

Shetland Islands Pension Fund

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Shetland Islands Pension Fund
April 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Shetland Islands Pension Fund (the Fund). The main elements of our work include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual report and accounts, including the Management Commentary and the Annual Governance Statement
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership, and governance; and use of resources to improve outcomes
- provision of an Independent Auditor's Report expressing our opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and the Fund

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the Fund. Key responsibilities are summarised below.

Auditor responsibilities

3. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place within the Fund. In doing this, we aim to support improvement and accountability.

The Fund's responsibilities

5. The Fund is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements that give a true and fair view. It must prepare other reports in the annual report and accounts in accordance with applicable requirements.

6. The Fund also has responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and

establishing effective arrangements for governance and propriety that enable it to deliver its objectives.

7. The audit of the annual accounts does not relieve management or the Pension Fund Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

8. In line with the ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Fund have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration. Similar assurances will also be sought as part of the audit completion process.

Adding Value

9. We aim to add value by tailoring audit work to the circumstances of the Fund and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Pension Fund Committee and by recommending and encouraging good practice. In so doing, we will help the Fund promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

10. The annual accounts are an essential part of demonstrating the Fund's stewardship of resources and its performance in the use of those resources.

11. The appointed auditor is required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We have assessed materiality for the Fund as described in [Exhibit 1](#) on page 6.

Exhibit 1

2023/24 Materiality levels for the 2023/24 audit

Materiality	Amount
Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It is set based on our assessment of the needs of the users of the financial statements and the nature of the Fund's operations. For the year ended 31 March 2024 we have set our materiality at 2% of gross assets based on the audited 2022/23 financial statements.	£13 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£8.45 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£500 thousand

Source: Audit Scotland

Significant and non-significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the Fund, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. We also identified a further non-significant risk of material misstatement that requires a specific audit response over and above our standard audit procedures. [Exhibit 2](#) on page 7 summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

Significant and non-significant risks of material misstatement to the 2023/24 financial statements

Nature of risk	Sources of assurance	Planned audit response
Significant risk of material misstatement to the financial statements		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>2. Level 3 investment assets valuation</p> <p>These investments represented 11.5% of the Fund's investments at 31 March 2023 and are not based on observable market data but rely on investment manager valuations involving significant application of judgement</p>	<p>Valuations are reviewed by officers for reasonableness including confirmation of the accuracy of the source data used to produce them.</p>	<ul style="list-style-type: none"> • Assess the competence, capabilities, and objectivity of the fund managers in line with ISA 500. • Critically assess the Pension Fund's arrangements for arriving at the valuation of level 3 investments, including the use of experts in undertaking the valuation.

Nature of risk	Sources of assurance	Planned audit response
<p>which might be impacted by delays in valuation data and reaction to environmental factors.</p> <p>The subjectivity involved represents increased risk of material misstatement in the financial statements.</p>		<ul style="list-style-type: none"> • Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Review the relevant investment managers' controls reports for qualifications or exceptions that may affect the audit risk. • Review the arrangements in place at the Pension Fund to assess investment managers' governance arrangements. • Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.

Other non-significant risk of material misstatement

3. Actuarial valuation of pension liability

The annual accounts include a disclosure note setting out the SIPF's liability for future retirement benefits. This information is provided by the SIPF's actuary. The actuary's valuation depends on a range of financial and demographic estimations about the future. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.

Valuations are reviewed by officers for reasonableness including confirmation of the accuracy of the source data used to produce them

- Assess the competence, capabilities, and objectivity of the actuary in line with ISA 500.
- Review the information provided to the actuary by the Fund.
- Review the assumptions used by the actuary to reach the valuation of future retirement benefits.
- Review officers' arrangements for ensuring the completeness and accuracy of professional estimations for pensions.

Consideration of the risks of fraud in the recognition of revenue and expenditure

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We also considered the risk of fraud over expenditure, and the risk of external fraud (in accordance with Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)).

19. We have rebutted the presumption that a material risk exists, with the exception of management override of controls, as noted in [Exhibit 2](#) above. This is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting of income or expenditure
- income and expenditure arising from dealing with members is in accordance with regulations with low inherent risk and effective internal control arrangements
- the Fund appoints a global custodian to safeguard the assets of the Fund and ensure that all investment income and transactions are brought to account
- evidence from the National Fraud Initiative does not indicate material risks
- the main expenditure streams of the Fund can be forecast on a predictable pattern of spend and mainly comprise a high volume of relatively low value items
- experience in the sector and of the audit of the Fund, including review of past misstatements.

20. As a result, our audit plan does not include any specific work in these areas over and above our standard audit procedures.

Wider Scope

Introduction

21. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

22. In summary, the four wider scope areas are:

- **Financial management:** this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** we will consider the results of the recent triennial valuation and whether the Fund is planning effectively to achieve its long-term objectives as outlined in the Funding Strategy Statement.
- **Vision, leadership, and governance:** we will conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** we will consider how the Fund demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

23. Our planned work on our wider scope responsibilities is risk based and proportionate. We have identified one wider scope risk around the triennial valuation of the Fund as at 31 March 2023. The valuation was carried out by the Fund's actuary (Hymans Robertson) during 2023/24. The results of the valuation will impact on future employer contribution rates, as well as the future funding and investment strategies of the Fund. The results of the valuation therefore present a risk to the financial sustainability of the Fund.

24. We will review the actuary's report on the triennial valuation of the Fund as at 31 March 2023 and consider related reports presented to the Pension Fund Committee. We will also consider the impact of the valuation results on the Fund's future investment and funding strategies.

25. In addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

26. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

27. We will provide an Independent Auditor's Report to the Fund and the Accounts Commission setting out our opinions on the annual report and accounts. We will also provide the Fund and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. [Exhibit 3](#) outlines the target dates for our audit outputs. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Pension Fund Committee Date
Annual Audit Plan	31 March 2024	14 May 2024
Independent Auditor's Report	30 September 2024	23 September 2024
Annual Audit Report	30 September 2024	23 September 2024



Source: Audit Scotland

29. This Annual Audit Plan, the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

30. To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the annual accounts. A proposed timetable for the 2023/24 annual accounts audit is shown in [Exhibit 4](#).

Exhibit 4**Proposed annual accounts timetable**

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	24 June 2024
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Executive Manager - Finance	4 September 2024
Agreement of audited 2023/24 annual report and accounts for consideration by the Pension Fund Committee	13 September 2024
Issue of proposed Annual Audit Report to those charged with governance (along with letter of representation and proposed Independent Auditor's Report).	13 September 2024
Pension Fund Committee meeting to consider the Annual Audit Report and approve the audited annual accounts for signing	23 September 2024
Independent Auditor's Report certified by appointed auditor and Annual Audit Report finalised and issued	23 September 2024

Source: Audit Scotland

Audit fee

31. In determining the audit fee, we have taken account of the risk exposure of the Fund and the planned management assurances in place. The proposed audit fee for 2023/24 is £37,280 (£35,170 in 2022/23).

32. In setting the fee we have assumed that the Fund has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee also assumes there will be no major changes in respect of the scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

33. It is the responsibility of the Fund to establish adequate internal audit arrangements. The Fund's internal audit function is provided by Audit Glasgow. We have reviewed internal audit's plan as part of our planning process.

34. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

External audit team

35. There is a change in the engagement lead for the Fund audit this year as Brian Howarth, Audit Director, has retired. The engagement lead (i.e. the appointed auditor) from the 2023/24 audit will be Rachel Browne, Audit Director. Rachel has over 25 years of public sector audit experience in local government, NHS, and central government audits, including the audit of pension funds. The incoming and outgoing engagement leads held handover discussions to ensure a smooth transition.

Independence and objectivity

36. We are independent of the Shetland Islands Pension Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

37. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

38. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the Fund.

Audit Quality

39. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

40. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

41. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

42. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

43. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Shetland Islans Pension Fund

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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