

**SCOTTISH BORDERS COUNCIL**  
**PENSION FUND COMMITTEE**

MINUTE of MEETING of the PENSION FUND  
COMMITTEE held in the Council Chamber,  
Council Headquarters, Newtown St. Boswells  
on 17 June 2014 at 10.15 pm  
-----

Present:- Councillors J. Mitchell (Chairman), J. Campbell, M. Cook, G. Edgar, G. Logan, S. Mountford; Mr J. Moody, Mr P. Smith, Mr J. Terras  
Apologies:- Councillor B. White, Mr A. Jones, Mr A. Barclay.  
In Attendance:- Chief Financial Officer, Corporate Finance Manager, HR Shared Services Manager, Mr Kenneth Ettles – AON Hewitt Consulting, Treasury and Capital Manager, Democratic Services Officer (P. Bolson).  
-----

**ORDER OF BUSINESS**

The Chairman changed the Order of Business and the Minute reflects the order in which items were considered.

**MINUTE**

1. There had been circulated copies of the Minute of the Meeting of 4 March 2014. It was noted that Cllr Campbell was present at the meeting and that paragraph 4(b) (iii) should read "that a policy on maximising tax reclaims be developed in the future."

**DECISION**

**NOTED subject to the above amendments.**

**PRESENTATION FROM WM COMPANY**

2. The Chairman welcomed Ann Gillies and David Cullinan from State Street Global Services who were present at the meeting to provide a performance review to Members of the Committee. Mr Cullinan explained how key factors in the market environment had affected percentage returns for 2013/14 and Members noted that within the Equities mandate, northern European markets had improved performance from 2012/13 whilst the Pacific and Emerging markets had been disappointing at -7.1% and -5.1% respectively. The report also noted that within the Alternatives mandate, Property (Commercial and Domestic UK) was strong at 11% with the Total Assets at 6.4%. Members noted that the Annual Returns for Equity and Bonds as shown in the report had been very positive for Local Authority Schemes and that Total Assets were between 1% and 1.5% above Asset Growth. Mr Cullinan noted the Funds performance over 5, 10 and 20 years had been consistently in the upper quartile of performance, an unusual standard of performance. Ms Gillies reported that the total Fund value at 31 March 2014 was £486,939m and that the Fund was consistently above the benchmark figures, the highest being 1.1% relative return over a five year period excluding the Foreign Exchange (FX) Overlay. Members were advised that Risk Adjusted "Absolute" Return figures over the latest three years had demonstrated a very satisfying top quartile return which was partly due to higher volatility in the market and noted that Baillie Gifford had again outperformed in both UK Equity and Global Equity portfolios. Members' questions were answered by Ms Gillies, Mr Cullinan and officers and the Chairman then thanked Ms Gillies and Mr Cullinan for their informative and comprehensive report.

**DECISION**

**NOTED the presentation.**

### **GOVERNANCE POLICY AND COMPLIANCE STATEMENT UPDATE**

3. With reference to paragraph 4 of the Pension Fund Committee Minute of 18 June 2013, there had been circulated copies of a report by the Chief Financial Officer proposing minor amendments to Scottish Borders Council Pension Fund's Governance Policy and Compliance Statement, as contained in Appendix 1 to the report. Appendix A included a list of Active Admitted Bodies and Members noted that a new Culture Trust would be added as appropriate. It was further noted that an Annual Training Plan had now been produced and logs were being maintained. The report explained that following the outcome of the governance consultation as part of the Public Services Pension Act 2013, there might be further amendments required to the Governance Policy and Compliance Statement later in the year and that any such amendments would be brought to Committee at that time.

#### **DECISION**

**AGREED the updated Governance Policy and Compliance Statement, subject to Council approval of the amendment to the Scheme of Administration on the 26 June 2014, for inclusion in the Pension Fund Annual Report and Accounts 2013/14.**

### **PENSION ADMINISTRATION PERFORMANCE 2013/14**

4. With reference to paragraph 6 of the Pension Fund Committee Minute of 18 June 2013, there had been circulated copies of a report by the Chief Officer Human Resources on the Pensions Administration Performance for 2013/14. The report explained that work undertaken by HR Shared Services with Scheduled and Admitted Bodies had resulted in a further improvement in the timing of the remittances of employee and employer contributions. Improvements had also been made in the methodology for recording query data resulting in further statistical analysis of the queries received by HR Shared Services on behalf of the Pension Fund. The report noted that 33,830 payments had been processed to pensioners for a total of £13.38m during 2013/14 and that a further 81 payments, totalling £30,797 had been made to pensioners living overseas. Members noted that the latter were processed via Western Union and that this provided a cost effective and least complex method of transfer from sterling to local currency. Mr Angus advised Members that the first of the Employer Liaison meetings would take place in October/November 2014.

#### **DECISION**

(a) **NOTED the Pension Administration performance for 2013/14 as set out in Appendix 1 to the report.**

(b) **AGREED**

(i) **to its inclusion in the Pension Fund Annual Report and Accounts 2013/14; and**

(ii) **to the development of a schedule of Employer Liaison meetings during 2014/15.**

### **TRAINING PLAN 2014/15**

5. With reference to paragraph 3 of the Pension Fund Committee Minute of 18 June 2013, there had been circulated copies of a report by the Chief Financial Officer proposing the Training Plan for 2014/15 in line with current Policy and Training Statements. The report explained that an updated Training Policy had been agreed by the Committee in June 2013 and in line with that Policy that an annual knowledge and skills self-assessment would be undertaken to identify key areas for inclusion in future training plans. The report advised Committee that Admitted Bodies and Unions would be invited to attend the session on Governance Workshop. The proposed Training Plan for 2014/15 was included at Appendix 3 to the report and officers noted a preference by Members for training events to be held during mornings.

#### **DECISION**

(a) **NOTED the outcome of the Knowledge and Skills self-assessment for 2013/14;**

(b) **AGREED**

- (i) the Training Programme for 2014/15 set out in Appendix 3 to the report; and
- (ii) that all Members of the Pension Fund Committee should prioritise attendance at these training dates wherever practicable.

#### **DRAFT ANNUAL REPORT AND ACCOUNTS 2013/14**

6. There had been circulated copies of a report by the Chief Financial Officer, presenting the Draft Annual Report and Accounts for the Pension Fund for 2013/14 to the Committee as part of the consultation process prior to submission of the Annual Report to the Audit Committee and the External Auditors. It is specified in the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 that the Annual Report must include a report on the management and financial performance of the fund during the year, a statement on the investment policy for the Fund, pensions administration arrangements during the year, an actuarial valuation statement, the governance compliance statement, the fund account and net asset statement, the annual report on pension administration strategy, and details of where to access the current Funding Strategy Statement and Statement of Investment Principles. Key facts and figures were highlighted and it was noted that the value of the Fund at 31 March 2014 was £486m compared to £446m at 31 March 2013, this being achieved predominantly on sales of investments. The operational and investment income surplus was £3.5m compared to £5.1m for the previous year and the performance of the Fund on a three year rolling average basis was 8.9% per annum, a relative return above benchmark of 0.3%. It was further detailed that there had been an increase in Fund membership during 2013/14 by 245 to 9,556; that employer contributions to the Fund totalled £12.8m while employees contributed £4.4m; and pension and other benefits paid out totalled £17.2m. Officers answered Members' questions and were thanked for providing such a comprehensive report.

#### **DECISION**

- (a) **NOTED** the report; and
- (b) **AGREED** to receive a copy of the final audited Annual Report and Accounts at the end of the audit to agree prior to its publication.

#### **PRIVATE BUSINESS**

##### **7. DECISION**

**AGREED** under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business contained in the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraphs 6 and 8 of part 1 of Schedule 7A to the Act.

#### **SUMMARY OF PRIVATE BUSINESS**

##### **Minute**

1. The Committee noted the Private Minute of the meeting of 4 March 2014.

##### **Minute**

2. The Committee noted the Private Minute of the Pension Fund Appointment Sub-Group meeting of 29 May 2014.

##### **Quarter Performance Update**

3. The Committee noted a report by AON Hewitt Consulting.

#### **RISK REGISTER UPDATE**

8. With reference to paragraph 4 of the Pension Fund Committee Minute of 4 March 2014, there had been circulated copies of a report by the Chief Financial Officer seeking approval for the

updated Risk Register. The report noted that the newly updated Risk Register had been developed in a workshop session held with Pension Fund Committee Members earlier on 17 June 2014. The report explained that identifying and managing risk was a cornerstone of effective management and was required under guidance relating to Pension Funds published by CIPFA. Members further noted that the report linked to the annual governance requirements for the Fund which would be subject to External Audit over the summer months.

#### **DECISION**

- (a) **APPROVED** the updated Risk Register as contained in Appendix 1 of the report;
- (b) **AGREED**
  - (i) that a quarterly Red Risk review be undertaken with the next due in September 2014;
  - (ii) that a six monthly Amber Risk review be undertaken with the next due in December 2014;
  - (iii) that the next annual Full Risk review being undertaken in June 2015;
  - (iv) that a review of the additional risks of the potential changes in national jurisdiction be undertaken in December 2014; and
  - (v) that an update would be presented to the Pension Fund Committee on the outcome of the Corporate Finance restructure.

#### **PRIVATE BUSINESS**

9. **DECISION**

**AGREED** under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business contained in the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraphs 6 and 8 of part 1 of Schedule 7A to the Act.

#### **SUMMARY OF PRIVATE BUSINESS**

##### **Investment Managers Procurement Update**

- 5. The Committee noted an update by the Chief Financial Officer on the Investment Manager procurement.

##### **Property Fnd Update**

- 6. The Committee noted an update by the Chief Financial Officer on the Property Fund mandate.

*The meeting concluded at 12.30pm*

---

## **RISK REGISTER UPDATE**

**Report by Chief Financial Officer**

---

## **PENSION FUND COMMITTEE**

**4 September 2014**

---

### **1 PURPOSE AND SUMMARY**

- 1.1 **This report provides the Pension Fund Committee with an opportunity to review the Risks previously categorised as "Red" under the Council's approach to managing risk, and updates members on progress made in mitigating the effect of these risks on the pension fund.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 Appendix 1 details the progress of the additional control measures on the risk identified as "Red".

### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Pension Fund Committee:-**
  - (a) **Notes the progress on the Red risk items contained in Appendix 1; and**
  - (b) **Agrees to a quarterly Red and Amber risk review being undertaken with the next due in December 2014**

### **3 BACKGROUND**

- 3.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in "Managing Risk: A Practical Guide to Risk Management in the Borders" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 3.4 A full risk review was undertaken in June 2014, and agreed the Council's policy of review cycle, as shown below was followed:

RED - 3 monthly reviews of action progress throughout the year

AMBER - 6 monthly reviews throughout the year coinciding with red reviews

YELLOW/  
GREEN - Annual reviews, coinciding with red and amber reviews

This report forms the second of the 3 monthly reviews of the Red risk items and first of the 6 monthly reviews of the Amber risk items.

### **4 RED RISK PROGRESS**

- 4.1 The current approved risk register contains 2 Red risks. These are shown in **Appendix 1** with an update on progress in relation to the proposed actions.

### **5 IMPLICATIONS**

#### 5.1 Financial

There are no direct financial implications of this report.

#### 5.2 Risk and Mitigations

The purpose of providing the update to the Committee is as part of improving the risk management framework for the Pension Fund to demonstrate that it understands the risks faced and how it is proposing to manage, mitigate or tolerate these risks.

#### 5.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

#### 5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

## 5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

## 5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

## 5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

## 6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted in the preparation of this report and any comments received on the report have been incorporated.

### Approved by

David Robertson  
**Chief Financial Officer**

**Signature .....**

### Author(s)

Name	Designation and Contact Number
Kirsty Robb	Treasury & Capital Manager, 01835 825249

### Background Papers:

**Previous Minute Reference:** Pension Fund Committee 17 June 2014

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Treasury & Capital Team can also give information on other language translations as well as providing additional copies.

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: [treasuryteam@scotborders.gov.uk](mailto:treasuryteam@scotborders.gov.uk)

## Risk Register: SCOTTISH BORDERS COUNCIL PENSION FUND

No.	RISK <i>Threat to achievement of business objective</i>	Scope/potential consequences of risk	Risk Control Measures in Place	Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
					Likelihood	Impact	Risk Score

**2. Employer Risks**

2.1	Changes in composition of Pension Fund membership i.e. active/deferred/pensioners	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.	Implementation of Auto enrolment for the Council met in July 2013. Adopted transitional arrangements until Sept 2017. Borders College staging date February 2014 and SBHA staging date April 2014. Pension Administration Strategy in place and monitored.	Treat Risk. Close monitoring of early retiral decisions and quantification of impact on pension fund to be included as part of the Council reports. Communication strategy to be developed linking to new self service systems currently being implemented.	4	4	16
-----	---	---	--	--	---	---	----

**6. Regulatory & Compliance Risks**

6.2	Legislation changes	Loss of independence; impact on Fund value and benefits	Active participation in Scottish pension investment and administration networks. Involvement with COSLA discussions on Pensions.	Tolerate Risk. Seek to input into any of the legislative change through active membership of COSLA.	4	4	16
-----	---------------------	---	--	--	---	---	----



---

**DRAFT ANNUAL REPORT & ACCOUNTS - UPDATE**

**Report by Chief Financial Officer**

---

**PENSION FUND COMMITTEE**

**04 September 2014**

---

**1 PURPOSE AND SUMMARY**

1.1 **This report provides the Pension Fund Committee with an update on the External Audit of the Pension Funds Annual Report and Accounts.**

1.2 The Pension Fund Annual Report and Accounts have been fully audited and received a draft unqualified audit opinion. The audit report is shown in **Appendix 1.**

1.3 During the audit minor presentational amendments where required in the Statement of Investment Principles. These amendments are shown in **Appendix 2.**

1.4

**2 STATUS OF REPORT**

2.1 Due to the timeline involved in finalising the draft Auditors opinion it has not been possible to incorporate consultation comments, from mandatory consultees and as a result these any responses received will be made available at the meeting.

**3 RECOMMENDATIONS**

3.1 **It is recommended that the Pension Fund Committee:-**

**(a) Notes the unqualified audit opinion in Appendix 1.**

**(b) Agrees the amendments to Statement of Investment Principles shown in Appendix 2.**

## **4 BACKGROUND**

- 4.1 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specifies that an Annual report must be produced and lists the elements required. The draft report presented to the Pension Fund Committee on 17 June 2014 fully complied to these regulations.
- 4.2 The Annual Report and Accounts are subject to full External Audit. The appointed External Auditors for the Pension Fund Accounts are KPMG, who commenced the audit of the accounts on 7 July 2014.

## **5 Audit Update**

- 5.1 KPMG have now fully completed the Audit of the Report and Accounts and have issued a draft unqualified audit opinion. Appendix 1 contains the audit report received. The Report and Accounts with the Audit opinion will be presented to the Audit Committee on 23 September 2014 for final sign off at Council on 26 September 2014.
- 5.2 During the audit process the Statement of Investment Principles (SIP) was reviewed as part of the funds key controls. The SIP was updated and approved at the December 2013 Pension Fund Committee and contained a presentational issue in the Strategic Asset Allocation table. The Auditors have also highlighted this issue during their Audit. Appendix 2 shows the amended presentation of the Strategic Asset Allocation for approval and updating of SIP.

## **6 IMPLICATIONS**

### **6.1 Financial**

There are no financial implications relating to this report.

### **6.2 Risk and Mitigations**

This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

### **6.3 Equalities**

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

### **6.4 Acting Sustainably**

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

### **6.5 Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

### **6.6 Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

### **6.7 Changes to Scheme of Administration or Scheme of Delegation**

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

## 7 CONSULTATION

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council has been consulted in the preparation of this report and any comments received will be reported at the meeting.

### Approved by

David Robertson  
**Chief Financial Officer**

**Signature** .....

### Author(s)

Name	Designation and Contact Number
Kirsty Robb	Treasury & Capital Manager, 01835 825249

### Background Papers:

**Previous Minute Reference:** Pension Fund Committee 17 June 2014

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Treasury & Capital Team can also give information on other language translations as well as providing additional copies.

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: [treasuryteam@scotborders.gov.uk](mailto:treasuryteam@scotborders.gov.uk)

## Appendix 2

### Strategic Asset Allocation

Asset Class	Manager	Original Benchmark %	Strategic Benchmark %	Permitted Range / Tolerance %
UK Equity	UBS <sup>1</sup>	14.0%	12.6%	
	Baillie Gifford	7.0%	6.4%	
	Total	21.0 %	19.0%	16% - 22%
Global Equity	UBS	14.0%	9.9%	
	Baillie Gifford	21.0%	21.7%	
	Morgan Stanley	14.0%	14.4%	
	Total	49.0%	46.0%	<del>40% - 52%</del> <del>58% - 72%</del>
	<u>Equities Total</u>			<u>58% - 72%</u>
<b>Bonds</b>				
Govt. Fixed Interests Bonds	UBS <sup>2</sup>	7.5 %	7.5%	3% - 12%
Corporate Fixed Interest Bonds	UBS <sup>2</sup>	7.5 %	7.5%	3% - 12%
	Total	15.0 %	15%	13% - 17%
<b>Alternatives <sup>3</sup></b>				
Multi-Asset Alternatives Fund	LGT	10.0 %	15%	<u>10% - 20%</u>
Property	UBS	5.0 %	5%	<u>3% - 7%</u>
	Total	15.0%	20%	15% - 25%
<b>Cash</b>		0%	0%	0% - 5%
<b>Total</b>		<b>100.0%</b>	<b>100.0%</b>	

#### Note:

<sup>1</sup> This is a passive investment mandate which requires the FTSE All Share index to be tracked.<sup>2</sup> At present the Committee have used the permitted ranges to reduce the Govt. Fixed Interests Bonds weighting to close to the bottom of the range.<sup>3</sup>

Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.



*cutting through complexity*

# Scottish Borders Council Pension Fund

**DRAFT**

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 2014

26 August 2014

**The contacts at KPMG  
in connection with this  
report are:**

**David Watt**

*Director, KPMG LLP*

Tel: 0141 300 5695

Fax: 0141 204 1584

david.watt@kpmg.co.uk

**Suzanne Amabile**

*Manager, KPMG LLP*

Tel: 0141 309 2503

Fax: 0141 204 1584

suzanne.amabile@kpmg.co.uk

**Juhi Srivastava**

*Audit Assistant, KPMG LLP*

Tel: 0131 527 7776

Fax: 0131 527 6666

juhi.srivastava@kpmg.co.uk

	<b>Page</b>
<b>Executive summary</b>	2
<b>Accounting policies</b>	4
<b>Use of resources</b>	5
<b>Governance</b>	6
<b>Appendices:</b>	
1 Mandatory communications	
2 Auditor independence	

**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 ("the Council") as administering authority for Scottish Borders Council Pension Fund ("the Pension Fund") 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.

**This report is presented in connection with our audit of Scottish Borders Council Pension Fund for the year ended 31 March 2014.**

**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 for the year ended 31 March 2014.**

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

<b>Context</b>	<p>The year ended 31 March 2014 is the fifth 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 employers' contribution rate was maintained at 18%. The triennial valuation as at 31 March 2014 is currently underway.</p>
<b>Financial statements</b>	<p>The 2013 -14 financial statements have been prepared in accordance with the Code of practice on Local Authority Accounting in the United Kingdom 2013-14 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. The accounting policies for the pension fund remain appropriate.</p> <p>Draft financial statements were provided on 30 June 2014, 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 2013-14 financial statements. There were no significant accounting or audit matters.</p>
<b>Governance</b>	<p>Management has reported full compliance in the governance statement. This is the second time full compliance has been reported following the progress made to improve governance processes during the year.</p>
<b>Use of resources</b>	<p>Management monitors 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 to 31 March 2014 was 9.2%, compared to a benchmark of 8.5%.</p>



### **Purpose of this report**

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit of the Scottish Borders Council Pension Fund for the year ended 31 March 2014. 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 Fund at the outset of our audit for 2013-14.

### **Responsibilities**

Audit Scotland's *Code of Audit Practice* ("the Code") sets out the Pension Fund's and the Chief Financial Officer's responsibilities in respect of:

- preparation of financial statements;
- 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.

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.

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.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. 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 of the Pension Fund, together with previous reports to the Pension Fund during our audit planning work, discharges the requirements of ISA 260.

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

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 to 31 March 2014 was 8.9%, 0.3% 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 £40 million in the year, primarily as a result of investment income and gains on the market value of investments.

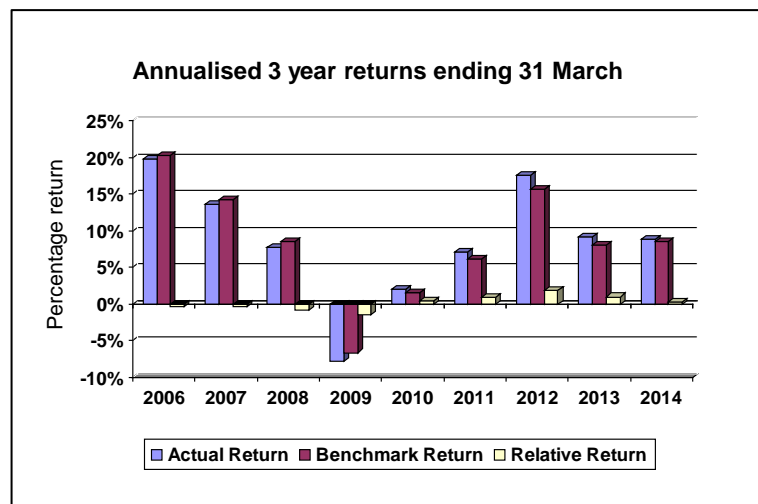
Following an independent review of the Pension Fund's investment policies, no changes were made to the fund managers or the passive currency hedge managers engaged during the year. There is a continual review of the performance of fund managers to monitor performance which may lead to further changes in 2014 -15.

The latest finalised triennial valuation was undertaken 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.

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.

Investment income has fallen to £5.3 million in the year from £6.1 million in the prior year, a 16% decrease. This was due to some of the investments in the prior year generating interest; dividends, in the current year. There was a divestment of around 11% in the equities that was then reinvested and did not generate income but led to a higher investment balance at year end, £483.6 million compared to £444.4 million at the previous year end.



**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><b>Corporate governance and internal control arrangements</b></p> <p><b>Standards of conduct and prevention and detection of corruption</b></p>	<p>The governance compliance statement included within the 2013 -14 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. We have reviewed the governance compliance statement and confirm it is consistent with our understanding of the Pension Fund.</p> <p>A governance statement for the pension fund was approved in June 2014 and this details the operation of the committee which meets quarterly.</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.</p> <p>As part of the audit, we undertook a review of the latest internal control reports issued by the Pension Fund's investment managers. The exceptions reported by the independent auditors of the investment managers were reviewed and we devised our audit approach based on the assurance gained through these reports. Exceptions reported were recognised as mainly internal control deficiencies bearing no impact on the Pension Fund audit and giving comfort over the evidence provided by the investment managers. Independent reviews of each of the reports as at the date of the audit work were also performed for extra comfort over the evidence. In order to introduce an element of unpredictability during the audit and gain comfort over the completeness of the reports, additional testing was performed where the information received from the investment managers was corroborated to the custodian reports that were independently received by us.</p> <p>Our testing of the design and operation of Council financial controls over significant risk points relevant to the Pension Funds confirms that controls are designed appropriately and operating effectively.</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>



*cutting through complexity*

# Appendices

DRAFT

**Mandatory communications regarding audit adjustments, auditor independence and representation letter content are given here.**

Area	Key content	Reference
<b>Adjusted audit differences</b> Adjustments made as a result of our audit	<p>There were no audit adjustments required to the draft financial statements which impacted on the net assets or the net expenditure for the year.</p> <p>A small number of numerical and presentational adjustments were required to some of the financial statements notes.</p>	-
<b>Unadjusted audit differences</b> Audit differences identified that we do not consider material to our audit opinion	<p>We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.</p> <p>There are no unadjusted audit differences.</p>	-
<b>Confirmation of Independence</b> Letter issued by KPMG to the Pension Fund	<p>We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Director and audit staff.</p>	Appendix two
<b>Schedule of Fees</b> Fees charged by KPMG for audit and non-audit services	<p>Audit fees for 2013-14 were agreed with management in accordance with the range specified by Audit Scotland. There were no non-audit services.</p>	-
<b>Draft management representation letter</b> Proposed draft of letter to be issued by the Pension Fund to KPMG prior to audit sign-off	<p>There are no significant changes to the standard representation required for our audit from last year.</p>	Appendix three

**Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Pension Fund.**

**We have appropriate procedures and safeguards in place to enable us to make formal confirmation in our letter included opposite.**

Professional ethical standards require us to provide to you at the conclusion of an 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.

We have considered the fees paid to us by the Joint Board for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

### **General procedures to safeguard independence and objectivity**

KPMG LP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors 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

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 members of the Joint Board.

### **Confirmation of audit independence**

We confirm that as of 26 August 2014, in our professional judgement, 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 Joint Board and should not be used for any other purpose.

Yours faithfully

**KPMG LLP**



*cutting through complexity™*

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. Use of this report is RESTRICTED – see Notice on contents page.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).