



*cutting through complexity*

# Tayside Pension Fund and Tayside Transport Pension Fund

Annual audit report to Dundee City Council as administering authority for  
Tayside Pension Fund and Tayside Transport Pension Fund and the  
Controller of Audit

Audit: year ended 31 March 2016

Scrutiny Committee - 28 September 2016 - Report no. 303-2016

# Contents

Page	2
------	---

## 1. EXECUTIVE SUMMARY

Page	5
------	---

## 2. FINANCIAL POSTION

Page	13
------	----

## 3. FINANCIAL STATEMENTS AND RELATED REPORTS

Page	20
------	----

## 4. WIDER SCOPE

Page	24
------	----

## 5. APPENDICES

### About this report

This report has been prepared in accordance with the responsibilities set out in Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Dundee City Council ("the Council") as administering authority for Tayside Pension Fund and Tayside Transport Pension Fund ("the Funds") and is made available to Audit Scotland and the Controller of Audit (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the circumstances set out in the executive summary: scope and responsibilities.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy 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, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

# Executive summary

### Audit conclusions

- We have issued an unqualified audit opinion on the financial statements of the Tayside Pension Fund and Tayside Transport Pension Fund.

Page 11

### Financial position

- The Triennial Funding Valuation as at March 2014 was undertaken during 2014-15. The outcome of the 2014 Valuation was an actuarial value of assets of £2,396.5 million for Tayside Pension Fund ("Main Fund") and an actuarial value of assets of £52.2 million for Tayside Transport Pension Fund ("Transport Fund"). This reflected a slight improvement in the long term funding position of both the Main Fund and Transport Fund from 98.2% and 96.6% to 99.8% and 99.9% respectively. The resulting deficit at the 2014 valuation was £4.8m and £0.1m for the Main Fund and Transport Fund, respectively. The employers' contribution rate was decreased from 18% to 17% for the Main Fund and revised from a fixed value of £0.84 million to 33.8% for the Transport Fund. The next triennial valuation will be undertaken as at 31 March 2017.
- For the Main Fund, the net withdrawals from dealings with members in 2015-16 was £3.5 million compared to £1.4 million in 2014-15. This is primarily due to the number of pensioners having increased in contrast to the relatively stable position of the number of contributing members. For the Transport Fund, the net withdrawals from dealings with members increased to £2.0 million as compared to £1.7 million in 2014-2015.
- Investments in the Main Fund showed negative returns due to unfavourable market conditions evidenced during 2015-16 with the net loss on investments being £0.1 million (2014-15: £381.5 million net return). Transport Fund's net return on investments was positive at £0.6 million in 2015-16 (2014-15: £5.8 million). The closing investment assets for 2015-16 were Main Fund: £2,843.1 million (2013-14: £2,463.1 million) and Transport Fund: £60.6 million (2014-15: £60.8 million).

Pages 6-9

### Financial statements and related reports

- We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy and plan document. We concur with management's accounting treatment and judgements.

Pages 11-16

### Wider scope

- We considered the four audit dimensions and focused on governance and transparency given its significance to the Funds. We concluded positively on the governance arrangements in place. A strong internal control environment was found to be in operation, transparency was evident with all board minutes being published, and effective scrutiny of decisions was apparent lead by the Pension Board.

Pages 18-20

#### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of the Funds under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Pension Fund and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the Pension Funds at the outset of our audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

#### Accountable officer responsibilities

The Code sets out the Pension Funds' responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

#### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix three sets out how we have met each of the responsibilities set out in the Code.

#### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to members and our presentation to the audit and risk committee, together with previous reports to the Pension Fund Committee throughout the year, discharges the requirements of ISA 260.

# Financial position

### Triennial valuation

In line with the Local Government Pension Scheme Regulations 2014, the Funds' actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The Actuarial Valuation assesses the health of the funds and provides a check that the funding strategy and assumptions used are appropriate. The 2014 Actuarial Valuation was undertaken for the Funds as at 31 March 2014 and was completed during the financial year 2014-15 by the Fund's actuaries, Barnett Waddingham. It was undertaken in accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as amended.

The funding level at 31 March 2014 was above the valuation as at 31 March 2011. As at 31 March 2014, the funding level was at 99.8% for the Main Fund, which corresponds to a deficit of £4.7 million and 99.9% for the Transport Fund which corresponds to a deficit of £0.1 million.

The value of scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The next detailed actuarial valuation will be carried out for the Funds as at 31 March 2017.

The table below shows the results of the triennial valuation:

Past Service Funding Position – The Funds		
	Main Fund (£m)	Transport Fund (£m)
Value of the Scheme Liabilities	(2,401.20)	(54.2)
Smoothed Asset Value	2,396.50	54.1
(Deficit)	(4.7)	(0.1)
Funding Level	99.80%	99.90%

### IAS 26 assumptions review

The Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

Our team of in-house actuaries reviewed assumptions used in the valuation. It is understood from the Barnett Waddingham correspondence that:

- the assumptions considered in this report are based on market conditions at 31 March 2016; and
- the average duration of the liabilities is 19 years for the year ended 31 March 2016.

Overall the assumptions proposed by the employer can be considered to be reasonably balanced based on the independent review performed by our internal pension specialists.

### Financial position

Current membership of the Main Fund is 44,278 of which 18,343 are actively contributing and 14,171 members are in receipt of pension benefits. There has been relatively an increase in the numbers of active contributing membership and a decline in the number of pensioners. The Main Fund maintained a net withdrawals position from dealing with members in 2015-16. This movement was primarily influenced by a decrease in total contributions by £0.8 million and an increase in benefits payable by £3.0 million during the year. The net impact of these and other smaller components is a net withdrawal position from dealing with members of £3.5 million shown in the table opposite.

Net return on investment decreased to a loss of £0.1 million in 2015-16 (2014-15: gain £381.5 million) primarily due to different factors in equity markets such as the Greek government's referendum and bailout programme, US interest-rate hike, Chinese economy slowdown, continuing low oil and commodity prices and doubts over the stability of certain European retail banks.

Fund account		
£'000	2016	2015
<b>Contributions and benefits</b>		
Contributions receivable	90,612	91,412
Transfers in	2,547	3,324
	<b>93,159</b>	<b>94,736</b>
Benefits payable	(92,672)	(89,649)
Payment to and on account of leavers	(2,596)	(5,238)
Administration expenses	(1,323)	(1,232)
Net (withdrawals)/deposits from dealing with members	<b>(3,432)</b>	<b>(1,383)</b>
<b>Return on investments</b>		
Investment income	58,956	56,574
Change in market value of investments	(51,468)	336,802
Investment management expenses	(7,589)	(11,921)
Net returns on investments	<b>(101)</b>	<b>381,455</b>
Net (decrease) increase in the fund	<b>(3,533)</b>	<b>380,072</b>
<b>Opening net assets of the scheme</b>	<b>2,843,135</b>	<b>2,463,063</b>
<b>Closing net assets of the scheme</b>	<b>2,839,602</b>	<b>2,843,135</b>

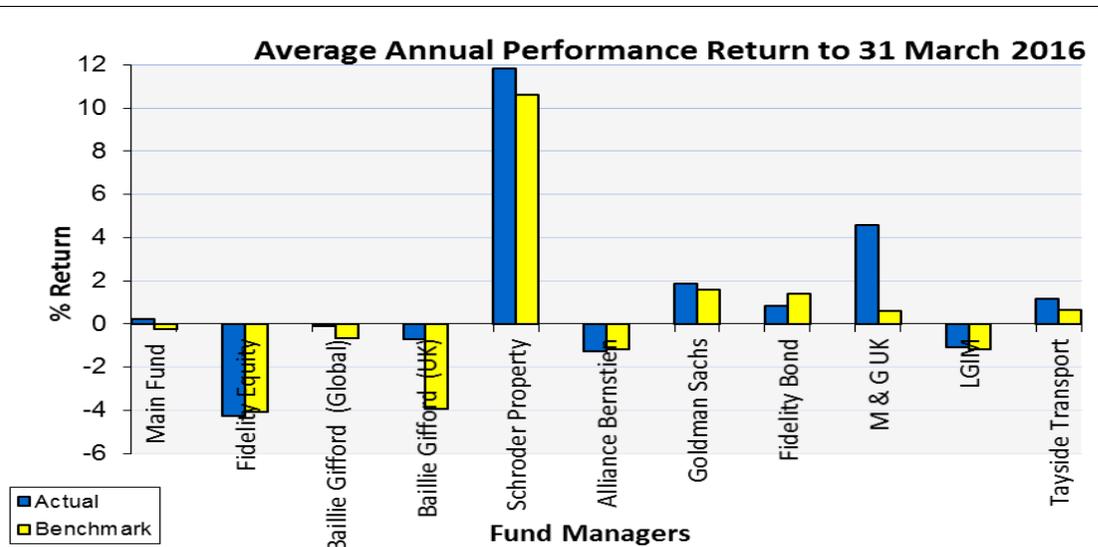
# Financial position- Tayside Pension Fund (continued)

## Net Assets Statements as at 31 March 2016

The key financial indicator for the Main Fund is considered to be the performance of the Funds' investments. This is monitored through the year and reported to the pension sub-committee on a quarterly basis. The table shows below that there is a mix of performance among the fund managers.

In the financial year to 31 March 2016 the Main Fund returned 0.25% positive return which was just 0.51% in excess of the overall benchmark set by the statement of investment principles across different asset classes and mandates for the year. This slight positive performance is attributed mainly to M&G UK and Schroder Property which performed above the benchmark which helped to offset Fidelity Equity, Fidelity Bond and Alliance Bernstein's below benchmark performance.

The performance of the fund managers except for Schroders exceeded the 3-year benchmark which is an indicator of a well managed and balanced investments.



Net assets statement		
£'000	2016	2015
<b>Listed investments</b>		
UK Equities	640,093	656,278
UK Pooled Funds	61,984	64,398
UK Fixed Interest – Public Sector	35,949	47,461
UK Fixed Interest - Other	7,373	7,850
UK Index linked - Public sector	95,125	91,285
Overseas equities	642,836	654,486
Overseas Pooled funds	207,676	208,047
Overseas Open Ended Investment Companies	326,858	352,658
Overseas – Fixed Interest - Other	28,980	17,877
Derivatives (Futures)	1,270	286
<b>Unlisted investments</b>		
UK Open Ended Investment Companies	340,845	339,194
M&G Fund	9,445	11,782
Overseas Open Ended Investment Companies	67,176	68,140
Property Unit Trusts	335,209	304,428
Cash Balances held by fund Managers	22,723	16,093
Financial Debtors	7,876	19,691
<b>Total investment assets</b>	<b>2,831,418</b>	<b>2,860,054</b>
<b>Financial liabilities</b>		
Cash and Bank	5,868	1,340
Contributions due form employers	7,176	7,903
Sundry Debtors	2,005	1,471
Sundry Creditors	(5,867)	(11,733)
<b>Total net assets</b>	<b>2,839,602</b>	<b>2,843,135</b>

Source: 2015-16 draft financial statements.

## Financial plans 2016-17

Management does not budget the financial performance of the Pension Fund due to the nature of income and expenditure. This is an acceptable practice considering that income is based on the movements in the financial markets, which is unpredictable, and majority of its expenses are investment related which solely based on a certain percentage of the investment assets.

## Conclusion

The Tayside Pension Fund value has declined by a small margin during 2015-16 due to challenging market conditions. There has been a small decrease in net assets by £3.6 million at 31 March 2016. The fund's long term funding coverage at 99.8% is in a strong position to meet its pension liabilities in the future. In terms of the fund's return, six out of nine fund managers exceeded benchmark. Of the six, only two performed very well compared to the set benchmark which is in line with our understanding of the challenging financial market conditions during the year.

### Financial position

Current membership of the Transport Fund is 552 of which 48 are actively contributing, 425 are in receipt of pension benefits, 73 are deferred pensioners and 6 are undecided or frozen. The balance of contributing members has remained relatively in line with the previous year's dealings but there was a decline in the number of pensioners. The net withdrawal position increased to £2.0 million as compared to prior year is mainly as a result of an decrease in total contributions of £0.43 million and a increase in benefits payable of £0.08 million during the year.

Net return on investment decreased by £7.0 million, to £0.58 million in 2015-16, primarily due to the uncertainties in the market during the year. Investment returns are monitored throughout the year and recent historic performance has been favourable.

Fund account		
£'000	2016	2015
<b>Contributions and benefits</b>		
Contributions receivable	486	916
Benefits payable	(2,468)	(2,551)
Payment on account of leavers	-	(78)
Administration expenses	(30)	(36)
Net withdrawals from dealing with members	(2,012)	(1,749)
<b>Return on investments</b>		
Investment income	833	810
Change in market value of investments	847	6,981
Investment management expenses	(207)	(199)
Net returns on investments	579	7,592
Net increase (decrease) in the fund	(1,433)	5,843
<b>Opening net assets of the scheme</b>	<b>62,134</b>	<b>56,291</b>
<b>Closing net assets of the scheme</b>	<b>60,701</b>	<b>62,134</b>

Source: 2015-16 draft financial statements.

### Net Assets Statements as at 31 March 2016

The key financial indicator for the Transport Fund is considered to be the performance of the Fund's investments. This is monitored through the year and reported to the pension sub-committee on a quarterly basis. The table shows below that there is a mix of performance among the fund managers.

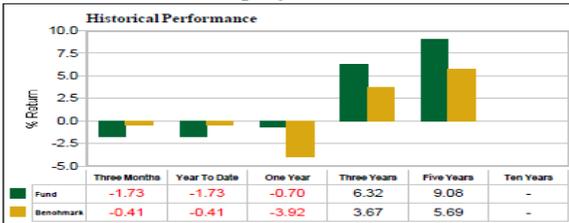
In the financial year to 31 March 2016 the Transport Fund returned 1.14% which was just above the 0.64% overall benchmark set by the statement of investment principles across different asset classes and mandates for the year. The main driver of the increase is the investments of Goldman Sachs Global which outperformed its benchmark by 29 basis points (1.89% actual versus a benchmark of 1.59). This increase was offset by the below benchmark performance of Schroders and Baillie Gifford Global Equity as a result of the underperformance of the market due to political and economic factors during the year.

1st Quarter, 2016 *Tayside Transport Fund*

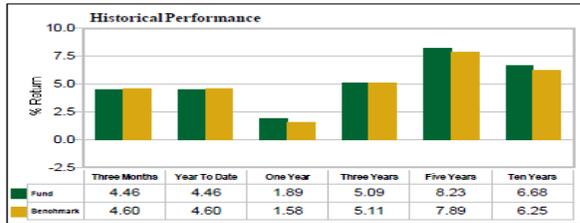
#### Baillie Gifford Global Equity



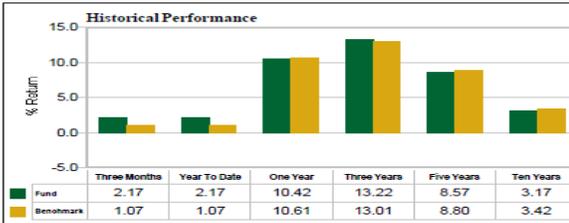
#### Baillie Gifford UK Equity



#### Goldman Sachs Global



#### Schroders RE UT



### Net assets statement

£m	2016	2015
<b>Listed investments</b>		
UK Equities	13,902	14,811
UK Fixed Interest – Public Sector	3,019	3,608
UK Fixed Interest - Other	546	515
UK Index linked - Public sector	7,208	6,892
Overseas equities	15,625	15,827
Overseas – Fixed Interest - Other	1,982	1,490
Derivatives (Futures)	87	18
<b>Unlisted investments</b>		
UK Open Ended Investment Companies	12,094	12,092
Overseas Open Ended Investment Companies	209	105
Property Unit Trusts	4,854	4,510
Cash Balances held by fund Managers	943	700
Financial Debtors	133	1014
<b>Total Investment Assets</b>	<b>60,602</b>	<b>61,583</b>
<b>Financial liabilities</b>	<b>(4)</b>	<b>(753)</b>
Cash and Bank	108	1355
Contributions due from employers	43	6
Sundry Debtors	-	1
Sundry Creditors	(48)	(58)
<b>Total net assets</b>	<b>60,701</b>	<b>62,134</b>

Source: 2015-16 draft financial statements.

## Financial plans 2016-17

Management does not budget financial performance of the Pension Fund due to the nature of income and expenditure. This is an acceptable practice considering that income is based on the movement in the market which is unpredictable and majority of its expenses are investment related which solely based on a certain percentage of the investment assets.

## Conclusion

The Tayside Transport Pension Fund value has declined by a small margin during 2015-16 due to challenging market conditions. There has been a small decrease in net assets by £1.6 million as at 31 March 2016. The fund's long term funding coverage at 99.9% is in a strong position to meet its pension liabilities in the future. In terms of the fund's return, only two out of four fund managers exceeded benchmark which is in line with our understanding of the challenging financial market conditions during the year.

A blue trapezoidal graphic on the left side of the page, containing white text.

# **Financial statements and related reports**

#### Audit opinion

Our audit work is complete. Following approval of the annual accounts by the Pension Fund Committee, we have issued an unqualified opinion on the truth and fairness of the state of the Tayside Pension Fund and Tayside Transport Pension Fund's affairs as at 31 March 2016, and Tayside Pension Fund and Tayside Transport Pension Fund's net decrease for the year then ended. There are no matters identified on which we are required to report by exception.

#### Financial reporting framework, legislation and other reporting requirements

The Pension Funds are required to prepare their financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"). In addition, consideration has been given to the Local Government Pension Scheme Fund Accounts 2015-16 – example accounts and disclosure checklist published by the Chartered Institute of Public Finance Accountants (CIPFA). Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

#### Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

#### Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

#### Audit misstatements

We have not noted any audit misstatements during our audit.

#### Written representations

There are no changes to the standard representations required for our audit from last year.

#### Materiality

We summarised our approach to materiality in our audit strategy. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our planning materiality for both funds for 2015-16 remains appropriate.

Materiality		
£'000	Main Fund	Transport Fund
Materiality	3,000	26
Posting threshold	150	1

#### Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we have:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness; and
- considered the potential effect of fraud on the annual accounts through discussions with senior management to gain a better understanding of the work performed in relation to prevention and detection of fraud.

#### Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 18 July 2016. This included the management commentary and governance statement.

#### Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the audit and risk committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

- management override of controls fraud risk.

Other focus areas:

- fraud risk from income recognition; and
- valuation of investments.

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls and risks of fraudulent revenue recognition. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from management override of controls</b></p> <p>Professional standards require us to communicate the fraud risk arising as a result of management override of controls as a significant risk; as management are typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our audit methodology incorporated management override of controls as a default significant risk. We did not identify any specific additional risks of management override as part of the audit of the fund.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including testing over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.</p>	<p>We found no instances of management override of controls from our audit testing and witnessed evidence of a strong control environment in operation.</p>

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from income recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. Given that income only comprises of contributions received and investment income, we do not regard the risk of fraud from the recognition of this revenue as significant given the income figures are taken directly from payroll and investment reports respectively.</p>	<p>In relation to contribution income, we performed detailed controls testing over the contribution return reconciliations, and over starters and leavers. We also performed various substantive analytical procedures together with detailed cut-off testing to ensure contribution income has been recognised in the correct accounting period.</p> <p>In relation to investment income, detailed substantive procedures were carried out with a sample of income transactions being vouched to fund manager reports. The movements in the values of the investment assets were verified by obtaining third party confirmation of 100% of the investments held at the year end.</p>	<p>We found no instances of fraud arising from our income controls testing and substantive work.</p>
<p><b>Valuation of investment assets</b></p> <p>Valuation of investments can be one of the more volatile elements of the financial statement and in the case of the pension fund is a material balance. Due to the inherent risk, we give additional focus to the accounting of the valuation of investments.</p>	<p>To gain assurance over the valuation of the year end investments, we obtained third party confirmations over 100% of the year end valuation of investments from the fund managers directly and compared it to the valuation on draft financial statements.</p> <p>We tested all the investments and performed pricing audit procedures over listed investments of the Funds which cover 72% and 70% of the total investments for the Main Fund and transport Fund, respectively. The year end bid values were assessed using our internal research tools to determine the reasonableness of the year end fund manager's valuation.</p>	<p>No significant differences were noted on the pricing audit procedure to gain reasonable assurance over direct confirmations</p>

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<b>Management Commentary</b>	The financial statements form part of the annual report for the year ended 31 March 2016. We reviewed the content of the management commentary against the disclosure requirements and are content with the proposed reports. The overall quality of the management commentary was good with clear presentation throughout. We provided management with some relatively minor suggestions relating to how the reports could be enhanced and where additional information disclosures should be made.	We are satisfied that the information contained within the management commentary is consistent with the financial statements.
<b>Annual governance statement</b>	The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Pension Funds' governance framework, operated internal controls, and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework.	We considered the governance framework and annual governance statement to be appropriate for the Pension Funds and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

#### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Pension Funds to be appropriate, and there have been no changes to adopted accounting policies in the year. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code.

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

#### Future accounting and audit developments

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

**Wider scope**

## Introduction

The Code frames the wider scope of our audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value.

It remains the responsibility of the audited body to ensure that they have proper arrangements in place across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we have considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

## Audit work and conclusions

Given the nature of the Pension Fund, the audit dimensions of financial sustainability, financial management and value for money are all captured within governance and transparency as this audit dimension is central to very aspect of the Pension Fund.

The audit dimensions are achieved through the governance procedures in place. Effective financial management and sustainability is directed by the Pension Fund Committee through committee meetings using guidance provided by the Pension Fund's investment consultant and actuary. Value for money is delivered through the mandates provided to the investment managers and is also reviewed as part of the regular committee meetings.

We will summarise the work we have undertaken in the year to obtain assurances over the arrangements in place over governance and transparency and our conclusions on the effectiveness and appropriateness of these arrangements.

Where we have found arrangements to not be effective or are absent we have provided further narrative and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In considering governance and transparency we performed the following work:

### *Reviewing the organisational structure, reporting lines and level of scrutiny within the Pension Fund.*

The Pension Fund demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee meetings. Decisions are transparent as actions are documented within detailed board minutes which are available on the Dundee City Council website.

The Pension Fund Committee has overall responsibility for ensuring sound governance arrangements are in place but has been supported by the Pension Board and the Investment and Performance sub-committee from 1 April 2015. This Pension Board and the sub-committee were set up in response to the new governance regulations published by the Scottish Government in February 2015. The Pension Board offers increased scrutiny over the Pension Fund Committee's decisions and the Investment and Performance sub-committee has provided additional assistance in monitoring investment performance.

### *Reviewing the annual governance statement*

Our observations and conclusions on the annual governance statement are provided on page 18.

### *Reviewing and testing the internal control environment.*

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work. KPMG's identification of weaknesses, where applicable, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Our testing of the internal control environment included testing higher level controls as well as process level controls in relation to the contributions received and benefits paid processes.

Our testing of the design and operation of higher level controls designed for pension administration and investments management noted no exceptions. We also noted no exceptions in relation to the process level controls.

As part of our work, we undertook a review of the latest internal control reports issued by the Funds' investment managers. The exceptions reported by the independent auditors of the investment managers were reviewed and we planned our audit approach taking into account the assurance gained through these reports.

The exceptions reported recognised the internal control deficiencies had no direct impact on the Pension Funds audit, giving comfort over the evidence provided by the investment managers. Additional testing was performed to corroborate the information received from the investment managers with the custodian reports that were independently received by us.

### *Conclusion*

Our testing confirms that controls relating to financial systems and procedures are designed appropriately and operate effectively.

We consider the governance framework to be appropriate to the Pension Funds and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

The Pension Fund Committee is effectively scrutinised by the Pension Board and all key decisions are transparent due to them being documented in detailed board minutes which are publicly available.

From reviewing the governance arrangements in place, it is clear that the Funds are in compliance with the new governance regulations published by the Scottish Government.

# Appendices

### Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. These are post year-end adjustments provided by the client during the audit and has been adjusted in the financial statements.

NATURE OF ADJUSTMENT	ACCOUNT NAME	BALANCE SHEET		INCOME AND EXPENDITURE	
		£ ('000)	£ ('000)	£ ('000)	£ ('000)
		DR	CR	DR	CR
Net increase in Tayside Pension Fund capital account due to correction of sundry debtors.	Superannuation Capital Account Net Increase(Decrease) in Fund	96	96		

To Pension Funds Committee members

#### Assessment of our objectivity and independence as auditor of the Tayside Pension Fund and Tayside Transport Pension Fund

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

#### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

#### Independence and objectivity considerations relating to the provision of non-audit services

##### *Summary of fees*

We have considered the fees charged by us to the Pension Fund for professional services provided by us during the reporting period.

Total fees charged by us for the year ended 31 March 2016 amounted to £43,550, £28,050 of which relates to audit fees and £15,500 to specialist tax services. These services are performed by separate teams and our work performed does not rely on the services they have provided.

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Pension Fund Committee.

## Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partner and audit staff is not impaired.

This report is intended solely for the information of the Pension Fund Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

**KPMG LLP**

# Appendix three

## Appointed auditors responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions, Conclude on whether the monitoring arrangements operate and are operating in line with recommended best practice.	Page 18 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements	Page 14 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page 18 reports on the other information contained in the financial statements, covering the annual governance statement and management commentary.
Financial statements and related reports	Notify the Controller of Audit when circumstances indicate that a statutory report may be required.	Page 14 sets out any notifications we have made to the Controller of Audit.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Pages 22 and 23 sets out our conclusion on these arrangements.

# Appendix three

## Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	These arrangement are reviewed and concluded on as part of the Dundee City Council external audit. Please refer to the Dundee City Council audit report for further details.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 6 to 12 set out our conclusion on these arrangements.
Financial position	Review performance against targets	Pages 6 to 12 summarise our review of how the bodies have performed against their financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Page 6 to 12 sets out our conclusion on the bodies' financial position including net assets.



*cutting through complexity*

The contacts at KPMG in connection with this report are:

Hugh Harvie

*Partner*

Tel: 0131 527 6682

[hugh.harvie@kpmg.co.uk](mailto:hugh.harvie@kpmg.co.uk)

Matt Swann

*Senior Manager*

Tel: 0131 527 6662

[matthew.swann@kpmg.co.uk](mailto:matthew.swann@kpmg.co.uk)

Alvin Calub

*Assistant Manager*

Tel: 0131 527 6956

[Alvin.calub@kpmg.co.uk](mailto:Alvin.calub@kpmg.co.uk)

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.