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## Strathclyde Pension Fund Committee

25 November 2020

### Strathclyde Pension Fund - audit of 2019/20 annual accounts

#### Independent auditor's report

1. Our audit work on the 2019/20 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's reports on 25 November 2020 (the proposed reports are attached at [Appendix A](#)).

#### Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Strathclyde Pension Fund Committee's consideration our draft annual report on the 2019/20 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

#### Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.
6. We have no unadjusted misstatements to be corrected.

#### Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Strathclyde Pension Fund Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

## Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Executive Director of Finance on aspects of the annual accounts, including the judgements and estimates made.
9. A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to us by the Executive Director of Finance with the signed annual accounts prior to the independent auditor's report being certified.

## APPENDIX A: Proposed Independent Auditor's Reports

### Independent auditor's report to the members of Glasgow City Council as administering authority for Strathclyde Pension Fund No.1 and the Accounts Commission

#### Report on the audit of the financial statements

##### Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Strathclyde Pension Fund No.1 (the fund) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

##### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 7 January 2019. The period of total uninterrupted appointment is 2 years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### Emphasis of matter: Additional uncertainty on property valuations

I draw attention to Note 4 in the financial statements, which describes the effects of material uncertainties that exist in the valuation of the fund's UK property portfolio due to the impact of the Covid-19 pandemic. My opinion is not modified in respect of this matter.

##### Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

## **Responsibilities of the Executive Director of Finance and Strathclyde Pension Fund Committee for the financial statements**

As explained more fully in the Statement of Responsibilities, the Executive Director of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Strathclyde Pension Fund Committee is responsible for overseeing the financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## **Other information in the annual report**

The Executive Director of Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **Report on other requirements**

### **Opinions on matters prescribed by the Accounts Commission**

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

### **Matters on which I am required to report by exception**

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

### **Conclusions on wider scope responsibilities**

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

### **Use of my report**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

John Cornett FCPFA  
Audit Director

Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
EH3 9DN

## Independent auditor's report to the members of Glasgow City Council as administering authority for Strathclyde Pension Fund No.3 and the Accounts Commission

### Report on the audit of the financial statements

#### Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Strathclyde Pension Fund No.3 (the fund) for the period ended 2 December 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the period ended 2 December 2019 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 7 January 2019. The period of total uninterrupted appointment is 2 years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

## **Responsibilities of the Executive Director of Finance and Strathclyde Pension Fund Committee for the financial statements**

As explained more fully in the Statement of Responsibilities, the Executive Director of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Strathclyde Pension Fund Committee is responsible for overseeing the financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## **Other information in the annual report**

The Executive Director of Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **Report on other requirements**

### **Opinions on matters prescribed by the Accounts Commission**

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the period for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the period for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the period for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

### **Matters on which I am required to report by exception**

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

### **Conclusions on wider scope responsibilities**

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

### **Use of my report**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

John Cornett FCPFA  
Audit Director

Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
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## **APPENDIX B: Letter of Representation (ISA 580)**

John Cornett, Audit Director  
Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
EH3 9DN

Dear John

### **Strathclyde Pension Fund No.1 and Strathclyde Pension Fund No.3 Annual Accounts 2019/20**

1. This representation letter is provided about your audit of the annual report and financial statements of Strathclyde Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement. The financial statements comprise Strathclyde Pension Fund No.1 for the year ended 31 March 2020, and Strathclyde Pension Fund No.3 for the period to 2 December 2019.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the relevant officers, the following representations given to you in connection with your audit of Strathclyde Pension Fund's annual accounts for the year ended 31 March 2020.

### **General**

3. Strathclyde Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2019/20 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Strathclyde Pension Fund have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements.

### **Financial Reporting Framework**

5. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (2019/20 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014 and the provisions of the Local Government Pension Scheme (Scotland) Regulations 2014, including all relevant presentation and disclosure requirements.

6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Strathclyde Pension Fund at 31 March 2020 and the transactions for 2019/20.

### **Accounting Policies & Estimates**

7. All significant accounting policies applied are as shown in the Summary of Significant Accounting Policies included in the financial statements. The accounting policies are determined by the 2019/20 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Strathclyde Pension Fund's circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information however I recognise the additional uncertainty created by the Covid-19 pandemic, including the valuation of the investment property portfolio. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.
9. I am content that the level of estimation and the techniques used in the calculation of management expenses have been appropriately disclosed. Based on the information received from the investment managers, I am satisfied that the management expenses reported in the 2019/20 statements are fairly stated.

### **Going Concern Basis of Accounting**

10. I have assessed Strathclyde Pension Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Strathclyde Pension Fund's ability to continue as a going concern.
11. Responsibility for administering the assets and liabilities of Fund No.3 transferred on 2 December 2019 to Aberdeen City Council. The transfer was in line with LGPS regulations with members retaining existing rights, assets were available for transfer in specie, and the going concern basis of accounting for the accounting period remained appropriate.

### **Investment Assets and Current Assets**

12. On realisation in the ordinary course of Strathclyde Pension Fund's business, the investment and current assets included in the net assets statements are expected, in my opinion, to produce at least the amounts at which they are stated. In particular, adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.
13. The fair value of investments which do not trade in an active market has been assessed with regard to underlying value, cash flow or proprietary models and discounted appropriately for the difficulty of redemption.

### **Investment Liabilities and Current Liabilities**

14. All liabilities at 31 March 2020 of which I am aware have been recognised in the annual accounts.

## **Contractual Commitments**

15. All outstanding call payments due to unquoted limited partnership funds have been fully included in the annual accounts for the period to 31 March 2020.

## **Employer/Employee Contributions**

16. A high-level analysis is carried out at year end comparing the total monthly contributions in the pension system with the amounts recorded in the financial ledger. In addition, monthly checks are performed on contribution received from employers during the year with any unexpected differences followed up and investigated.

## **Actuarial Triennial Valuation**

17. The pension assumptions made by the actuary in the actuarial triennial valuations on the funds have been reviewed and I can confirm that they are consistent with management's own view.

## **Actuarial Assumptions**

18. The pension assumptions made by the actuary in the IAS 26 report on the funds have been reviewed and I can confirm that they are consistent with management's own view.

## **Events Subsequent to the Date of the Net Assets Statements**

19. Following government announcements in August 2020, the estimated impact of the McCloud ruling and the liabilities arising has been reviewed. Disclosures in note 7 of Fund No.1 financial statements have been updated to reflect these revised estimates.
20. While COVID-19 has resulted in volatility within capital markets, there have been no material events since the date of the Net Assets Statements, other than the matter referred to in paragraph 19, which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
21. Since the date of the Net Assets Statements no events or transactions have occurred, which though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

## **Fraud**

22. I have provided you with all information in relation to:
  - my assessment of the risk that the financial statements may be materially misstated because of fraud
  - any allegations of fraud or suspected fraud affecting the financial statements
  - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.
23. There have been no irregularities involving management or employees who have a significant role in internal controls that could have a material effect on the financial statements.

## **Laws and Regulations**

24. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

## **Related Party Transactions**

25. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2019/20 accounting code. I have made available to you the identity of all Strathclyde Pension Fund's related parties and all the related party relationships and transactions of which I am aware.

## **Management commentary**

26. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

## **Corporate Governance**

27. I acknowledge, as officer with the responsibility for the proper administration of Strathclyde Pension Fund's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. Strathclyde Pension Fund has undertaken a review of the system of internal control during 2019/20 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review, or of which I am otherwise aware.
28. I confirm that the Annual Governance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers and in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. Also, I have reviewed the Governance Compliance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers.
29. The Annual Governance Statement acknowledges the temporary decision-making arrangements put in place on 17 March 2020 by Glasgow City Council, the administering authority, in response to the COVID-19 pandemic. There have been no other changes in the corporate governance arrangements or issues identified, since 31 March 2020, which require to be reflected.

Yours sincerely

Martin Booth  
Executive Director of Finance