

# Strathclyde Pension Fund

2020/21 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

Prepared for the Strathclyde Pension Fund Committee and the Controller of Audit

24 November 2021

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# Key messages

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## 2020/21 annual accounts

- 1 The financial statements of Strathclyde Pension Fund (the Fund) give a true and fair view of the state of affairs of the Fund as at 31 March 2021 and have been properly prepared in accordance with the financial reporting framework.
- 2 The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with accounting regulations.
- 3 We received the unaudited annual accounts on 24 June 2021 in line with our agreed audit timetable. In light of the working restrictions arising from the COVID-19 pandemic combined with the need to maintain the quality of our audit in a remote working environment, we agreed, with senior management of the Fund, to take advantage of the flexibilities conferred under the Coronavirus (Scotland) Act 2020 and reprofile the delivery of our audit to November 2021.

## Financial management

- 4 The Fund's investment performance resulted in a significantly better financial position than anticipated in 2020/21. Net assets of the Fund reached £26.354 billion at 31 March 2021, an increase of £5.413 billion from the prior year. The overall return on investments for the year was +25.1% which was ahead of the benchmark of +22.8%.
- 5 The Fund has appropriate and effective financial management arrangements in place. This includes comprehensive reporting of investment performance.

## Financial sustainability

- 6 The results of the 2020 triennial valuation showed a funding level of 106%, a marginal improvement from the 2017 level of 105%. This enabled the Fund to maintain the contribution rate for the main employer group at 19.3% for the period 2021-24.
- 7 The Fund has an appropriate framework in place through which it demonstrates effective medium term financial planning.
- 8 Given the funding position at 31 March 2020 and the healthy net asset position at 31 March 2021, we have no concerns over the financial sustainability of the Fund or the viability of its funding strategy.

## Governance and transparency

- 9 The Fund has adequate arrangements in place to support good governance and accountability. The COVID-19 pandemic has impacted on these since March 2020, however we have concluded that revised governance arrangements are appropriate in the current circumstances.
- 10 There is effective scrutiny, challenge and informed decision making.
- 11 The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to prevent and detect fraud and corruption, and to ensure compliance with the Pensions Regulator Public Service Code.

## Value for money

- 12 The pension administration function has performed well against targets given added pressures from the COVID-19 pandemic.
- 13 Fund performance levels in 2020/21 were ahead of benchmark, with an overall return on investment of +25.1% compared with a benchmark of +22.8%. Longer-term investment performance is also strong, with overall returns exceeding benchmarks over the past three, five and ten years.
- 14 The Fund has appropriate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

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# Introduction

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1. This report is a summary of our findings arising from the 2020/21 audit of Strathclyde Pension Fund (the Fund).
2. The scope of our audit was set out in our Annual Audit Plan presented to the Strathclyde Pension Fund Committee on 2 June 2021. This report comprises:
  - an audit of the Fund's annual accounts
  - consideration of the wider dimensions of financial management, financial sustainability, governance and transparency, and value for money, that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
  - an audit of the Fund's 2020/21 annual accounts including the issue of an independent auditor's report setting out our opinions
  - a review of the Fund's main financial systems
  - consideration of the four audit dimensions of financial management, financial sustainability, governance and transparency and value for money.

## Added value

4. We add value to the Fund through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

5. Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The council delegates this responsibility to the Strathclyde Pension Fund Committee. The committee is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Strathclyde Pension Fund Committee is required to review the

effectiveness of internal control arrangements and approve the annual accounts.

**6.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK.

**7.** As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements
- suitability and effectiveness of corporate governance arrangements and financial position
- arrangements for securing financial sustainability.

**8.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**9.** This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

## Auditor independence

**10.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**11.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £58,400 as set out in our Annual Audit Plan remains unchanged.

**12.** This report is addressed to both the members of the Strathclyde Pension Fund Committee and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**13.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

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# 1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

The financial statements of Strathclyde Pension Fund (the Fund) give a true and fair view of the state of affairs of the Fund as at 31 March 2021 and have been properly prepared in accordance with the financial reporting framework.

The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with accounting regulations.

We received the unaudited annual accounts on 24 June 2021 in line with our agreed audit timetable. In light of the working restrictions arising from the COVID-19 pandemic combined with the need to maintain the quality of our audit in a remote working environment, we agreed, with senior management of the Fund, to take advantage of the flexibilities conferred under the Coronavirus (Scotland) Act 2020 and reprofile the delivery of our audit to November 2021.

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## Our audit opinions on the annual accounts are unmodified

**14.** The annual accounts for the year ended 31 March 2021 were approved by the Strathclyde Pension Fund Committee on **24 November 2021**. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the accounting regulations.

## The COVID-19 pandemic had no impact on audit evidence

**15.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

## The annual accounts were signed off in line with the timescales permitted to reflect COVID-19

**16.** As a result of the continuing impact of COVID-19, the submission deadlines for Pension Fund audited annual accounts and annual audit reports were moved to 30 November 2021.

**17.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 24 June 2021. In light of the working restrictions arising from the COVID-19 pandemic combined with the need to maintain the quality of our audit in a remote working environment, we agreed, with senior management of the Fund, to take advantage of the flexibilities conferred under the Coronavirus (Scotland) Act 2020 and reprofile the delivery of our audit to November 2021.

**18.** Although later than first planned, the annual accounts were signed off in line with the revised timetable permitted to reflect the impact of COVID-19.

## There were no objections raised to the annual accounts

**19.** The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for Strathclyde Pension Fund was published on the website of the administering authority (Glasgow City Council) and complies with the regulations. No objections were received to the Strathclyde Pension Fund accounts.

## Overall materiality is £264 million

**20.** We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

**21.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the financial statements. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

**22.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit based on the year-end position reported in the audited 2019/20 annual accounts. This was reviewed and revised on receipt of the unaudited annual accounts to reflect the more up-to-date information and is summarised in [Exhibit 1](#).

## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£264 million
Performance materiality	£198 million
Reporting threshold	£250 thousand
Specific materiality (applied to benefits expenditure and contributions income in the fund account)	£7 million
Specific performance materiality	£5.5 million

Source: Audit Scotland

## Appendix 1 identifies the main risks of material misstatement and our audit work to address these

**23.** [Appendix 1](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

## We have no significant findings to report on the annual accounts

**24.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant issues to report from the audit.

## Other findings

**25.** We reviewed financial statements disclosures around critical judgements and sources of estimation uncertainty against recognised good practice and identified some scope to improve the clarity of disclosures. Officers amended the audited accounts to realign narrative and address the feedback provided.

## Identified misstatements of £12.461 million were adjusted in the accounts, these were less than our performance materiality and we did not need to further revise our audit approach

**26.** Identified misstatements of £12.461 million were adjusted in the accounts. These mainly consisted of three misstatements above our reporting threshold of £0.250 million:

- An adjustment of £11.686 million between assets classed as cash and property in a disclosure note to the financial statements reflecting the correction of a minor classification error. The correction of this error resulted in an increase of £11.686 million in property assets and an equal decrease in cash disclosed at Note 16 to the financial statements. This classification error had no impact on the net assets of the Fund at 31 March 2021.
- An adjustment of £0.332 million between level 1 and level 3 investments in a disclosure note to the financial statements reflecting the correction of a minor classification error. The correction of this error resulted in an increase of £0.332 million in level 1 investments and an equal decrease in level 3 investments disclosed at Note 21 to the financial statements. This classification error had no impact on the net assets of the Fund at 31 March 2021.
- An adjustment of £0.305m between current assets and current liabilities in the net assets statement reflecting the correction of a coding error in reversing a prior year accrual. The correction of this error resulted in an increase of £0.305 million to contributions due from employers and an equal increase to benefits payable. The correction of this misstatement had no impact on the net assets of the Fund at 31 March 2021.

**27.** We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

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## 2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

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### Main judgements

The Fund's investment performance resulted in a significantly better financial position than anticipated in 2020/21. Net assets of the Fund reached £26.354 billion at 31 March 2021, an increase of £5.413 billion from the prior year. The overall return on investments for the year was +25.1% which was ahead of the benchmark of +22.8%.

The Fund has appropriate and effective financial management arrangements in place. This includes comprehensive reporting of investment performance.

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### The Fund's investment performance resulted in a significantly better financial position than anticipated in 2020/21

**28.** Net assets of the Fund reached £26.354 billion at 31 March 2021, an increase of £5.413 billion from the prior year. This increase was primarily attributable to a £1.183 billion increase in the value of equities and a £3.476 billion increase in the value of pooled investments in the year. These market value increases both contributed to the positive return on investments for the year of 25.1%, which outperformed the benchmark return of +22.8%.

**29.** The promised retirement benefits at 31 March 2021 have been estimated at £29.425 billion (2019/20 – £22.982 billion), showing a 28% increase. This estimate uses assumptions in line with Internal Accounting Standards (IAS) 19 requirements, for the purposes of the Fund's financial statements. It is not directly comparable to the liability measures on a funding basis.

**30.** The Fund's financial performance in 2020/21 is summarised in [Exhibit 2](#).

## Exhibit 2

### Assets, funding level and investment performance

Movement in net assets	Funding level	Investment performance
<b>£26.354 billion</b>	<b>126.9%</b>	<b>25.1%</b>
Closing net assets as at 31 March 2021 (+25.85%)	As at 31 March 2021 (based on results of 2020 triennial valuation)	Return on investments 2020/21
<b>£20.941 billion</b>	<b>106%</b>	<b>10.8%</b>
Opening net assets at 1 April 2020	As at 31 March 2020 (per the full 2020 triennial valuation)	Average annual return on investments over 5 years

Source: 2020/21 Strathclyde Pension Fund unaudited annual report and financial statements

**31.** When considering the investment performance of the Fund during 2020/21 per [Exhibit 2](#), it is important to recognise the impact of COVID-19 on financial markets and investments since March 2020.

**32.** The global impact of the pandemic significantly increased market volatility. This caused the value of the Fund's investments to fall sharply in the last quarter of 2019/20, resulting in a negative return for the financial year to 31 March 2020. However, the recovery over following twelve months resulted in a significant increase in the value of investments, even when compared to the net asset values prior to the COVID-19 outbreak. For example, the closing net assets value at 31 March 2019 was £21.936 billion, 20% lower than the 2020/21 closing value.

**33.** While the Fund's current financial position is very healthy, the longer-term outlook remains uncertain. There is a risk of further volatility and fluctuations in the value of investments in future years as the long-term impact of COVID-19 becomes clearer, and the stimulus measures introduced by global governments in the wake of the pandemic (including tax cuts, business support grants and loans, and investment incentives) come to an end.

**34.** As well as the COVID-19 pandemic and the potential impact on future returns, the Fund continues to face several challenges in the wider environment in which it operates. A number of issues may increase pressures on the future funding position. Pension specific issues such as the scheme cost cap mechanism, guaranteed minimum pension and remediation of age discriminatory aspects of the scheme rules subsequent to the McCloud judgement may also impact on the funding position in the coming years.

**35.** Another significant challenge facing the Fund is the growing pressure to act on climate change issues. The Fund has demonstrated its recognition of risks associated with climate change through, for example:

- Its Responsible Investment Strategy, which incorporates the United Nations Principles for Responsible Investment (PRI). The Fund is a signatory to these principles and received the maximum A+ score in the 2020 PRI survey. This survey assesses how signatories have progressed in implementing the principles year-on-year.
- Continued development of its Climate Change Strategy, which sets out its approach to managing risks associated with climate change.
- Continued commitments to investments with a positive environmental, social and governance (ESG) impact through its growing Direct Investment Portfolio.
- Compliance with the UK Stewardship Code which comprises a set of 'apply and explain' principles for asset managers and asset owners, one of which relates to the integration of stewardship and investment, including material ESG issues, and climate change, to fulfil their responsibilities. In September 2021, the Fund became one of 23 asset owner signatories to the UK Stewardship Code.

**36.** The Fund is currently in the process of developing a set of minimum required standards in respect of ESG and climate change issues, and an associated framework with which it can assess current and future investments against these standards. The development of this framework is a positive step toward further mitigation of ESG and climate change risks. However, this will take some time for the Fund to develop and implement while also maintaining its fiduciary duties to act in the best long-term interests of the fund beneficiaries.

**37.** The Fund actively considers these challenges and continues to monitor risks through the corporate risk register. The funding strategy statement and investment strategy have been reviewed and revised following the triennial valuation to ensure that the Fund is well placed to continue to pay its liabilities.

**38.** The Fund is also committed to ensuring it has appropriate resources in place to support ongoing pension administration activities, along with strategies and plans that take account of future challenges.

**39.** The Fund presented its 2021/22 Business Plan to the Strathclyde Pension Fund Committee in March 2021. The plan identifies a number of key priorities for the year ahead including a review of actuarial services and the tender of the actuarial contract, and continued development of the Climate Change Strategy.

### **The Fund has appropriate and effective financial management arrangements in place**

**40.** The Executive Director of Finance for Glasgow City Council is the Proper Officer responsible for Strathclyde Pension Fund. The financial regulations of Glasgow City Council, as administering authority, apply to the Fund. We consider these to be comprehensive, current, and promote good financial management.

**41.** Administration and investment performance reports are submitted to the Strathclyde Pension Fund Committee at each quarterly meeting. Reports are comprehensive and include fund performance trends, investment manager performance against benchmarks, and movements in asset allocations. The Strathclyde Pension Fund Committee also consider papers requesting approval of proposed investments. Reports presented to the Strathclyde Pension Fund Committee are subject to appropriate review and scrutiny by members.

**42.** Overall, we have concluded that the Fund has appropriate and effective financial management arrangements in place, including comprehensive reporting of investment performance.

### **Areas of improvement were identified in the financial systems of internal control in operation during 2020/21**

**43.** As part of our audit, we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Strathclyde Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**44.** Our work in 2020/21 covered the key controls over the systems used for pension administration activity and the Fund's investments. The Fund also uses the financial systems of the administering authority, Glasgow City Council. The main council systems used by the Fund are the general ledger system and the payroll system. Our review of the controls in operation within these systems has been conducted as part of our audit of Glasgow City Council.

**45.** Our review of the systems used by the administering authority did not identify any significant control weaknesses which could affect the Fund's ability to report financial and other relevant data in the financial statements. However, we did identify the following improvement areas:

- Year-end contributions reconciliation: There is currently no formal review of the year-end reconciliation between the contributions recorded in the Fund's internal monitoring spreadsheet and the ledger. Senior management have already identified this as an area for improvement, and a review of such processes has been identified as a priority in the 2021/22 Business Plan.
- Journal authorisation: There is currently no process in place for the authorisation of journals posted by Fund officers. The processing of journals is undertaken by a small number of officers which limits the Fund's ability to undertake these secondary checks. This increases the risk that posting errors are not identified in a timely manner. Management have identified some mitigating processes that reduce this risk.

**46.** As part of our financial statement audit work, we substantively reviewed year-end reconciliations and a number journal postings and did not identify any issues. As part of our 2021/22 audit, we will consider any further mitigating actions and processes put in place by management.

**47.** In addition to the improvement areas identified above, one further controls matter was highlighted during the course of the year. In February 2021, Internal Audit were made aware of a significant fraud where a pension was paid to a deceased pensioner for a period of around 30 years. The value of payments totalled around £300,000. The Fund was not made aware of the pensioner's death, which predated current data-matching controls. On discovering the overpayment, immediate action was taken to stop all future pension payments.

**48.** Internal Audit reported the potential fraud to Police Scotland who are currently investigating the case. Work is also ongoing between Internal Audit and the Fund to ensure there are no similar cases and to determine whether there are any further controls which can be implemented.

**49.** We have reviewed the current controls in place around pensioner validation and have concluded that these are robust and operated effectively throughout the year.

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# 3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

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## Main judgements

The results of the 2020 triennial valuation showed a funding level of 106%, a marginal improvement from the 2017 level of 105%. This enabled the Fund to maintain the contribution rate for the main employer group at 19.3% for the period 2021-24.

The Fund has an appropriate framework in place through which it demonstrates effective medium term financial planning.

Given the funding position at 31 March 2020 and the healthy net asset position at 31 March 2021, we have no concerns over the financial sustainability of the Fund or the viability of its funding strategy.

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## The results of the 2020 triennial valuation showed a funding level of 106%

**50.** A full triennial valuation of the Strathclyde Pension Fund was carried out at 31 March 2020 and reported to the Strathclyde Pension Fund Committee in March 2021. One of the main purposes of the triennial valuation is to inform the setting of pension contribution rates for the forthcoming three years and to inform a review of funding and investment strategies to ensure the continued payment of members' pension benefits as they fall due.

**51.** The results of the 2020 triennial valuation showed a funding level of 106%, a marginal improvement from the 2017 level of 105%. This means that, overall, the Fund has a surplus of assets over liabilities. This surplus enabled the Fund to maintain the contribution rate for the main employer group at 19.3% for the period 2021-24.

## Medium term financial planning arrangements are appropriate and effective

**52.** There is considerable volatility in pension funding and the results of the triennial valuation are in effect a snapshot of the Fund at 31 March 2020. Following each triennial valuation, the Fund reviews and revises its investment and funding strategies.

**53.** The investment strategy outlines the types of investment to be held and the balances between the different types of investment. The investment strategy is set for the long-term but is monitored continually and reviewed using asset-liability modelling to ensure that it remains appropriate to the profile of the Fund's liabilities.

**54.** The Fund reviewed its investment strategy in conjunction with the 2020 triennial valuation. This review concluded that the current strategy should be maintained, subject to some minor amendments. The updated investment strategy was approved by the Strathclyde Pension Fund Committee in March 2021 and is outlined in the Fund's Statement of Investment Principles.

**55.** The funding strategy statement is a summary of the Fund's approach to funding liabilities and sets out the level of employer and employee contribution rates required to ensure sufficient resources are available to provide for members' pensions and lump sum benefits.

**56.** The statement requires to be reviewed in conjunction with the triennial valuation. The updated statement was approved by the Strathclyde Pension Fund Committee in March 2021 and is included within the Fund's 2020/21 Annual Report and Financial Statements.

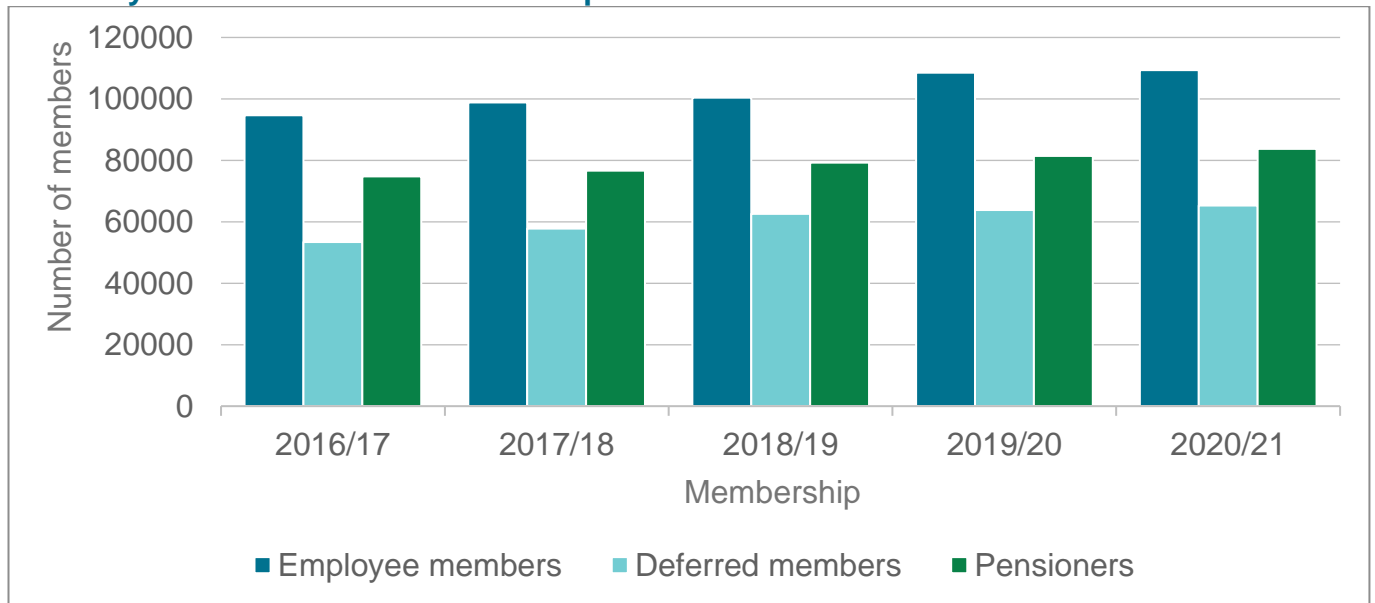
**57.** We concluded that the Fund has an appropriate framework in place through which it demonstrates effective medium term financial planning.

### **Fund membership levels continue to increase**

**58.** The Fund is a multi-employer fund with twelve Local Authorities, and 152 other employers. The current membership profile is shown at [Exhibit 3](#).

**59.** The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each member's life. It is important that the fund maintains the capacity to meet the current and future pension entitlements of its members.

### Exhibit 3 Strathclyde Pension Fund membership



Source: 2020/21 Strathclyde Pension Fund unaudited annual report and financial statements

**60.** Membership of the fund increased by 4,620 to 258,378 members at 31 March 2021; an increase in membership of 1.8%. The impact of auto-enrolment continues to contribute to the increase in employee members.

**61.** In 2020/21 the number of pensioners receiving a pension from Strathclyde Pension Fund increased by over 2,200 and the number of pensioner members continues to increase steadily each year.

**62.** Cash flows from dealings with members continue to be negative, with more paid out in benefits than that received from contributions. The deficit reported in 2020/21 was £18.752 million (£17.992 million in 2019/20).

**63.** The Fund reviews its ten-year cash flow projections annually to inform the revised annual business plan. The projections included in the 2021/22 Business Plan show that the Fund expect increasing negative cash flows for the next ten years, with the estimated gap between contributions and payments rising to £157.071 million by 2030/31.

**64.** The continued growth in pensioner numbers within the Fund's membership makes funding pension payments increasingly challenging. The Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets.

**65.** Given the funding position at 31 March 2020, the healthy net asset position at 31 March 2021, and the actions being taken to address the longer-term cashflow projections, we have no concerns over the financial sustainability of the Fund or the viability of its funding strategy.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight and the transparent reporting of information

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## Main Judgements

The Fund has appropriate arrangements in place to support good governance and accountability. The COVID-19 pandemic has impacted on these since March 2020, however we have concluded that revised governance arrangements are appropriate in the current circumstances.

There is effective scrutiny, challenge and informed decision making by committee.

The Fund conducts its business in an open and transparent manner and has appropriate arrangements in place to prevent and detect fraud and corruption, and to ensure compliance with the Pensions Regulator Public Service Code.

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## Governance arrangements operating throughout the COVID-19 pandemic have been appropriate and operated effectively

**66.** Glasgow City Council is the administering authority for Strathclyde Pension Fund. The council has delegated responsibility for governance to the Executive Director of Finance. The Strathclyde Pension Fund Committee is the main decision-making body of the Fund. It is supported by the Pension Board and is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

**67.** The responsibilities of the Executive Director of Finance, the Strathclyde Pension Fund Committee and the Pension Board are set out in the Fund's Statement of Investment Principles which is reviewed regularly.

**68.** In addition to the Pension Fund Committee and Pension Board, an Investment Advisory Panel (IAP) is also in place which comprises investment officers from the Fund and representatives from Hymans Robertson as the Fund's actuary and investment consultant. The panel also includes three independent expert advisors. The IAP supports the Strathclyde Pension Fund Committee and is responsible for developing investment strategy and monitoring investment performance.

**69.** The impact of the COVID-19 pandemic on the governance arrangements from March 2020 has been set out in the Annual Governance Statement within the 2020/21 Annual Report and Financial Statements.

**70.** Changes to the decision-making arrangements and the conduct of meetings were introduced following a meeting of Glasgow City Council's Emergency Committee in March 2020. Alternative procedures were implemented for all Council committee business, including Strathclyde Pension Fund. The following procedures were implemented with immediate effect:

- All council and committee meetings were cancelled and delegations to officers were increased temporarily. This included the Strathclyde Pension Fund Committee.
- The Fund's business continuity arrangements were followed to ensure the monthly payroll could be run remotely and without incident.

**71.** As a result of these arrangements, the June 2020 Strathclyde Pension Fund Committee meeting was cancelled. Meetings resumed in September 2020 using a virtual platform, Microsoft Teams, and continue to be held remotely. This situation will be reviewed as COVID-19 restrictions on travel and work-place activity ease.

**72.** We concluded that the revised arrangements are appropriate under the current circumstances, and they support effective scrutiny, challenge and decision-making.

### **There are effective arrangements for complying with the Pensions Regulator Public Service Code**

**73.** The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

**74.** The Fund maintains a log of any breaches of the regulations. Any breaches of material significance require to be reported to The Pension Regulator (TPR).

**75.** No breaches of material significance were reported during 2020/21. As part of our 2021/22 audit, we will continue to monitor compliance with the code and report on any breaches.

### **Performance reporting was of a good standard**

**76.** The management commentary included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

**77.** We concluded that the Management Commentary in the 2020/21 Annual Report and Financial Statements satisfied these requirements following the

agreement of some minor improvements around the forward-looking aspects of the Management Commentary.

### **Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate**

**78.** Strathclyde Pension Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**79.** We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the arrangements of the administering authority, Glasgow City Council, for the prevention and detection of fraud and corruption. These include codes of conduct for members and officers, a whistleblowing policy and an anti-fraud strategy and response plan.

**80.** As noted at paragraph [47](#), an external fraud was identified during the year in relation to an overpayment to a deceased pensioner. However, the date of the pensioner's death pre-dated current pensioner validation controls and does not impact on our judgement that appropriate arrangements were in place for the detection and prevention of fraud and corruption in 2020/21.

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# 5. Best Value

Using resources effectively and continually improving services

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## Main judgements

The pension administration function has performed well against targets given added pressures from the COVID-19 pandemic.

Fund performance levels in 2020/21 were ahead of benchmark, with an overall return on investment of +25.1% compared with a benchmark of +22.8%. Longer-term investment performance is also strong, with overall returns exceeding benchmarks over the past three, five and ten years.

The Fund has appropriate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

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## The pension administration function has performed well against targets given added pressures from the COVID-19 pandemic

**81.** The Strathclyde Pension Fund Committee meets on a quarterly basis and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

**82.** The pension administration function has performed well given the added pressures from the COVID-19 pandemic. In particular:

- the monthly pensions payroll continued to run each month without incident or delay
- priority transactions (i.e. processing of retirements and deaths) were delivered with minimal delays
- customer satisfaction targets were achieved in respect of service delivery.

**83.** Some process delays were recognised, particularly with deferred member notifications (63% processed within target days against a target of 90%). However, this was a consequence of the decision to prioritise other key areas in response to the pressures from the COVID-19 pandemic, such as processing of retirement estimates (92% processed within target days against a target of 80%) and ensuring new retirements were processed by their due date (96% against a target of 95%).

**84.** Overall, we have concluded that the pension administration function has performed well against targets given added pressures from the COVID-19 pandemic.

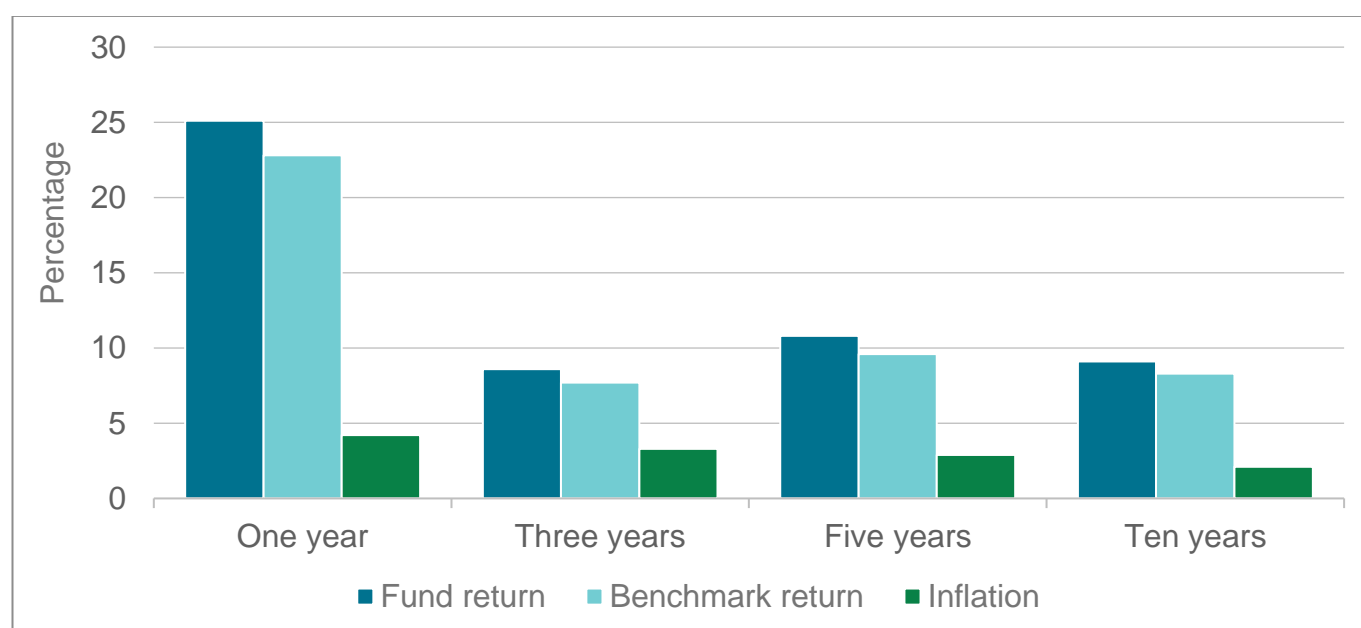
### **Fund performance levels in 2020/21 were ahead of benchmark, and longer-term investment performance is also strong**

**85.** The Fund appoints several external investment managers. Individual investment manager performance is reviewed regularly by the Strathclyde Pension Fund Committee and the Fund's investments team also carries out annual diligence reviews for each appointed fund manager.

**86.** [Exhibit 4](#) shows that over the year, the Fund generated a return of +25.1% against a benchmark of +22.8%. Longer-term investment performance is also strong, with overall returns exceeding benchmarks over the past three, five and ten years.

#### **Exhibit 4**

##### **Fund investment performance**



Source: 2020/21 Strathclyde Pension Fund unaudited annual report and financial statements

### **The Fund scrutinises investment management expenses appropriately**

**87.** There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by Glasgow City Council and oversight and governance costs.

**88.** Investment management expenses have increased from £118.597 million in 2019/20 to £204.330 million in 2020/21. The main reason for this increase in expenses relates to the significant increase in investment asset values of 26% in 2020/21, which led to a £73.785 million increase in performance related fees from the prior year.

**89.** The LGPS Scheme Advisory Board in England and Wales launched a Code of Transparency in May 2017, publishing a cost template that would allow pension funds to gather cost information for listed investment assets in a consistent manner. Since then, the Financial Conduct Authority has set up a new organisation, the Cost Transparency Initiative, to take forward the work of standardising cost disclosure across the investment industry.

**90.** The Fund is a strong supporter of the work carried out to date on cost transparency, and all but two of its institutional investment managers have signed up to the Code. The Fund continues to engage with all managers, including managers of the Direct Investment Portfolio, to support the Code and to encourage them to complete the cost template relevant to their asset class.

**91.** The Fund has appropriate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

### **National performance audit reports**

**92.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, we published a number of reports, some of which may be of interest to the Fund. The full list of reports is outlined in [Appendix 2](#) accompanying this report.

# Appendix 1

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Assessment of the estimation methodology applied by the Fund and the reasonableness of accounting estimates within the financial statements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions outside the normal course of business.</p>	<p>Our work did not identify any issues or material errors that required adjustments within the financial statements.</p> <p><b>There is no evidence of management override of controls from work performed.</b></p>
<p><b>2 Estimations applied to level 3 investments</b></p> <p>The pension fund has a significant portfolio of level 3 investments, for example unquoted equities, where valuations involve the application of a variety of estimates in determining appropriate valuations.</p> <p>This subjectivity gives rise to a risk of material misstatement in the financial statements.</p>	<p>Completion of a 'review of the work of an expert', in accordance with ISA 500, for the work of third parties undertaking valuations of significant unquoted investments. This included consideration of the competence, expertise and objectivity of any experts used.</p> <p>Assessment of fund manager valuation techniques, including consistency of approach.</p> <p>Confirmation of year-end valuations to valuation</p>	<p>Our review of fund managers, including consideration of their competence, expertise and objectivity and assessment of valuation techniques used, did not identify any issues.</p> <p>Year-end valuations were agreed satisfactorily to the Custodian Report and other supporting documentation.</p> <p><b>No significant issues identified in relation to estimations applied to the valuation of level 3 investments.</b></p>

Audit risk	Assurance procedure	Results and conclusions
	reports and/or other supporting documentation.	
<p><b>3 Estimations applied to the actuarial valuation</b></p> <p>The actuarial valuation depends on a range of financial and demographic estimations about the future.</p> <p>The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.</p>	<p>Completion of a 'review of the work of an expert', in accordance with ISA 500, for the actuary.</p> <p>Consideration of the report by the consulting actuary to Audit Scotland on actuarial estimates used in 2020/21.</p>	<p>Our review of the actuary, including consideration of their competence, expertise and objectivity, and our substantive testing did not identify any issues.</p> <p>No issues identified from the commissioned report on LGPS actuaries.</p> <p><b>No issues identified in relation to estimations applied to the actuarial valuation.</b></p>
<p><b>4 Valuation of directly held property assets</b></p> <p>As at 31 March 2020, the Fund held a portfolio of UK property investments with a value of £2.105 billion. In 2019/20, the valuation of this portfolio, undertaken by the appointed independent valuer, Avison Young, included a material valuation uncertainty clause. The valuer considered that, as a result of COVID-19, less weight could be attached to previous market evidence for comparison purposes to inform valuations. Consequently, less certainty could be placed on the valuation in the 2019/20 financial statements than would normally be the case. Our 2019/20 audit opinion included an emphasis of matter paragraph drawing this to the attention of the reader.</p> <p>There continues to be a high degree of uncertainty</p>	<p>Completion of a 'review of the work of an expert', in accordance with ISA 500, for the valuer.</p> <p>Confirmation of year-end valuations for these types of investments to valuation reports and/or other supporting documentation.</p>	<p>Our review of the valuer, including consideration of their competence, expertise and objectivity, and our substantive testing did not identify any issues.</p> <p>Year-end valuations were agreed satisfactorily to the valuation report and other supporting documentation. This confirmed there was no material valuation uncertainty clause applied to the property valuations in 2020/21.</p> <p><b>No significant issues identified in relation to the valuation of directly held property assets.</b></p>

Audit risk	Assurance procedure	Results and conclusions
<p>around the future impact of COVID-19, and therefore such material valuation uncertainty clauses may be included in the 2020/21 property valuations.</p> <p>This uncertainty increases the risk that the valuation of directly held property assets is misstated in the financial statements.</p>		

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# Appendix 2

## Summary of national performance reports 2020/21

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### April

[Affordable housing](#)

### June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

### July

[The National Fraud Initiative in Scotland 2018/19](#)

### January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

### February

[NHS in Scotland 2020](#)

### March

[Improving outcomes for young people through school education](#)

# Strathclyde Pension Fund

## 2020/21 Annual Audit Report – DRAFT

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