

Fife Pension Fund

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Fife Pension Fund

17 March 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

Introduction

1. Fife Pension Fund (the Fund) is a multi-employer Local Government Pension Scheme pension fund administered by Fife Council. Administration is delegated to the Superannuation Fund and Pension Committee supported by a Local Pension Board. At the 31 March 2019 the Fund had 16,700 active members and 13,151 pensioner members.

2. The Fund had over £2.6 billion of investment assets at 31 March 2019 and the estimated value of employer body pension liabilities falling on the fund was £3.4 billion. In 2018/19 the fund received £97.4 million of contributions from employers and employees and paid out £82.2 million in pension benefits. The net return on investments was £179.4 Million.

Code of audit practice

3. Our audit of the Fund is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and [guidance on planning the audit](#). This plan contains an overview of the planned scope and timing of our audit. It sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and to meet the wider scope requirements of public sector audit.

4. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency, and value for money.

Adding value


5. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Fund promote improved standards of governance, better management, and decision making, and more effective use of resources.

Audit risks

6. Building on our knowledge from previous years, discussions with staff, attendance at committee meetings and a review of supporting information we have identified a number of significant financial statement risks detailed in [Exhibit 1](#).

Exhibit 1

2019/20 Significant audit risks

	Significant Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks			
1	<p>Risk of material misstatement caused by management override of controls</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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Data analytics risk assessment of ledger transactions (including journals) and testing. • Review of accounting estimates. • Focussed testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
2.	<p>Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments and actuarial valuation.</p> <p>Investments include level 3 investments such as unquoted property investment companies, where the valuations involve the significant application of judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include financial and demographic assumptions which can have a significant impact on the present value of promised retirement benefits disclosed in the accounts.</p>	<p>Third party audit certificates covering internal controls of the custodian and fund managers.</p> <p>Valuation reports from the custodian.</p>	<ul style="list-style-type: none"> • Review of user entity controls in relation to the use of service organisations. • Confirmation of valuations to reports and / or other supporting information. • Establishing expectations for the yield of level 2 and 3 investments based on level 1 investments of the same asset class. • Review the competence of the actuary and the reasonableness of the assumptions used to estimate the present value of promised retirement benefits.

Source: Audit Scotland

7. As set out in ISA 240: “The auditors responsibilities relating to fraud in an audit of the financial statements” there is a presumed risk of material misstatement arising from fraud in the recognition of income. Audit Practice Note 10 extends this risk for public sector bodies to also cover fraud over the recognition of expenditure. We have rebutted these risks for the pension fund on the basis that for the pension fund there is little incentive or opportunity for fraudulent manipulation of the accounts.

Reporting arrangements

8. Audit reporting is the visible output for the annual audit. All annual audit plans, and the outputs as detailed in [Exhibit 2](#) and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

9. At the end of our audit we will provide the Superannuation Fund and Pension Committee, the Executive Director Finance and Corporate Services and the Accounts Commission with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit. We will also issue an independent auditor's report containing our opinion on the financial statements.

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan		17 March 2020
Annual Audit Report		30 September 2020
Independent Auditor's Report		30 September 2020

Source: Audit Scotland

Audit fee

10. The proposed audit fee for 2019/20 is £35,700 (2018/19: £34,936). In determining the audit fee, we have taken account of the risk exposure of the Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 30 June 2020.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Superannuation Fund and Pension Committee and Executive Director Finance and Corporate Services

12. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance that enable them to successfully deliver their objectives.

13. The audit of the annual accounts does not relieve management or the Superannuation Fund and Pension Committee of their responsibilities.

Appointed auditor

14. 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.

15. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

16. The audit of the annual accounts, including the financial statements, will be the foundation and source for most of the work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Fund and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Fund will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free from material misstatement.

17. We will give an opinion on whether the 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 adopted 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.

Statutory other information in the annual accounts

18. We give an opinion on whether these statements have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

19. We also review the content of the pension fund annual report for consistency with the financial statements and with our knowledge. We consider whether the information is otherwise materially misstated. We report any uncorrected material misstatements in statutory other information.

Materiality

20. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

21. We calculate materiality for the financial statements as a whole based on the net assets of the fund as set out in [Exhibit 3](#).



Exhibit 3

Materiality values – financial statements as a whole

Materiality	Overall
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of net assets based on the latest audited accounts for 2018/19.	£26 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£15.6 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at just over 1.5% of planning materiality.	£250 thousand

Source: Audit Scotland

Lower specific materiality – contributions and benefits

22. In addition to planning materiality we set lower, specific materiality levels for transaction with members where lesser amounts could influence the decisions of the users of the accounts. We base this lower specific materiality on the higher of contributions receivable or benefits payable as shown in [Exhibit 4](#).

Exhibit 4

Lower specific materiality values – contributions and benefits



Materiality	Specific
Specific materiality – It has been set at 1% of payments to contributions and transfers receivable based on the latest audited accounts for 2018/19.	£1 million
Specific performance materiality – Using our professional judgement we have calculated performance materiality at 60% of the specific materiality.	£0.6 million
Specific reporting threshold	£25 thousand

Source: Audit Scotland

Timetable

23. To support the efficient use of resources it is critical that an annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 5](#).

Exhibit 5 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	30 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting with Head of Finance	28 August 2020
Issue of Letter of Representation (ISA 580) and proposed independent auditor's report	18 September 2020
Agreement of audited unsigned annual report and accounts	
Issue of Annual Audit Report to those charged with governance	
Meeting of the Superannuation Fund and Pension Committee to approve the audited annual accounts for signature by: the Convenor; Chief Executive; and the Executive Director Finance and Corporate Services	30 September 2020
Independent auditor's report signed	30 September 2020

Source: Audit Scotland

Internal audit

24. Internal audit is provided by Fife Council's Audit and Risk Management Service (ARMS). As part of our planning process we carried out an assessment of the internal audit function and concluded that ARMS generally operate in accordance with the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

25. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of ARMS wherever possible to avoid duplication. We plan to consider the findings of the work of ARMS as part of our wider scope audit in 2019/20. We do not plan to place any formal reliance on IA in relation to our financial statements audit.

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

Exhibit 6 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the Fund's financial sustainability. We define financial sustainability as having medium term (two to five years) and longer term (greater than five years) financial plans in place. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of funding arrangements and the investment strategy in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

28. Financial management in the context of a pension fund is complex and includes not just investment and funding strategy, but also arrangements for contract management, performance review, budget setting, forecasting and the financial control environment. We will review, conclude and report on:

- the Fund's financial performance and funding levels for the year, including performance against its investment strategy
- whether the Fund has arrangements in place to ensure systems of internal control are operating effectively
- whether the Fund can demonstrate the effectiveness of the budgetary control system
- whether the Fund has established appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

29. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent

reporting of financial and performance information. The knowledge and skills of Superannuation Fund and Pension Committee and Pension Board members is key to this process. We will review, conclude and report on:

- the governance disclosures in the annual report and accounts
- whether the Fund can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting
- the quality and timeliness of financial and performance reporting on the Fund's administration and investments
- consistency of the annual governance statement and the governance compliance statement with the disclosures made in the financial statements.

Value for money

30. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Fund can demonstrate value for money in the use of resources, has focus on improvement and that there is a clear link to outcomes delivered.

Independence and objectivity

31. 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 also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. These arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

32. The engagement lead (i.e. appointed auditor) for the Fund is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Fund.

Quality control

33. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

34. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. The Institute of Chartered Accountants of Scotland (ICAS) have also been commissioned to carry out external quality reviews of our work.

35. As part of our commitment to quality and continuous improvement Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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