



Falkirk Council Pension Fund

**Annual Audit Report to Members
and the Controller of Audit - year
ended 31 March 2021**

29 September 2021



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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.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary: Key Conclusions from our 2020/21 audit

We issued an unqualified audit opinion on the Pension Fund's 2020/21 financial statements

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. No changes were required as a result of this review.

Financial Statements

We have concluded our audit of the financial statements of Falkirk Council Pension Fund (the Pension Fund or Falkirk) for the year ended 31 March 2021. Based on the work performed, we have identified one audit difference of 12.3 million in relation to the valuation of investments at 31 March 2021 and one difference of £0.7 million in disclosures relating to unfunded commitments. One additional judgemental difference of £0.6 million has been identified in relation to under accrual of lump sum benefits payable. 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.

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

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.

Under a revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. Our audit procedures around going concern for this year have been completed with no material matters to raise, however we will keep this area under review up to the approval of the financial statements.

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Wider Scope

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

<p>Financial Sustainability</p> <p>The Pension Fund has considered the results of the triennial valuation 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, followed by a significant recovery in 2020/21.</p> <p>Work is continuing by the Pension Fund around the planned collaboration with Lothian Pension Fund.</p>	<p>Governance and Transparency</p> <p>For the financial year 2020/21, the Pensions Committee and Board have put in place arrangements to ensure governance activities are held on a routine and timely basis.</p> <p>We consider the Governance Statement to be consistent with our findings from our audit procedures, included detail as to how Covid-19 impacted the Fund, and reflected the findings of the various governance activities in place in the year, such as internal audit, governance around fund investments and wider risk management arrangements.</p>
GREEN	GREEN
<p>Financial Management</p> <p>The Pension Fund has established financial management arrangements, and we are satisfied that these are adequate for the management of its financial position.</p> <p>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.</p>	<p>Value for Money</p> <p>We have no significant matters to report in respect of management's arrangements for securing value for money for the Fund.</p> <p>The Fund's investment and administration costs remain broadly comparable with the majority of Scottish Pension Funds, however continue to increase year on year reflecting increasing responsibilities. Arrangements are in place to scrutinise the performance of Fund managers.</p>
GREEN	GREEN

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. Further information is available in Appendix B.

We continued to place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements. Our findings are summarised in Section 2 of this report.

Scope and Responsibilities

The Code sets out the responsibilities of both the Pension Fund and the auditor (summarised in Appendix A).

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 2021 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 2020/21 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. We outlined the significant risks and other focus areas for the 2020/21 audit in our Annual Audit Plan, which was presented to the audit, governance and risk committee on 18 March 2021.

We have identified one area 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 (misstatement due to fraud and error). 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.

In addition, we continued to place increased focus on management's assertion regarding the going concern basis of preparation in 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.

Adaption to remote working

In line with the previous year's audit, our audit fieldwork was completed remotely as a result of the Scottish Government's restrictions related to Covid-19. 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.

We have updated our materiality figures for the year end net assets position reported in the unaudited 2020/21 financial statements with the updated figures shown below.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a planning materiality of £23.2 million. We have updated our materiality figures for the year end net assets position reported in the unaudited 2020/21 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

£28.4 million

1% of the Pension Fund's net assets

Tolerable Error

£14.2 million

Materiality at an individual account level

Nominal amount

£250,000

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 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 (misstatement due to fraud and error). 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.

The draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

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 28 June 2021, in line with planned timescales.

The inspection notice was published by Falkirk Council on the Council's behalf on 17 June 2021, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

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 outstanding commitments at yearend in note 24 to the financial statements (where a difference is noted of £0.7 million between the financial statements disclosures and supporting fund manager statements).

In respect of core audit work, we identified one unadjusted difference above our reporting threshold of £12.3 million in relation to valuation of private equity and other complex investments due to more up-to-date information being available during the audit. One additional judgemental difference of £0.6 million has been identified in relation to under accrual of lump sum benefits payable. 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 13 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 and 2020/21 Code 	<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 have issued an unqualified audit opinion on the 2020/21 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 15 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>The Chief Finance Officer is responsible for other information, included in the financial statements.</p> <p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon review of committee and board minutes and papers, regular discussions with management, our understanding of the Pension Fund and the wider sector.</p>	<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 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 have issued 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 2021 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.

Our conclusions

Our testing has not identified any material misstatements relating to revenue and expenditure recognition.

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 £2.8 billion, of which 70% (£2.0 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 2021 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 £12.3 million for private equity, infrastructure and private debt and pooled investments (2019/20: £6.5 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 £152.7 million worth of investment in managed property funds.

In 2020, the outbreak of the Novel Coronavirus declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020 significantly impacted global financial markets. Market activity was impacted in many sectors and as at the 2020 balance sheet valuation date in relation to property assets, and valuers did not consider that they can rely upon previous comparable market evidence to fully inform opinions of value. Valuations were 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 - being attached to the valuation than would normally be the case. 100% of the confirmations for all material investments selected for our testing came with a material uncertainty clause being attached, and additional work was undertaken to gain the required assurance over the valuation of these balances.

In 2021 the material valuation uncertainty disclaimer has been removed from the asset valuations based on the latest guidance, and we have not identified this on any of our tested assets.

Our conclusions

- ▶ Our testing has not identified any material misstatements relating to investment valuations testing. Based on work completed, one unadjusted difference of £12.3 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.
- ▶ 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.

Judgements and Estimates

We outlined in our audit planning report that ISA(UK) 540 on accounting estimated was issues in December 2019 and is applicable on the 2020/21 audit for the first time. In particular risk factors relevant to the public sector includes examples to be considered:

- ▶ a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as actuarial present value of promised retirement benefits; and
- ▶ areas where there may be a lack of available comparators for estimates that are unique to the pension funds, such as the valuation of complex unquoted investment assets (such as private equity, infrastructure, private debt and others as outlined on page 13 of this report).

Our procedures included:

- Test management's process method, key assumptions, data;
- Test management's process-estimation uncertainty;
- Consider any evidence from events up to the report date; and
- Develop our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias as outlined above, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these disclosures and concluded that disclosure is appropriate and acceptable under IFRS and the Code.

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 Fund to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under IFRS or the Code.

Our conclusions

- ▶ We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- ▶ There were no significant accounting practices which materially depart from what is acceptable under IFRS or the Code.

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 09 (issued at closure of the 2020/21 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.

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. 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. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements, this being at least 12 months from the expected approval of these financial statements at 23 September 2021.

At 31 March 2021, the Fund was holding £78 million in in-house managed cash (£75 million in deposits and £3.5 million in its current account) whereas it's average monthly outgoings are £8.5 - £9 million. The Fund forecasts throughout the going concern assessment period to receive contributions in excess of outgoing benefits payments being due by approximately £12 million per year. In the unlikely event that the Fund needed to raise cash, it holds £1.9 billion in what are liquid investments in the form of listed equities. These are generally realisable within 3-4 days of trade execution.

The triennial valuation tool place as at 31 March 2020 with early indications that contributions will remain relatively constant. The initial results report was presented to the Committee in December 2020 before the final sign off occurred in March 2021. The 2020 valuation funding level of 94% was broadly in line with the 2017 position of 92%, despite a dip in asset values coinciding with the valuation date. The Fund and the actuary were satisfied that in general the contribution rate could stay at similar levels to those ratified for 2020/21 with a small increase in 2023/24 to allow for the unknown of the cost cap review.

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 have worked with management to enhance the going concern disclosures within 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 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 financial planning is effective in supporting service delivery.

Governance and Transparency:

- ▶ Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.

Value for Money

- ▶ Considers whether value for money can be demonstrated in the use of resources and the focus on continuous improvement.

Financial Sustainability

The Pension Fund has considered the results of the triennial valuation 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, followed by a significant recovery in 2020/21.

Work is continuing around the planned collaboration with Lothian Pension Fund.

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 most recent valuation was at 31 March 2020, performed by the Fund's actuary, Hymans Robertson. The Fund's valuation showed a funding position of 94%, compared with 92% at the 2017 valuation. The funding position is impacted by the lower than otherwise would be asset position due to the impact of Covid-19 on investment returns and values. The initial results report was presented to the Committee in December 2020 before the final sign off occurred in March 2021.

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 valuation	£2,329 million	£2,477 million	£148 million

Source: Falkirk Council Pension Fund Valuations Assumptions report

The Fund saw a strong performance in 2020/21, with the projected funding level being at 106% at the yearend. The funds assets have grown by £0.5 billion from the prior year.

The assumptions used in the valuation are not materially different from the assumptions used in the 2017 valuation. The primary contribution rate per the 2020 valuation was 21.9%, an increase from the prior valuation of 18.7%. The reason for the increase is a result of a weaker outlook for future investment returns. For the majority of employers, contribution rates were in a range of 20.5% - 30.3% of pensionable pay.

Impact of Covid-19 on the Fund

During the year the Fund provided payment breaks to three of its smaller member bodies as a result of the outbreak of Covid-19 and the financial difficulties this caused. These were appropriately approved and reported to Committee. All three bodies were up to date with their contributions as at the end of the financial year.

At the outset of the outbreak of Covid-19 there was a significant impact on the level 1 investments with values significantly reduced at 31 March 2020. Investment values have largely recovered in the year with a significant improvement reflected within the March 2021 financial statements. The Fund's strategy is in relation to the long-term returns and are not looking to tactically make short term investment decisions. The focus remains on investments that will see long term increase in value.

Funding strategy going forward

The review of the investment principles was finalised in March 2019 in conjunction with Fife and Lothian Pension Funds. This was performed to ensure that the Fund's allocation of capital to various asset classes is consistent with the key funding aims of positioning employer contributions at an affordable level and being fully funded over a 20 year period. In light of the focus on responsible investing, the Fund approved its Statement of Responsible Investment Principles in December 2020. At 31 March 2021, the Fund had not met their desired strategic asset allocation in respect of equities, as the fund were above their maximum set allocation. In respect of other groups, these were all below the strategic allocation level, although above the minimum set allocation. The Fund made progress towards the strategic allocation compared to the previous year. Due to the long-term nature of the Fund's strategy, no revisions were made following the review in 2020/21.

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 Funds are exploring how to expand the collaboration activities with LPF after terminating a number of existing relationships. This remains an ongoing process as the Funds consider ways they can further align operations.

Financial Management

The Pension Fund has established financial management arrangements, and we are satisfied that these are adequate for the management of its financial position.

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 continuing 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 identified through the course of our work in this respect. In particular, we considered changes to the internal control environment resulting from the ongoing remote working arrangements due to Covid-19, 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 reports in the year in relation to the operational controls associated with cash management and transactional processing. In both cases the reports received substantial assurance, with all recommendations raised been addressed by management prior to 31 March 2021.

Budget monitoring and approval

The Pension Fund prepares a Fund budget for review and approval by the Pensions Committee and Board, updates on performance against the budget are then presented to the Committee throughout the year on a quarterly basis. In 2020/21, the Fund delivered an underspend against budget of £0.9 million, largely due to a reduction in investment management expenses arising from lower market valuations in early part of 2020/21.

In 2020/21 we noted that the next year budget not approved until August 2020 due to the impact of cancelling meetings due to Covid-19. The 2021/22 budget was approved in March 2021 in line with pre-pandemic timetables.

Financial management arrangements, including budget approval and financial performance monitoring arrangements, have operated as normal in 2020/21 despite the impact of Covid-19.

Governance and Transparency

For the financial year 2020/21, the Pensions Committee and Board have put in place arrangements to ensure governance activities are held on a routine and timely basis.

We consider the Governance Statement to be consistent with our findings from our audit procedures, included detail as to how Covid-19 impacted the Fund, and reflected the findings of the various governance activities in place in the year, such as internal audit, governance around fund investments and wider risk management arrangements.

Governance arrangements following the impact of Covid-19

Like all other public bodies in Scotland, the Pension Fund moved to revised governance arrangements at the beginning of the UK lockdown period in March. We reported last year that there had been a delay of seven months in holding a committee meeting while remote committee arrangements were put into place. Since then, and for the entirety of the 2020/21 remote governance arrangements have functioned effectively for the remainder of the year, with no further meeting cancellations.

The Fund made no reports to the Pension regulator during 2020/21, however reported one body subsequent to the yearend, for being unable to provide member CARE and salary details to allow the Fund to run benefits statements, in line with the requirements of relevant legislation and regulatory requirements. No further action was required by the regulator, and management continues to monitor the situation.

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 as outlined in the financial management section of this report. One recommendation from a previous report, in relation to business continuity arrangements review, remained outstanding following the retirement of the previous pension fund manager before they could finalise this. Management anticipates this being finalised in 2022.

Fund Governance Statement and Governance Compliance Statement

We have reviewed the annual governance statement and governance compliance statement prepared for the Fund for 2020/21 and agree that it is consistent with our findings from our audit procedures. This includes the disclosure of two non-recurring areas of non-compliance where the Fund explains its consideration and reason for non-compliance.

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. In December 20, the Fund approved its Statement of Responsible Investment Principles, which outline an approach to investing that aims to integrate Environmental, Social and Governance factors into investment decisions, in order to better manage risk and to generate sustainable, long-term returns.

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, however, due to the impact of Covid-19, it is anticipated that the outcome of this work will be delayed. A Strategic Programme Manager was appointed in 2021 to undertake this work, and is expected to report to SAB at the end of 2021, or into 2022. The Fund has stated its support for the concept of eleven Scottish LGPS Funds merging into larger entities. Concurrent to this review, during 2020/21, the Fund has jointly engaged consultants with Lothian Pension Fund to look more closely at the risks and opportunities that might be associated with a merger between the two funds. This analysis is continuing, with routine updates to the Committee and Board members ongoing, most recently in June 2021 by the Chief Finance Officer updating the Committee and Board on progress following the presentation in March 2021 by the Funds' appointed consultant Deloitte. To date, Deloitte's work suggests there is a clear case for exploring streamlining the delivery of LGPS benefits under a single merged operation and potentially material annual net operational cost savings that could be achieved by a merger. It has noted that further investment would be required to achieve these savings and there are a number of risks associated with a merger. Work continues with the consultant and the two Funds, in conjunction with the SPPA, regarding the future governance model of a merged body.

Governance arrangements around risk management and the Pension Fund's investments have continued to operate in 2020/21 as planned, with a review of risk management arrangements due in 2022.

Risk Management arrangements

The Fund has a risk management policy which outlines the risk management strategy for the Fund. This was last subject to formal review in 2018, and management has confirmed it will be reviewed and updated as appropriate, with approval from the relevant governance body, in 2021/22. Risk management arrangements are supported by the Fund's Assurance Map, which was approved by the Pensions Committee and Board in January 2020 and helps to drive planned work and areas for consideration in relation to risk management.

The Fund's risk register has been updated in 2020/21 to include a specific Covid-19 risk. The 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.

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 broadly comparable with the majority of Scottish Pension Funds, however continue to increase year on year reflecting increasing responsibilities. Arrangements are in place to scrutinise the performance of Fund managers.

Fund performance in 2020/21

The Fund's achieved a return of 22.3% in 2020/21, against benchmark return of 21.7%. The Fund's return was the 3rd lowest of 11 funds in Scotland. The Fund exceeded the set benchmark return by 0.6%, which was the lowest margin of all funds in Scotland. The Fund has performed well against the benchmarks over the 1, and 10 year, and inception categories, however has underperformed in more recent time period measures due to minimal exposure to 'New wave' technology and media stock. The Fund attributes some of the lower rated performance to investment manager mandates which have now been terminated due to poor performance.

Exhibit 2: Falkirk Council Pension Fund Investment Performance

Year	2018/19	2019/20	2020/21	Average
Fund return	8.5%	-6.6%	22.3%	8.0%
Benchmark return	6.8%	0.3%	21.7%	14.2%
LGPS Scotland Average return	7.1%	-4.1%	-	5.05%
Administration costs per member	£22.41	£25.96	£26.72	£25.03
Investment management expenses	£11,290k	£14,546k	£17,148k	£14,328k
Total Fund unit costs per member	£367	£463	£532	£454

Source: Falkirk Council Pension Fund 2020/21 Unaudited Financial Statements, Falkirk Council Pension Fund 2019/20 audited Financial Statements; Falkirk Council Pension Fund 2018/19 Audited Financial Statements

Fund performance in 2020/21

The total unit costs per member (which encompass investment management, administration and oversight and governance costs) have continued to increase for the third year in a row, reflecting the recruitment of additional staff to assist with regulatory requirements and the costs associated with procurement of a new pensions administration system.

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 2020/21, investment management expenses have increased by £66 per member. This reflects the inclusion of new costing information available from the Cost Transparency initiative. It is anticipated that costs reported will increase as there is more transparency around costs related to investment management arrangements.

The performance of investment managers continues to be monitored through the Joint Investment Strategy Panel. A report is presented at each meeting outlining manager performance against agreed benchmarks. Where poorer performance has been identified, this is highlighted and subject to further monitoring through Panel. In cases where there is poor performance, the Panel will make a recommendation to the Chief Financial Officer on suggested actions. We have seen in previous years the Committee take action in terminating managers who have underperformed benchmarks for a period of time.

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, including follow up on prior year recommendations

E - Audit differences identified during the audit

F - Timing and deliverables of the audit

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.

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 2020 UK Transparency Report can be accessed on our website at https://www.ey.com/en_uk/who-we-are/transparency-report-2020. 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 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-202021>

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 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We are not aware of any inconsistencies between Pension Fund's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

Audit Fees

	2020/21	2019/20
Component of fee:		
Auditor remuneration - expected fee	22,130	£21,000
Auditor remuneration - fee variation	TBD	£6,000
Audit Scotland fixed charges:		
Pooled costs	£2,100	£2,040
Audit support costs	£1,220	£1,320
Total fee	TBD	£30,360

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.

During the year, additional time was incurred on the audit, specifically in relation to the level of work required around the valuation of more complex (level 3) investments and the work required due to the need to audit these to a significantly lower level and higher degree of scrutiny following the updated requirements from various external reviews. We are in the process of discussing the subsequent fee variation with management and will report the final fee as part of our 2021/22 audit plan to the Committee in March 2022.

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>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	<p>Annual Audit Plan</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</p> <p>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>

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

Consideration of laws and regulations

- ▶ 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 audit, risk and governance 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

Annual Audit Report or as occurring if material.

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, including follow up on prior year actions

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	In 2019/20 we reported that 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 2021 update: See financial management section of wider scope reporting. Action addressed, no outstanding matters.

Appendix E: Audit differences identified during the audit

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

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 (net impact)</i>		Cr Return on investments £12,297,843	Dr Investment Assets £12,297,843

Judgemental misstatements (unadjusted)				
No.	Description	Income and Expenditure Impact	Other Comprehensive Income and Expenditure Impact	Balance Sheet Impact
1	Under Accrual of Lump Sums (Benefits Payable)		Dr Benefits Payable - Lump sum £601,005	Cr Accruals £601,005

Unadjusted differences (financial statement disclosures)		
No.	Description	Impact
1	<i>Overstatement of outstanding capital commitments</i>	Outstanding capital commitments are overstated by £711,474.

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 2020/21 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB			
MAR	<ul style="list-style-type: none"> Audit planning; setting scope and strategy for the 2020/21 audit; completing walkthrough procedures 	Annual Audit Plan	January - March 2021
APR			
MAY	<ul style="list-style-type: none"> Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information 	We will continue to monitor Audit Scotland performance audit programme following Covid-19	Throughout 2021
JUN			
JUL	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Audit clearance meeting	August 2021
AUG	<ul style="list-style-type: none"> Conclude on results of audit procedures Issue opinion on the Pension Fund's financial statements 	Certify Annual Financial Statements Issue Annual Audit Report	September 2021
SEP			

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