Fife Pension Fund

2020/21 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Fife Superannuation Fund and Pensions Committee and the Controller of Audit

November 2021

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Key messages

2020/21 annual accounts

1 Our opinions on the annual accounts are unmodified.

2 The accounts were made available for audit and inspection in line with the statutory timetable.

3 There were few issues arising from our accounts audit and good progress was made on prior year recommendations.

Financial management and sustainability

4 The triennial funding position has improved, and annual investment returns are better than in 2019/20. The Fund’s actively managed global equity mandate performed particularly well.

5 There was progress towards the Fund’s strategic asset allocation with the divestment of £495 million of equities and further investment in non-gilt debt.

6 Internal financial controls were impacted by Covid-19 and the introduction of new council systems.

7 Additional accounting controls were introduced in relation to investment values.

Governance, transparency and best value

8 There is effective governance which includes revision of key strategies and management of performance.

9 Investment costs are benchmarked and remained below average for the Fund’s comparison group in 2019/20. Investment performance remained above average.

10 The council staff involved with the pension fund adapted to homeworking during Covid-19 and have now started a blended workstyle where office use is now possible.

Introduction

1. This report is a summary of our findings arising from the 2020/21 audit of Fife Pension Fund (the Fund). The scope of our audit was set out in our Annual Audit Plan presented to the Superannuation Fund and Pensions Committee in March 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.

2. 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

3. 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 3) 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

4. Fife Council is the administering authority for the Fife Pension Fund. The council delegates this responsibility to the Superannuation Fund and Pensions Committee. The committee is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Committee is required to review the effectiveness of internal control arrangements and approve the annual accounts.

5. 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.

6. 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.

7. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

8. 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.

9. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

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 £37,500 as set out in our Annual Audit Plan remains unchanged.

12. This report is addressed to both the members of the Pension Fund Committee and the Controller of Audit and will be published on Audit Scotland's website 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.

1. Audit of 2020/21 annual accounts

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

Main messages

Our opinions on the annual accounts are unmodified.

The accounts were made available for audit and inspection in line with the statutory timetable.

There were few issues arising from our accounts audit and good progress was made on prior year recommendations.

Our audit opinions on the annual accounts are unmodified

14. The annual accounts for the year ended 31 March 2021 were approved by the Superannuation Fund and Pensions Committee on 7 December 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 guidance

15. There were delays in auditing the annual accounts due to Covid-19. The Fife Pension Fund audit was affected by issues in our wider audit portfolio and prioritisation decisions within the Fife audit team.

There were no objections raised to the annual accounts

16. Finance staff produced the accounts in line with the statutory timetable and made them available on the Council's website on 1 July 2021.

17. 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 Fife

Pension Fund was published on the Fife Council website and complied with the regulations. No objections were received to the Fife Pension Fund accounts.

Overall materiality is £33 million

18. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of any misstatement.

19. We calculate overall materiality for the financial statements based on the net assets of the fund and set a lower materiality for contributions and benefits.

20. On receipt of the unaudited annual accounts we reviewed our materiality calculations and subsequently revised our assessment of overall materiality downwards slightly Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£33 million
Overall performance materiality	£19.8 million
Overall reporting threshold	£250,000
Specific materiality – contributions and benefits	£1 million
Specific performance materiality – contributions and benefits	£0.6 million
Specific reporting threshold – contributions and benefits	£30,000

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

21. Appendix 2 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 one significant finding to report on the annual accounts

22. 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. The finding from our audit of the Fund's annual accounts is outlined in Exhibit 2 with recommendations included in the action plan at Appendix 1.

Exhibit 2
Significant findings from the audit of the annual accounts

Issue	Resolution
1. Lump sum accruals The deadline for accruals was brought forward as part of 2020/21 closedown which meant that £392,000 of lump sums payable had not been included in the accounts.	The accounts were amended and the approach to accruals of lump sums to be reviewed for 2021/22. **Recommendation 1** (refer Appendix 1, action plan)

Identified misstatements of £392,000 were adjusted in the accounts, these were less than our performance materiality and we did not need to further revise our audit approach

23. Misstatements of £392,000 were adjusted in the accounts increasing net expenditure. This error related to the under accrual of lump sum payments and has been identified in its entirety (Exhibit 2).

24. A number of other presentational changes were made to the audited accounts including the separate disclosures of bulk transfers, and additional analysis of pooled investments, in the notes to the accounts.

25. Not all misstatements identified have been adjusted. Some investments are included in the wrong fair value category in Note 13a to the accounts. £8 million of investments shown as Level 1, and a further £8 million shown as Level 3, should be shown as Level 2. Management have not adjusted for these items as the misstatement is confined to the note and the amounts are not material.

26. 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.

Good progress was made on prior year recommendations

27. The Fund has made good progress in implementing our prior year audit recommendations with three of the six actions complete, one partially complete and two incomplete. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in Appendix 1.

2. Financial management and sustainability

Financial management is about financial capacity, sound budgetary processes and whether the control environment is operating effectively. Financial sustainability is about the capacity to meet the current and future needs of pension fund members.

Main messages

The triennial funding position has improved, and annual investment returns are better than in 2019/20. The Fund's actively managed global equity mandate performed particularly well.

There was progress towards the Fund's strategic asset allocation with the divestment of £495 million of equities and further investment in non-gilt debt

Internal financial controls were impacted by Covid-19 and the introduction of new council systems.

Additional accounting controls were introduced in relation to investment values.

The triennial funding position has improved, and annual investment returns are better than 2019/20

28. The Fund's key performance statistics are shown at Exhibit 3.

29. The triennial funding review at 31 March 2020 was completed in 2020/21 and shows an improved position with assets representing 97 per cent of the estimated liabilities.

30. In line with the general market recovery from the impact of Covid-19 investment returns have improved in 2020/21. The overall return for the Fund's investments was 29.7 per cent (-3.3 per cent in 2019/20). This exceeded the benchmark return for the fund which was 19.3 per cent. The fund demonstrated an annualised investment return over five-years of 11.6 per cent.

31. Fund assets increased to £3.303 billion in 2020/21. However, liabilities valued on an IAS 19 basis also increased. The IAS 19 valuation used in the financial statements is estimated by the fund's actuary using a high-quality corporate bond rate to discount projected cashflows. The discount rate will typically be lower than the rate used at triennial valuations, leading to a higher estimate of liabilities. Based on this estimate the Fund's assets represent 80% of promised retirement benefits.

Exhibit 3
Key statistics 2020/21 – Fife Pension Fund

Increase in net assets	2020 triennial funding position	2021 Assets / liabilities (IAS 19)	Investment performance
£3.303 billion Closing net assets 31 March 2021 30% increase	**97%** 2020 triennial funding valuation	**80%** Net assets as a proportion of promised retirement benefits 31 March 2021	**29.7%** Return on investments in 2020-21
£2.536 billion Opening assets 1 April 2020	**93%** 2017 triennial funding valuation	**83%** Opening net assets as a proportion of promised retirement benefits	**11.6%** Annualised return on investments over 5 years

Source: 2020/21 Fife Pension Fund annual report and accounts

Fife Council contributions have remained the same

32. Despite the improved overall funding position in the triennial valuation, some employers faced an increase in contribution rates. The employer contribution rate for Fife Council, who are the largest employer in the fund, has remained at 24.5%. The actuary considers a range of factors when setting contribution rates including the outlook for investment performance.

The Government Actuaries Department review the triennial valuation process and will report on any issues

33. The Government Actuaries Department (GAD), on behalf of the Scottish Ministers, are currently undertaking their review of the 2020 triennial revaluation under section 13 of the Public Service Pensions Act 2013. The review covers the consistency with which actuaries have undertaken valuations and their compliance with regulations. It also looks at the solvency and long-term efficiency of the funds. There were no issues arising for Fife from the previous review of the 2017 revaluation and we have not been made aware of any issues arising from the current review.

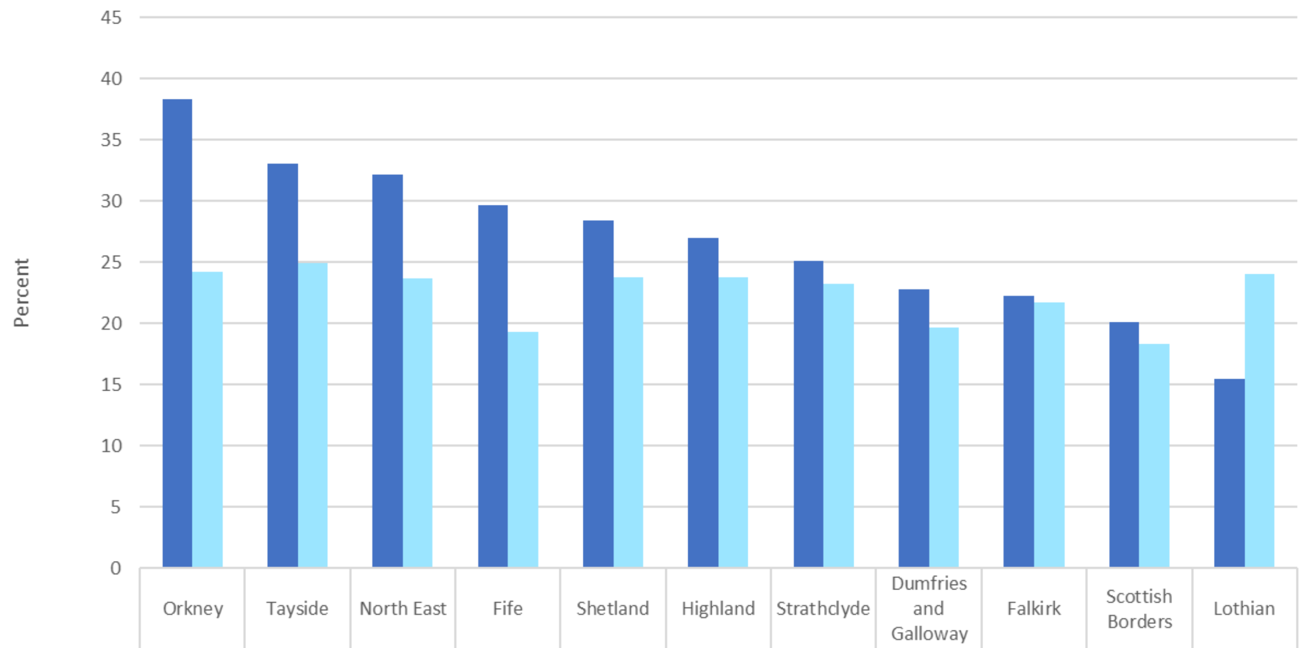
All LGPS funds showed positive investment returns, Fife had the fourth highest return

34. All LGPS funds in Scotland demonstrated positive investment returns with most exceeding their benchmarks in 2020/21. Fife pension fund returns were the fourth highest. Investment returns and published benchmarks are shown in Exhibit 4.

Exhibit 4

Investment returns and benchmarks – LGPS funds Scotland

2020/21 saw strong overall investment returns. Fife's reported return was 4th highest.



	Orkney	Tayside	North East	Fife	Shetland	Highland	Strathclyde	Dumfries and Galloway	Falkirk	Scottish Borders	Lothian
Return	38.3	33.1	32.2	29.7	28.4	27	25.1	22.8	22.3	20.1	15.5
Benchmark	24.2	24.97	23.7	19.3	23.8	23.8	23.2	19.7	21.7	18.3	24

Source: Unaudited annual accounts 2020/21

35. Fund benchmarks and annual returns reflect the investment strategy of each fund. Different funds will have different investment strategies and different exposure to market volatility and risk. Generally speaking, returns will be closer to benchmark where funds are managed passively as benchmarks typically reflect the average market performance for different categories of asset.

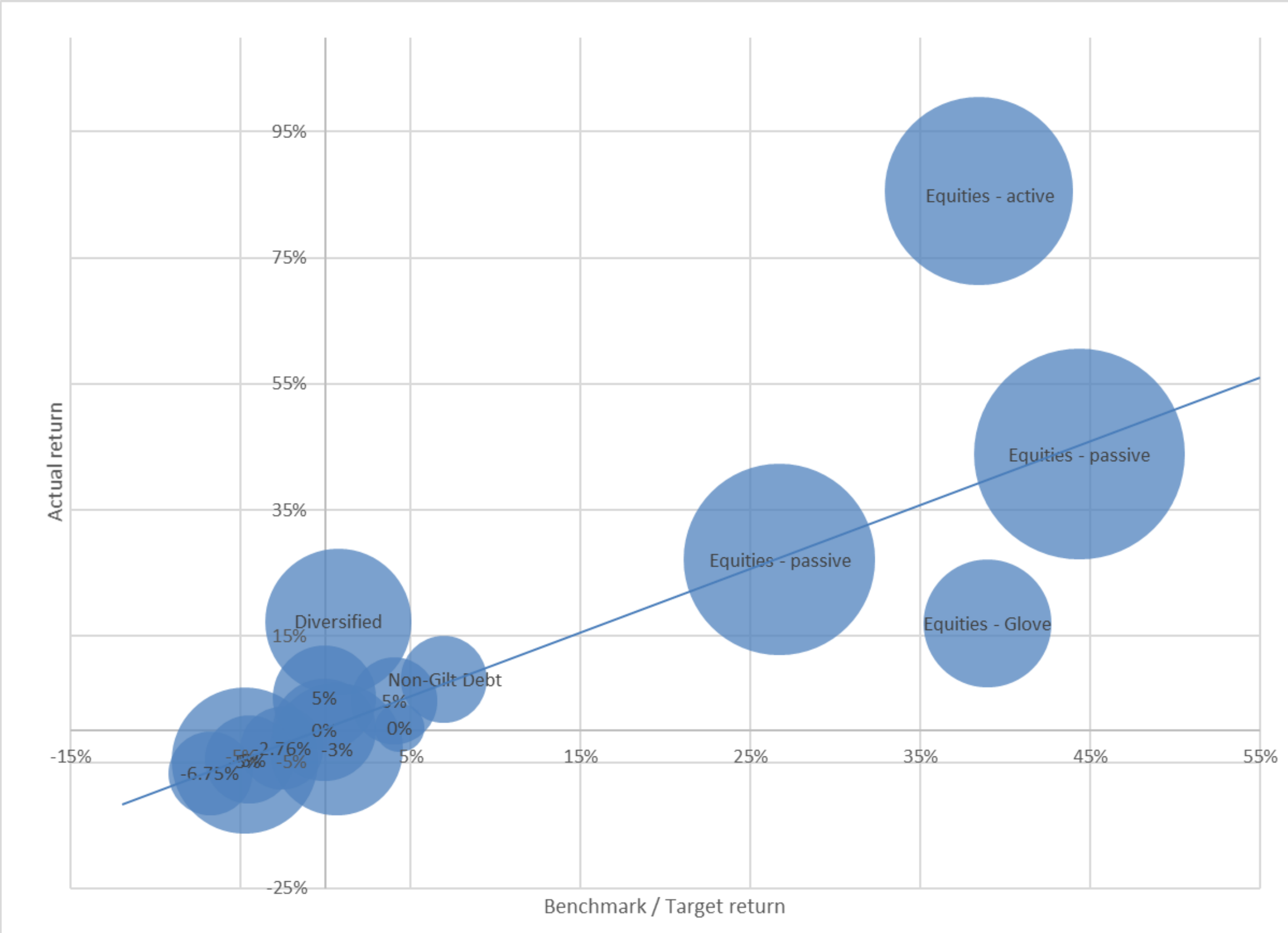
The Fund's actively managed global equity mandate performed particularly well

36. The Fund's actively managed global equity mandate again significantly out-performed its benchmark. Equities generally performed strongly in 2020/21 whilst other asset categories performed less well. Investment returns and benchmarks are shown for the Fund's investment mandates in Exhibit 5.

Exhibit 5

Fife Pension Fund investment returns and targets by mandate 2020/21

Equities performed strongly, but other categories of asset performed less well.



Source: Fife Pension Fund records and reports – not all mandates were in place for the full year

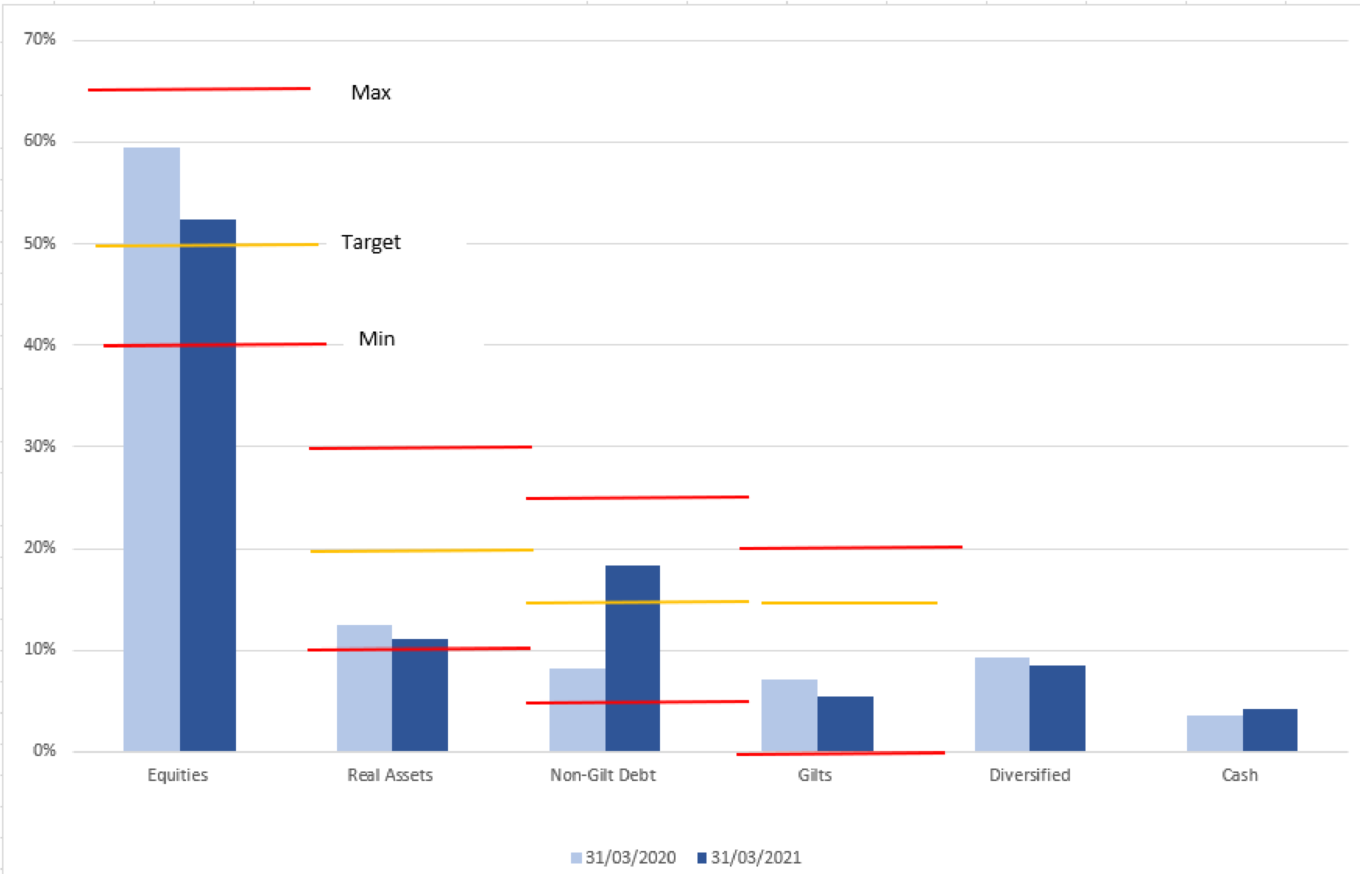
There was progress towards the Fund's strategic asset allocation

37. In 2020/21 there was further progress towards the fund's strategic asset allocation with the divestment of £495 million of equities and further investment in non-gilt debt. The Fund's opening and closing asset allocation is shown in Exhibit 6.

Exhibit 6

Asset allocation and strategy ranges by policy group 2020 and 2021

The fund divested equities and invested in non-gilt debt in 2020/21.



Source: Annual report and accounts – the diversified asset category also includes equity investments – Cash excludes balances held by investment managers awaiting investment - The asset allocation targets and ranges are from the investment strategy in effect for the period covered.

Three small employers left the Fund in 2020/21 and one transferred their membership to Lothian Pension Fund

38. Fife Women's Aid, St Andrews Botanic Garden Trust and Fife Historic Buildings Trust left the LGPS under the Funds small body cessation scheme in 2020. In line with national agreement, Visit Scotland membership was transferred to Lothian Pension Fund.

Internal financial controls were impacted by Covid-19 and the introduction of new council systems

39. The introduction of new council systems during 2020/21 compounded issues arising due to homeworking and impacted internal financial controls. We concluded that overall, key controls were operating effectively at the year-end with reconciliations complete. However, in year reconciliations were not always completed and reviewed on a timely basis and this exposed the Fund to increased risk for the period affected.

Recommendation 2

Ensure that all key reconciliations are undertaken and reviewed on a timely basis.

40. The I-Connect interface file from the Council's new payroll system could not be processed to update the pension administration system automatically. This led to additional work for the pensions team and delays in processing council new starters and leavers. The pensions team were able to work around the problem to ensure that member benefit statements could be issued by 31 August 2021.

41. There were also issues for pensions administration following the introduction he Council's new payments system. The identity of retirees receiving lump sum payments on the new system was visible to all users and this was not deemed appropriate. The pensions team reverted to manual payment orders for lump sums to get around this problem.

The investments team introduced additional accounting controls

42. In addition to dealing with the significant divestment and reallocation of funds in 2020/21, the investments team also introduced additional accounting controls around investment values. There is now a quarterly reconciliation of investments values in custodian reports with the values in reports from investment managers. It is the custodian record that forms the basis of the Fund's accounting records. The reconciliations mean that any significant differences are identified and followed up, helping to ensure the accounting records are reliable.

The Fund is pro-active in investigating matches and reporting the outcomes of the National Fraud Initiative

43. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The 2020/21 exercise is ongoing and has helped identify a number of cases where overpayments have been made in relation to deceased pensioners. The Pension Fund is pro-active in investigating matches and reporting the outcomes of NFI activity.

3. Governance, transparency and best value

The effectiveness of scrutiny and oversight and the transparent reporting of information. Using resources effectively and continually improving services.

Main messages

There is effective governance which includes revision of key strategies and management of performance.

Investment costs are benchmarked and remained below average for the Fund's comparison group in 2019/20. Investment performance remained above average.

The council staff involved with the pension fund adapted to homeworking during Covid-19 and have now started a blended workstyle where office use is now possible.

There is effective governance

44. The Superannuation Fund and Pensions Committee met on the 17 March 2020, before committees were suspended due to Covid-19. Committee arrangements commenced again in August 2020 with committees meeting virtually. Through, our attendance at the Committee we have observed a good level of review and scrutiny by members.

45. During the year the Pension Board has raised a number of governance issues which officers have addressed. The chair of the Pension Board now attends pre-agenda planning meetings and briefings.

46. An Independent Professional Observer (IPO) has recently been appointed to help provide support, feedback, and assistance on the administration of the Fund. The IPO will support both the Board and the Committee in this role.

The Fund revised its Funding Strategy Statement, Investment Strategy and Statement of Investment Principles

47. The funding strategy statement was updated as part of the 2020 triennial valuation process. There were no material changes to the statement, but updates were made for regulatory changes and uncertainties.

48. The Fund recently revised its investment strategy with input from its investment advisors and advice from the Joint Investment Strategy Panel. A revised investment strategy was approved on 29 June 2021. The revised strategy increases the target allocation for equites and reduces the target for real assets (Exhibit 7).

Exhibit 7

Fife Pension Fund Investment strategy asset allocations

Policy Group	Previous strategy	Revised strategy	Previous permitted range	Revised permitted range
Equities	50%	55%	40%- 65%	45% - 65%
Real Assets	20%	15%	10% - 30%	10% - 25%
Non-Gilt Debt	15%	15%	5% - 25%	5% - 25%
LDI (formerly Gilts)	15%	15%	0% - 20%	5% - 25%
Cash	0%	0%	0%-10%	0%-15%
Total	100%	100%		

Source: Superannuation Fund and Pensions Committee report

49. Implementation of the investment strategy is delegated to the Executive Director of Finance and Corporate Services for Fife Council, who delegates to the Head of Finance with the support and advice of the Joint Investment Strategy Panel which is part of the collaboration arrangement with Lothian and Falkirk pension funds.

50. The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. The revised statement reflects the revised investment strategy.

Investment managers are held to account on performance and cost

51. There are regular contract monitoring meetings with the Fund’s investment managers where they are held to account on performance and cost. Officers are supported by full time investment experts from Lothian who attend these meetings.

Investment costs are benchmarked and remained below average for the Fund's comparison group

52. The Fund benchmarks its investment performance and costs each year to ensure that it is receiving value for money. Costs for 2019/20 (the last year to be benchmarked) have remained below the average for the Fund's comparison group whilst investment performance was above average.

Staff adapted to homeworking during Covid-19 and are now adopting a blended workstyle

53. All council staff involved with the pensions fund have adapted to homeworking during Covid-19. Despite the associated pressures services were maintained.

54. Initially it was necessary for the pensions administration team to prioritise the ongoing payment of pensions and processing of new retirements. There was an increased reliance on email communications which added to workloads and it was sometime before staff were provided with mobile phones to make and receive calls to members who do not have access to online communication.

55. Council staff have now adopted a blended workstyle with the option to access the office for part of the week.

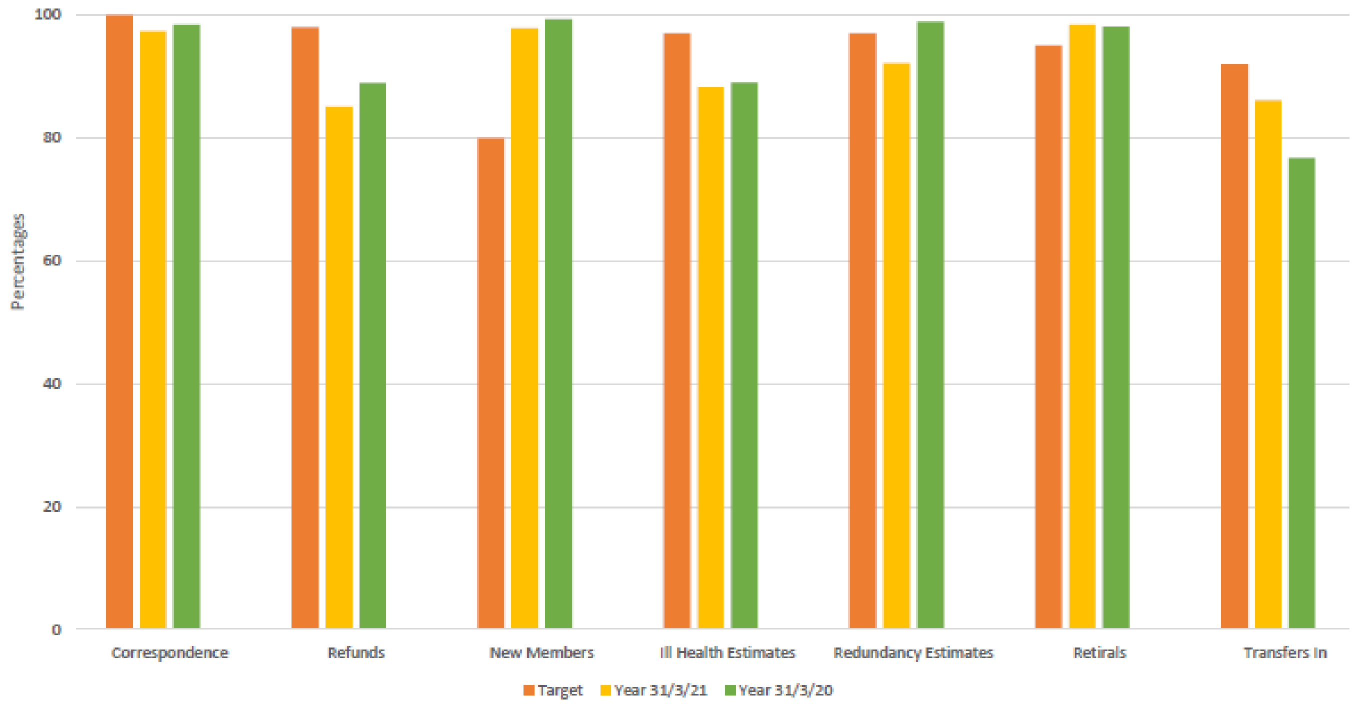
There is a pensions administration strategy and performance are reported to Committee on a quarterly basis

56. The Fund has a pensions administration strategy and performance is reported to committee on a quarterly basis. Performance indicators and targets are kept under review.

57. Sickness absence added to the pressures on the pensions team in 2020/21 making it necessary to train staff on new areas to improve the resilience of the team. There are currently no long-term sickness absence issues in the team.

58. Performance against key targets in 2020/21 has largely been maintained (Exhibit 8).

Exhibit 8
Performance against key administration targets 2020/21 and 2019/20



Source: Superannuation Fund and Pensions Committee report June 2021

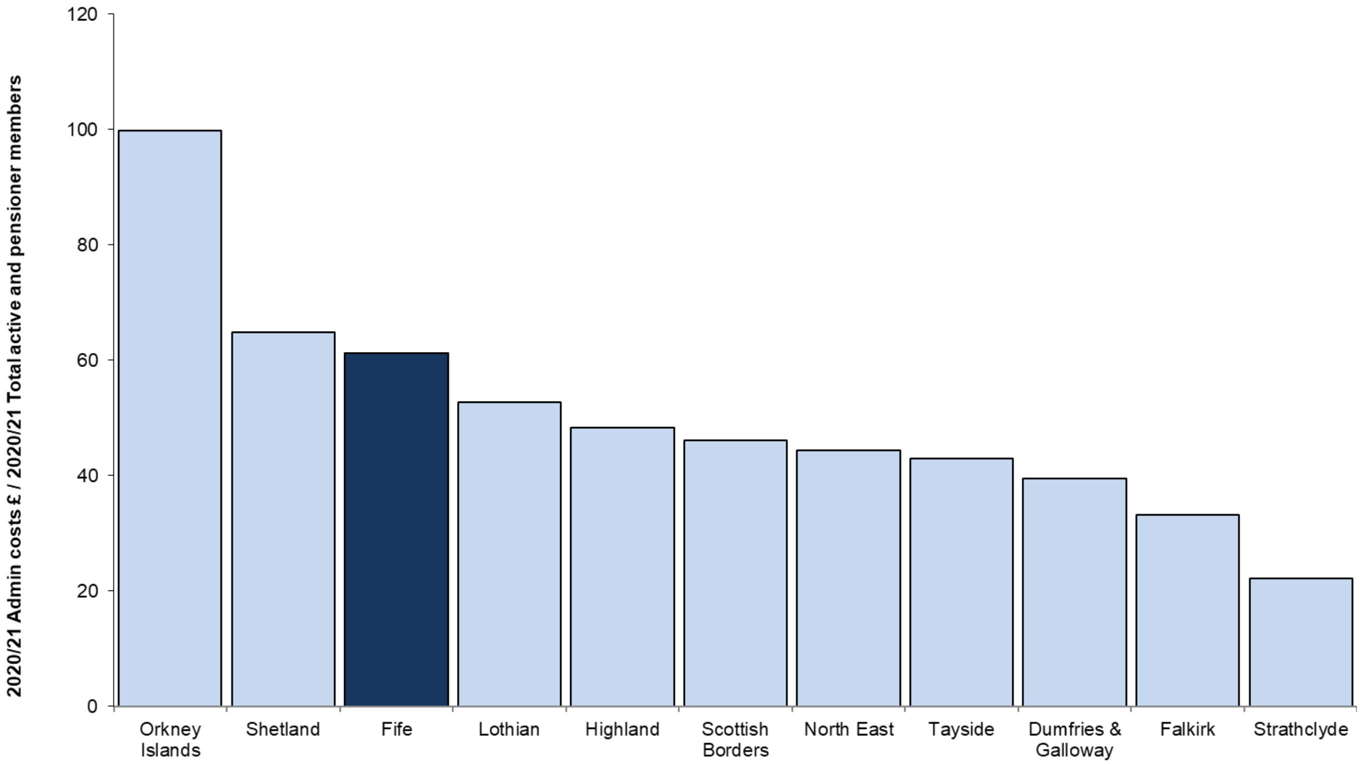
Administration costs appear to be relatively high

59. . The total cost of administration disclosed in the accounts for 2020/21 is £1.9 million and includes the cost of the pensions team along with central support costs. When divided by the total active and pensioner members this equates to around £60 and appears to be relatively high compared to other Scottish funds (Exhibit 9).

Exhibit 9

Administration cost per active and pensioner member 2020/21

Fife's administration costs divided by total active and pensioner members is around £60.



Source: Unaudited annual accounts 2020/21

60. There are currently no unit costs for administration included in budget monitoring and administration reports.

Recommendation 3

Consider the inclusion of unit costs for administration in budget monitoring and administration reports.

GMP and McCloud will continue to impact on administration and require additional data from employers

61. The Guaranteed Minimum Pension equalisation and indexation exercise has been completed. The exercise was necessitated by changes to the state pension scheme which ended contracting out arrangements. The reconciliation exercise has resulted in increases to pensions paid to some affected members. Administratively we understand that it will be necessary for ongoing checks to be completed for some members on retirement.

62. The McCloud remedy extends protections offered when the LGPS changed in 2015 to a greater number of members. This will result in some members receiving higher benefits when the regulations are changed. Administratively the fund will need additional information from employers, mainly in relation to part time working and breaks in service, in order to make the appropriate calculations.

There are no breaches of regulation to report

63. The Pensions Regulator took on responsibility for the oversight of governance arrangements for the LGPS in 2015 and any significant breaches of regulation are required to be reported to the Pensions Regulator. We are not aware of any breaches which require reporting.

The LGPS structural review is still ongoing

64. The Scottish Local Government Scheme Advisory Board has appointed a Strategic Programme Manager for the ongoing review of the structure of the Scottish LGPS. This review has been ongoing since 2016. The programme manager has been tasked with providing a series of options for the future structure of the scheme taking account of previous consultation responses following meetings with relevant stakeholders.

National performance reports

65. 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 reports which may be of interest to the Fund. These are outlined in Appendix 3 accompanying this report.

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Lump Sum accruals The closedown timetable for 2020/21 meant that officers were unable to fully identify lump sum payments relating to the old year and ensure that they were accounted for correctly. Risk – that there are material errors to the accounts.	Ensure that appropriate accruals for lump sums are made. Paragraph 23	Close down procedures will be reviewed and updated to include additional checks on values to be accrued. Finance Operations Manager 31 March 2022
2. Reconciliations Our review of key controls in the year identified that a number of bank and feeder system reconciliations had not been produced and reviewed on a timely basis. Risk – that any fraud or error go unidentified for longer.	Ensure that all key reconciliations are undertaken and reviewed on a timely basis. Paragraph 39	Reconciliations were temporarily impacted as might be expected following a significant system change. The team will reconcile in a timely manner as all issues have been resolved and reconciliations have once again reached a business as usual state. Service Manager 31 March 2022
3. Administration costs Administration costs appear to be relatively high when expressed as a cost per active and pensioner member. There is no routine consideration of unit costs for administration. Risk – that there is not effective scrutiny of costs.	Consider the inclusion of unit costs for administration in budget monitoring and administration reports. Paragraph 60	Consideration will be given to including this information in future reports. Finance Operations Manager 31 December 2022

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. Review of investment manager reports	As part of the accounts preparation process, investment manager reports are reviewed and reconciled with custodian reports so that significant valuation issues are identified and actioned including: • Material valuation uncertainty disclosures • Valuation lag in relation to level 3 investments • Impaired investments.	**Complete** Finance Operations Manager 31 March 2021
b/f 2. Significant changes to governance arrangement due to Covid-19	As part of the accounts preparation process, ensure that the Annual Governance Statement includes coverage of significant governance developments up to the date the accounts are approved for signature.	**Complete** Finance Operations Manager 31 March 2021
b/f 3. Investment fair value hierarchy	As part of the accounts preparation process, ensure that custodian classification of new investments is consist with that of the investment manager.	**Incomplete** Some minor anomalies again identified with fair value hierarchy classification. Finance Operations Manager 31 March 2022
b/f 4. Investment Management Expenses	As part of the accounts preparation process, ensure that investment managers are complying with the voluntary code on cost transparency and that they provide information to the fund on a timely basis.	**Complete** Finance Operations Manager 31 March 2021
b/f 5. Service organisation control reports and complementary user entity controls	Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the	**Partially complete** Service organisation control reports were reviewed in the year. But complimentary user entity controls suggested by

Issue/risk	Recommendation	Agreed management action/timing
	governance assurance framework.	the custodian have not been reviewed. Finance Operations Manager 31 March 2022
b/f 6. Bank and feeder system reconciliations	Arrangements for the review bank and feeder system reconciliations under homeworking should be clarified and reviews better evidenced.	**Incomplete** See Recommendation 2 above. Service manager? 31 March 2022

Appendix 2

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
1. Risk of material misstatement caused by management override of controls 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.	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.	We reviewed all ledger transactions for reasonableness. We confirmed the validity of selected journals posted in the year and established the extent and nature of routine journal processing. We confirmed that estimates are supported by third party evidence. Our testing of accruals and prepayments revealed no material errors. We considered no transactions to be outside the normal course of business. **There was no evidence of management override of controls.**
2. Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation of retirement benefits. Investments include **level 3 investments,** such as unquoted property investment	Review of user entity controls in relation to the use of service organisations. Confirmation of valuations to reports and / or other supporting information. Consider any investment valuation caveats regarding material uncertainty.	**Level 3 investments** No control issues have been identified, in relation to valuation, in investment manager controls reports. There were no material valuation uncertainty disclosures notified to the Fund. Most open ended property investment funds reopened

Audit risk	Assurance procedure	Results and conclusions
companies, where the valuations involve the significant application of judgement in determining appropriate amounts. 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.	Consider the extent to which investment funds are gated as at 31 March 2021. For a sample of investments undertake a reasonableness check on valuations provided. Consider the reasonableness of the assumptions used to estimate the present value of promised retirement benefits.	following closures due to Covid-19. Only one of the Fund's open ended property investments remains closed to redemption at 31 March 2021. Valuations tested were supported by valuation reports. **Actuarial** We reviewed the results of the actuary's work together with the reasonableness of their assumptions using our own consulting actuary. **We concluded that figures in the accounts that are subject to estimates and judgements are fairly stated.**
3. New financial systems Fife Council, as the administering authority, introduced new accounts payments and payroll systems in 2020-21 along with a new cloud-based main accounting system. The move to new systems inevitably increases risk as balances are transferred and interfaces updated. Controls and reconciliations need to be adapted to take account of differences between systems, and levels of understanding can take time to build.	Review the migration of opening balances Test the controls in the new systems. Review reconciliation arrangements and year end reconciliations.	Ledger balances were migrated to the new main accounting system correctly. Key year end reconciliations were completed satisfactorily. There were delays to the completion and review of reconciliations during the year. We noted that the move to new systems led to additional work for the pensions team. **There were issues during the implementation period but we concluded that financial statements were materially correct.**

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
4. Triennial funding valuation data submission In 2020-21 the pension fund submitted information to the actuary which formed the basis 2020 triennial funding valuation. The accuracy of the data submitted is key to the valuation which in turn informs employer contributions and pension fund strategy. Employer body auditors are likely to request assurances from us that data submitted was accurate and complete.	Review of the data extraction and submission process. Agreement of information to the pensions administration system. Consideration of data quality reports from the actuary.	A pre-submission data cleansing exercise was facilitated by the Fund's actuary which confirmed that the data was fit for purpose. There were no significant issues identified that would have impacted the calculation of employer liability and contribution rates. However, there was no reporting of the data cleansing exercise to committee and were unable to obtain details of how exceptions were addressed. **The Fund's actuary was satisfied with the quality of data submitted.**

Appendix 3

Summary of national performance reports 2020/21

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

Fife Pension Fund

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