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# Scottish Borders Council Pension Fund

Annual audit report to Scottish Borders Council  
as administering authority for Scottish Borders Council Pension Fund  
and the Controller of Audit

Audit: Year ended 31 March 2013

2 October 2013

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**About this report**

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

This report is for the benefit of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund ("the Council") and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"). It 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 limited circumstances set out in the scope and objectives section of this report.

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.

We also draw your attention to the following:

- management of Scottish Borders Council are responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us 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; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve Scottish Borders Council management from its responsibility to address the issues raised and to maintain an adequate system of control.

**Our audit work is undertaken in accordance with Audit Scotland's Code of Audit Practice ("the Code"). This specifies a number of objectives for our audit.**

**In accordance with ISA (UK and Ireland) 260: Communication with those charged with governance, this report summarises our work in relation to the financial statements.**

**We wish to record our appreciation of the co-operation and assistance extended to us by Council staff during the course of our work.**

Introduction	
<p>The year ended 31 March 2013 is the fourth year for which local authorities responsible for administering a pension fund forming part of the Local Government Pension Scheme have been required to publish an annual report and financial statements for the pension fund separate from the authority's own financial statements.</p> <p>In addition to Scottish Borders Council ("the Council") itself, there are two other scheduled bodies and 12 admitted bodies participating in the Scottish Borders Pension Council Fund ("the Pension Fund"); the Council accounts for 8,732 out of a total membership of 9,311 (93.7%) in the Pension Fund.</p> <p>A triennial valuation of the Pension Fund was carried out as at 31 March 2011. This resulted in a minor decrease in the long term funding position from 96.5% funded at March 2008 to 95.7% funded at 31 March 2011. The Council's employers' contribution rate was maintained at 18%.</p>	
Financial statements	
<p>Draft financial statements were provided on 30 June 2013, in line with the statutory and agreed timetable. These were complete and to a high standard. Supporting evidence was available for the commencement of our audit.</p> <p>Overall, we consider arrangements in the control environment associated with the compilation of the financial statements to be appropriate for the Pension Fund.</p> <p>We have issued an unqualified audit opinion on the 2012-13 financial statements.</p>	Page 5
Use of resources	
<p>Management does not set annual budgets for the Pension Fund as much of the income and expenditure is outside its control. Management does, however, monitor the performance of investments and this is reported regularly to the Pension Fund Committee. Costs are also benchmarked against other Scottish local authority pension funds. The three year rolling return on assets was 9.2%, compared to a benchmark of 8.5%.</p>	Page 5
Governance	
<p>Management have reported full compliance in the governance statement. This is the first time full compliance has been reported following the progress made to improve governance processes during the year.</p>	Page 6

**The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 (“the Code”) did not include any major amendments for pension fund financial statements. All accounting policies have been applied consistently.**

<p><b>Accounting policies</b></p>	<p>There have been no changes to accounting policies in 2012-13. The accounting policies for the pension fund remain appropriate.</p>
<p><b>Code of practice on Local Authority Accounting in the United Kingdom 2012-13 (“the Code”)</b></p>	<p>The 2012-13 financial statements have been prepared in accordance with the Code supported by International Financial Reporting Standards (“IFRS”). There were no changes to the Code impacting on the pension fund and accounting policies have been applied consistently year on year.</p>
<p><b>Accounting adjustments</b></p>	<p>There no adjustments arising from our audit procedures and there are no unadjusted audit differences to report.</p>

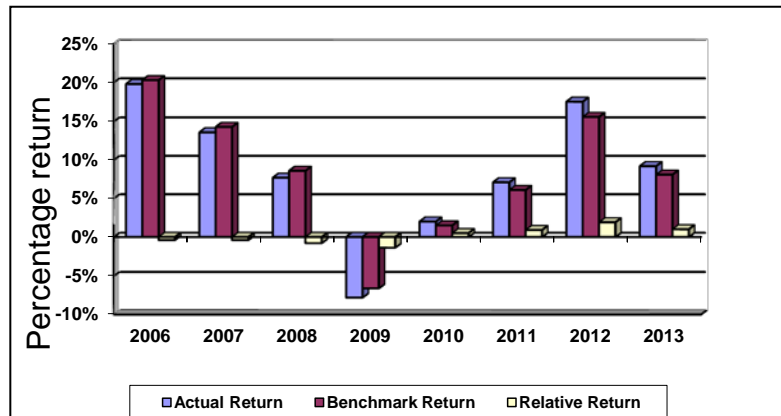
**Management does not budget financial performance of the Pension Fund due to the nature of income and expenditure.**

**Investments returns are monitored throughout the year and recent historic performance has been positive.**

The Pension Fund does not budget financial performance as the majority of income and expenditure is outwith the immediate control of the Pension Fund such as contributions receivable and pensions payable. The key financial indicator for the Pension Fund is considered to be the performance of the fund's investments. This is monitored through the year and reported to committee on a quarterly basis.

The overall return of the fund over three years was 9.2%, 0.7% higher than the benchmark return. The historic investment performance of the fund is detailed in the table below. The net assets of the fund increased by £52 million in the year, primarily as a result of investment income and gains on the market value of investments.

Following an independent review of the Pension Fund's investment policies, two new fund managers were engaged during the year. The Council also changed passive currency hedge managers. There is a continual review of the performance of fund managers which may lead to further changes in 2013-14.



The latest triennial valuation was performed for the Pension Fund as at 31 March 2011. This reflected a slight decrease in the long term funding position from 96.5% to 95.7% when compared to the 2008 valuation. The fund actuary estimates a period of 12 years for the Pension Fund to return to a nil deficit position.

An analysis of the funding position of the Pension Fund using the most recently available information (as at 31 March 2011) showed that the funding level of 95.7% was the eighth out of 16 Scottish local government pension funds. The Council recognises that the actuarial assumptions used to calculate scheme liabilities have a significant impact on funding levels. In our view, these are likely to vary between different funds.

The Council has made changes in the administration of the scheme and has made the pension fund committee a standalone committee of the Council as opposed to a sub-committee of the executive. As well as taking advice from the fund's investment advisors, third party comparative performance information is also obtained. Costs are also benchmarked against other Scottish local authority pension funds.

There are a number of developments on the horizon for pension funds, such as auto-enrolment. A comprehensive training policy is in place which is reported regularly to members. This allows members to ensure that they give ongoing consideration to the training or advice they may require to carry out their responsibilities for the pension fund going forward.

**Over-arching and supporting corporate governance arrangements were not subject to significant change and continue to provide a sound framework for organisational decision-making.**

<p><b>Governance compliance statement</b></p>	<p>The governance compliance statement included within the 2012-13 annual report shows an improvement in compliance compared to previous years. Action has been taken in year to address areas of partial compliance and non-compliance. Enhancements to governance arrangements during the year included the drafting and approval of a separate risk register for the Pension Fund which has been subject of a further detailed review in June 2013 by the Pension Fund committee. The committee has also approved an updated pension administration strategy and training policy.</p>
<p><b>Corporate governance and internal control arrangements</b></p>	<p>A governance statement for the Pension Fund was approved in March 2013 and this details the operation of the committee which meets quarterly.</p>
<p><b>Standards of conduct and prevention and detection of corruption</b></p>	<p>Management of the pension fund is undertaken by Council staff who are therefore subject to Council policies on standards of conduct, fraud and corruption. Our testing of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively.</p> <p>We have reviewed the governance compliance statement and confirm it is consistent with our understanding of the Pension Fund.</p>
<p><b>Management representation letter</b></p>	<p>In accordance with International Standards on Auditing (UK &amp; Ireland) management is required to provide us with representations on specific matters such your financial standing, application of accounting policies, and whether the transactions in the financial statements are legal and unaffected by fraud. The representation letter contains standard matters and there are no issues in this regard that we wish to bring to your attention.</p>



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# Appendices

**We are required by ethical standards to formally confirm our independence you.**

**There are no specific matters which have impinged on our independence.**

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 statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

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

### **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 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 Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;
- risk management;
- independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Council.

It was felt not necessary to put any safeguards in place.

### **Confirmation of audit independence**

We confirm that as of 25 September 2013, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

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

Yours faithfully

**KPMG LLP**



## Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- 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 financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

## Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

## Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and

- participating, when required, in data matching exercises carried out by Audit Scotland.

## Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

## Financial position

Audited bodies are responsible for conducting their affairs and 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 future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

## Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.



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