

Highland Council Pension Fund

Report to those charged
with governance on the
2012/13 audit



Prepared for members of the Highland Council as administering body for the Highland Council
Pension Fund
August 2013

AGENDA ITEM 7
REPORT No PC/13/13

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Pension Committee's consideration the matters arising from the audit of the financial statements for 2012/13 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management, however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Highland Council Pension Fund and no responsibility to any third party is accepted.

Status of the Audit

3. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in a matters arising schedule issued to the Finance Manager (Corporate Budgeting, Taxation and Treasury) on 8 August 2013. The more significant issues arising were discussed with the Finance Manager at a meeting on 12 August 2013.
4. We received the unaudited financial statements on 10 June 2013, in accordance with the agreed timetable. The working papers were of a good standard and we completed our on-site fieldwork on 31 July 2013.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Pension Committee on 21 February 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken any non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan.

Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Pension Committee we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion & representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 6 September. The proposed report is attached at [Appendix A](#). There are no anticipated modifications to the audit report.
9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
10. Management have agreed to amend the unaudited financial statements for the presentational and disclosure findings from the audit process. However, management have decided not to amend the unaudited financial statements for one financial misstatement identified in the course of the audit:
 - Investment Assets are overstated and Cash Deposits are understated by £0.918 million in the Net Assets Statement due to a misclassification of cash deposits held by one of the fund managers.
11. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. The misstatement set out above is immaterial to the financial statements taken as a whole. Management have decided not to amend the financial statements on the basis that it is not material, which we have accepted.
12. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Accounting and internal control systems

13. Last year we reported that, following the setting up of separate bank accounts for the Pension Fund, the council's processes had not been amended to ensure that all of the Pension Fund's transactions were banked / paid through the Pension Fund's bank accounts. As at September last year, work was still ongoing to match the £208,000 of the creditors balance due to the Highland Council to individual pension fund transactions. This work was completed during 2012/13 and work continued to ensure that current year transactions were correctly accounted for and that cash was held in the correct bank account.
14. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We have been advised, however, that there has been a significant delay in updating the pension administration system (AXISe) with 2011/12 employee contributions for Highland Council paid employees. Although this does not impact on our opinion on the accounts, the AXISe system is a key internal control system which supports the full lifecycle of pensions processing (including the maintenance of scheme membership records, the production of annual benefits statements and the calculation of pension benefits) and we would expect it to be kept up to date. The issue which caused the delay has now been addressed and plans are in place to upload the 2012/13 contributions for all employees to the AXISe system by the end of August 2013.

Significant findings from the audit

15. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
16. **Amounts due to/from the Highland Council** - the Pension Fund accounts include a number of debtors and creditors due to/from the council resulting from the regular reconciliations that are undertaken to ensure that Pension Fund transactions are appropriately recorded and accounted for. As at 31 March 2013, these debtors and creditors totalled £0.788 million and £1.436 million respectively. Currently, these are shown gross within the Pension Fund balance sheet. We have asked management to consider whether these should be shown net in future years.
17. **Contributions due** - the Pension Fund accounts include a debtor of £4.482 million for two months of contributions which had still to be received from Highland Council at the year end. We would expect the council to pay its contributions promptly and only one month of contributions to be outstanding at the year end. We have been advised that this was an oversight and that contributions will be paid promptly to the Pension Fund in the future. The council's treasury team will also undertake regular monthly checks to ensure contributions income is received as expected.

Outstanding matters

18. There are no outstanding matters.

Acknowledgements

19. We would like to express our thanks to the staff of The Highland Council for their help and assistance during the audit of this year's Pension Fund financial statements.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of The Highland Council as administering body for The Highland Council Pension Fund and the Accounts Commission for Scotland

I certify that I have audited the financial statements of The Highland Council Pension Fund for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the financial transactions of The Highland Council Pension Fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
Assistant Director of Audit
Audit Scotland
4th floor South Suite
8 Nelson Mandela Place
Glasgow G2 1BT

6 September 2013

Appendix B: ISA 580 - Letter of Representation

Stephen Boyle
Assistant Director
Audit Scotland
4th floor South Suite
8 Nelson Mandela Place
Glasgow G2 1BT

Dear Stephen

Highland Council Pension Fund

Annual Accounts 2012/13

1. This representation letter is provided in connection with your audit of the financial statements of the Highland Council Pension Fund for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Highland Council Pension Fund during the year ended 31 March 2013 and of the amount and disposition at that date of its assets and liabilities.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the officers of the Pension Fund, the following representations given to you in connection with your audit of the Highland Council Pension Fund for the year ended 31 March 2013.

General

3. I acknowledge my responsibility and that of the Highland Council Pension Fund for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Highland Council Pension Fund have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including the Foreword by the Director of Finance, presents a balanced picture of the Highland Council Pension Fund and is consistent with the financial statements.

5. I confirm that the effect of the uncorrected misstatement is immaterial to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003, including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the financial transactions of the Highland Council Pension Fund during the year ended 31 March 2013, and the amount and disposition at that date of its assets and liabilities.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Related Party Transactions

10. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Events Subsequent to the Net Assets Statement date

11. There have been no material events since the date of the Net Assets Statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
12. Since the date of the Net Assets Statement no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

13. I acknowledge as Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
14. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There have been no changes in the corporate governance arrangements or issues identified since 31 March 2013 which require disclosure.

Fraud

15. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

16. The assets shown in the Net Assets Statement at 31 March 2013 were owned by the Highland Council Pension Fund. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

17. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2013.

Carrying Value of Assets and Liabilities

18. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets and liabilities within the financial statements.

Actuary Assumptions

19. The pension assumptions made by the actuary in the International Accounting Standard 19 (Employee Benefits) report on The Highland Council Pension Fund have been reviewed and I confirm that they are consistent with management's own view.
20. The pension assumptions made by the actuary in the 2011 Triennial Valuation were reviewed and I confirm that they are consistent with management's own view.

Other Matters

21. Except as disclosed in the financial statements, the results for the period were not materially affected by:

- transactions of a sort not usually undertaken by the Pension Fund
- circumstances of an exceptional or non-recurrent nature
- charges or credits relating to prior periods
- any change in the basis of accounting

Yours sincerely

Derek Yule

Director of Finance & Section 95 Officer