environment.
- 1.2 The Auditor was able to issue an unqualified report and concluded no material misstatements impacting on the Fund Account or Net Assets Statement had been identified. The Auditor noted three matters in their report:
 - I. A number of areas where additional disclosures were required in the annual accounts;
 - II. Small alternations to the annual accounts that would have increased the net asset value by £256,000
 - III. One significant deficiency in relation to controls over membership data.
- 1.3 The nature and format of the information disclosed in the annual accounts grows in volume and complexity each year; often with little relevance to the reader of accounts. Going forward, best endeavours will made to meet the reporting standards where the information is seen as significant. The major changes expected in 2017-18 relate to the identification of management costs paid for within the structures in which the fund invests.
- 1.4 The Auditor's reference to an understatement of net assets relates to contributions that are recorded on payroll records but have not been remitted to the Fund. Investigations are continuing into the accuracy of the payroll records.
- 1.5 The Auditor's testing identified potential discrepancies in the recording of membership status. A detailed service improvement plan has been developed that specifically includes a section on pension fund data. Management responses to the issues raised by the Auditor are shown on pages 29 and 30 of the report.

2. REASONS FOR RECOMMENDATIONS

- 2.1 It is appropriate for the Board to review the auditor's findings and the adequacy of the actions proposed by management to address the issues identified.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable in the context of this report.

4. POST DECISION IMPLEMENTATION

4.1 None.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 A positive external audit opinion on the Pension Fund's Annual Report and Accounts plays an essential and key role in providing assurance that the Pension Fund's financial risks are managed in an environment of sound stewardship and control. This is in line with the aims set out in the Council's Corporate Plan 2015-2020, to ensure that services are delivered efficiently to get value for money for the taxpayer.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 This report sets out the framework for the assessment of the Pension Fund's financial reporting and management as well as value for money.

5.2.2 The external audit fees for 2016/17 are £21,000 (£31,000 for 2015/16).

5.2.3 In accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the Council's accounts and Pension Fund accounts.

5.2.4 An unqualified opinion was issued by the Auditor on the accounts.

5.3 Social Value

5.3.1 Arrangements for proper administration of financial affairs and contributions to the Pension Fund ensure that members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 The requirement for an administering authority to prepare a Pension fund annual report and publish the auditor's report are contained in Regulation's 56 and 57 of the Local Government Pension Scheme Regulations 2013.

5.4.2 The Board's Terms of Reference include "ensuring the effective and efficient governance and administration of the Pension Fund".

5.5 Risk Management

5.5.1 The external audit ISA 260 report highlights areas of good control and areas of weakness which need to be addressed. Failure to do so carries the risk of adverse financial and/or reputational consequences.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met

5.7 Consultation and Engagement

5.7.1 Not required.

5.8 Insight

5.8.1 Not applicable in the context of this report.

6. BACKGROUND PAPERS

6.1 None