



Fife Pension Fund

External Audit Annual Plan 2022/23

March 2023



Table of Contents

Introduction	3
Audit scope and general approach	4
Significant and other risks of material misstatement	12
Wider scope	17
Your Azets audit management team	25
Audit timetable	26
Audit fee	28
Audit independence and objectivity	30
Appendix 1: Responsibilities of the Auditor and the Fund	31
Appendix 2: Impact of revised auditing standards	36
Appendix 3: Materiality	39
Appendix 4: National risk areas under scope of audit in 2022/23	41

Introduction

Azets have been appointed by Audit Scotland as the external auditor to Fife Pension Fund (“the Fund”) for the period 2022/23 to 2026/27.

This document summarises the work plan for our 2022/23 external audit. The core elements of our work include:

- an audit of the 2022/23 annual report and accounts.
- consideration of the wider scope areas of public audit work.
- any other work requested by Audit Scotland.

We expect that our audit will have a similar underlying approach to that of your previous external auditor, Audit Scotland, although there are some changes to the Code of Audit Practice and auditing standards that come into effect for the first time in 2022/23, which are reflected in this document.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We will add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland’s website www.audit-scotland.gov.uk.

Audit scope and general approach

Responsibilities of the auditor and the Fund

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

Fife Council is the administering authority for the Fife Pension Fund. The Council delegates this responsibility to the Pensions Committee. The Pensions Committee has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a set of annual report and accounts that are in accordance with proper accounting practices. The Pensions Committee is also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

[Appendix 1](#) provides further details of both our responsibilities and those of the Pensions Committee.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the Fund. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Pensions Committee.

Professional standards and guidance

We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Our new Audit Scotland appointments include Fife Council and Lothian Pension Fund and where practicable and appropriate we will share knowledge between our teams to generate efficiencies in the delivery of our audits.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information

about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the Fund's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which the Fund uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the Fund is used as efficiently and effectively as possible.

Assurance protocols

Audit Scotland produces protocols to provide an agreed framework for auditors to seek and provide assurances in specific areas. Assurance protocols are in place for the Local Government Pension Scheme. We may utilise these protocols to gain assurance in respect of the calculation of pension contributions from auditors of employing bodies.

Delivering the audit – post pandemic

Hybrid audit approach

We intend to adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Skype, Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location and there is no longer a need for duplicate copies to be signed.

Approach to audit of the annual accounts

Our objective when performing an audit of the annual accounts is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our general approach, we will:

- perform risk assessment procedures including updating our understanding of the entity and its environment, the financial reporting framework and system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances or disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor's report of the extent to which the audit was

capable of detecting irregularities, including fraud, and respective responsibilities for prevention and detection of fraud.

Key audit developments in 2022/23

Revised auditing standards¹, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The in-depth nature of these additional procedures, as well as updated tools and techniques that may come into scope, will also offer additional opportunity to provide insights and constructive feedback on the way the Fund manages risks. [Appendix 2](#) provides further details on the implications of these new requirements.

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

The basis for our assessment of materiality is set out in [Appendix 3](#).

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work is not for the purpose of expressing an opinion on the effectiveness of internal controls.

¹ Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement in the financial statements and ISA (UK) 240 on material misstatements caused by fraud came into effect for audits of financial statements with periods commencing on or after 15 December 2021.

We will report to the Pensions Committee, significant deficiencies in internal controls that we identify during the audit. The scope of our work is not designed to be an extensive review of the controls.

Going concern

In most public sector entities (but not all), the financial reporting framework envisages that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest that the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the Fund.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control; and
- Are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

We require the Fund to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Correspondence

People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.

The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge.

Wider audit scope work

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. [Appendix 1](#) provides detail of the wider scope areas of public sector audit work. Our initial risk assessment and scope of work planned for 2022/23 is outlined in the '[Wider Scope](#)' section of this plan.

National risk assessment

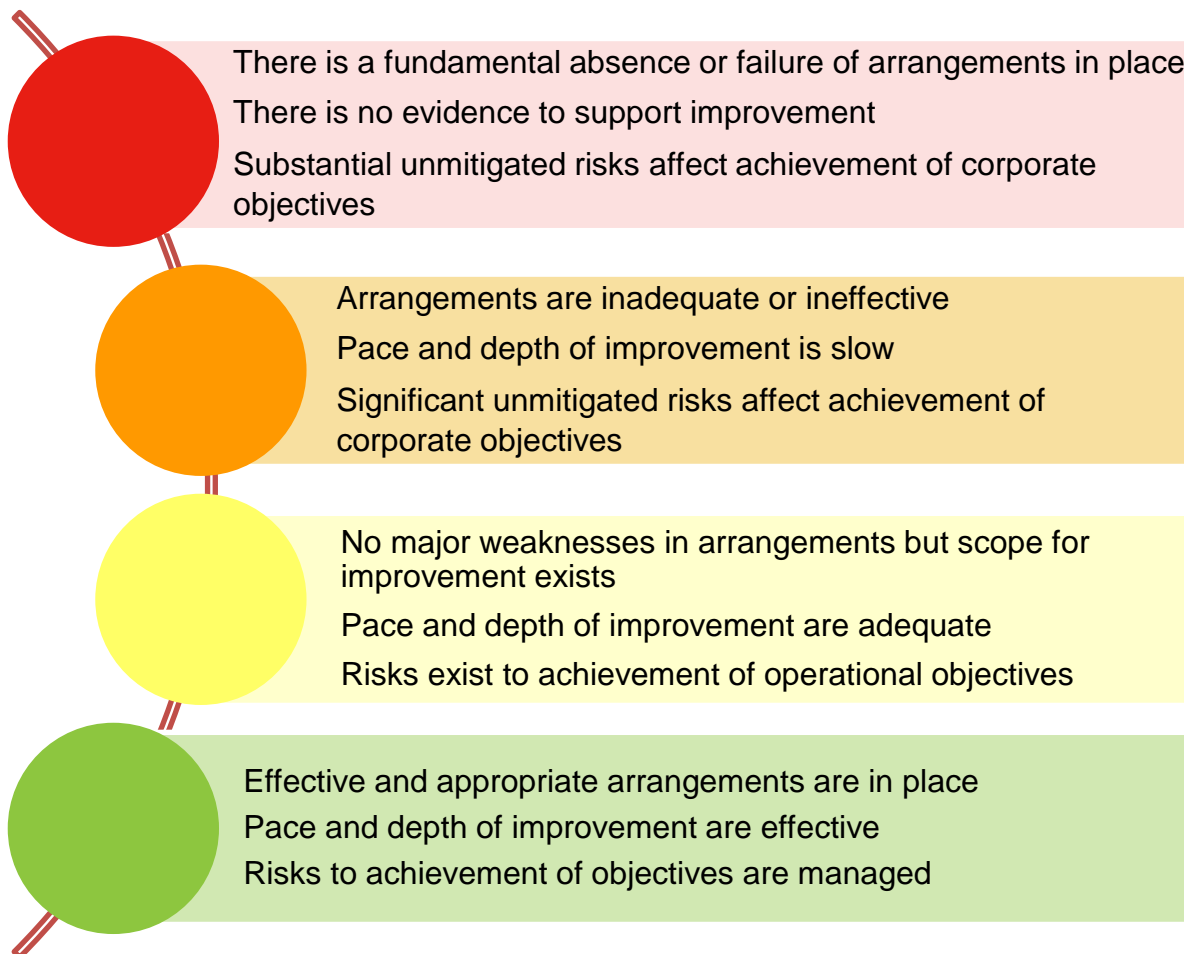
Where particular areas of national or sectoral risk have been identified by the Accounts Commission and Auditor General, they will request auditors to consider and report on those risks as they apply at a local level. For 2022/23 the following areas have been identified:

- Climate Change.
- Cyber Security.

[Appendix 4](#) provides further detail as to the scope of this work.

Reporting our findings

We will provide judgements on the pace and depth of improvement in reporting our findings on the wider scope areas. We will use the following grading to provide an overall assessment of the arrangements in place:



Significant and other risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises the significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p>Management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for

Identified risk of material misstatement	Audit approach
	<p>appropriateness, corroboration and to ensure approval has been undertaken in line with the Fund's journals policy.</p> <ul style="list-style-type: none"> • Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Identified risk of material misstatement	Audit approach
<p>Fraud in revenue recognition</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the Fund could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Revenue (occurrence / completeness): High 	<p>Income recognised in the Fund's accounts relates to contributions received from member bodies and transfers in from other pension funds.</p> <p>We do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate income of this nature and therefore have rebutted this risk. We will review our assessment during the fieldwork stage of our audit.</p>
<p>Fraud in non-pay expenditure</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure, in particular, around the year end.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Non-pay expenditure (occurrence / completeness): High 	<p>Expenditure recognised in the Fund's accounts relates to benefits payable, payments to and on account of leavers and management expenses. We have assessed benefits payable to be the Fund's only material expenditure stream.</p> <p>We perform separate tailored testing on benefits payable and therefore have rebutted this risk.</p> <p>We will review our assessment during the fieldwork stage of our audit.</p>

Identified risk of material misstatement	Audit approach
<p>Investments valuations (key accounting estimate)</p> <p>The Funds held net investments of £3.534billion as at 31 March 2022, of which 45% (£1.595billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets.</p> <p>Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error.</p> <p>Inherent risk of material misstatement:</p> <p>Investments (valuation / existence):</p> <p>High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the fund managers and the scope of their work. • Evaluating the competence, capabilities and objectivity of the fund managers. • Considering the basis on which the valuation is carried out and the challenge in the key assumptions applied. • Testing the information used by the fund managers to ensure it is complete and consistent with our understanding. • Ensuring that the year end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct.

Identified risk of material misstatement	Audit approach
<p>Present Value of Retirement Obligations (key accounting estimate)</p> <p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the Funds and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.</p> <p>Inherent risk of material misstatement:</p> <p>Retirement obligations (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing the controls in place to ensure that the data provided to the actuary is complete and accurate. • Considering the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreeing the disclosures in the financial statements to information provided by the actuary.

Wider scope

Introduction

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of audit areas:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the Funds' key priorities and risks along with discussions with management and review of Pensions Committee minutes and key strategy documents.

Our initial assessment of the Fund's arrangements across the wider scope areas is set out in this section. We have not identified any significant risks at this stage of our audit.

Audit planning is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report.

Our audit approach to the wider scope audit areas



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Consideration

The primary objective of the Fund is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. The Funding Strategy Statement expresses the funding objective, which informs the investment strategy. The Funding Strategy Statement is reviewed at least triennially. Following the latest actuarial valuation in 2020, the Investment Strategy was revised and approved by the then Superannuation Fund & Pensions Sub Committee in June 2021.

There are two main sources of uncertainty that affect whether the Fund holds sufficient funds to pay future pension:

1. the cost of future pensions; and
2. the value of investments.

These risks are managed by the Fund in the following ways:

- The risk of failing to make adequate provision for the future is managed by having an independent actuary value the liabilities of the fund every three years and set contribution rates.
- The risk of losing money on investments is managed by having an independent investment adviser review the Fund's investment strategy periodically and by diversifying assets by dividing them between several separate investment management firms, chose to ensure a range of investment styles.

The value of investments is of increased significance given market fluctuations experienced following the COVID-19 pandemic and more recently the impact of rising inflation and the global impact of the geo-political situation in Europe.

In its 2021/22 annual report and accounts, the Fund reported a performance return on investments of 6.3% for 2021/22 and 10.1% return for the rolling three year period. The Fund exceeded its strategic investment return objective over the

Consideration

rolling three year period. Funding levels were at 97% of the 2020 triennial valuation.

Fife Pension Fund has seen the largest increase in net assets over the last 5 years when compared to other Scottish Local Government Pension Scheme funds. This reflects investment returns, contribution rates and benefit payments. The Fund has the highest employer contribution rate for any Scottish LGPS fund, at 24.5% for the main employer, and remains cash flow positive in dealings with members.

Officers of the council continue to implement the investment strategy and participate in Joint Investment Strategy Panel collaborative arrangement with Lothian Pension Fund and Falkirk Pension Fund.

Our audit response:

We will monitor the Funds approach to monitoring investment performance focusing on the identification of investment risk and the development of mitigating actions.

We will review the Funds investment return performance against benchmark over the short, medium and long term. We will also consider performance against comparators from other Scottish Local Government Pension Funds.



Financial management

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

Consideration

In 2021/22, the value of the Fund's net assets increased to £3.531billion. Throughout 2021/22, the Fund undertook some changes to the investment allocation as it continued to progress on the implementation of its agreed investment strategy.

The Fund's current funding strategy statement was prepared as part of the 2020 valuation and approved by Committee in 2021. A paper was presented to Pensions Committee in December 2022 seeking approval to update the funding strategy as a consequence of changes in Regulations.

An indicative budget for 2022/23 was presented to the Pensions Committee in September 2022. The budget showed a net increase of £1.2million from dealings with members and a net return on investments of £152.960million, resulting in a projected net increase in the value of the Fund of £154.160million.

As at 30 September 2022, the 2022/23 projected outturn is that the Fund will remain cash-flow positive with a net increase to the Fund of £4.567million from dealings with members and a net decrease on investments of £81.678million, resulting in a projected net decrease in the value of the Fund of £77.111million.

Our audit response:

We will review, conclude and report on the following:

- Whether the Fund can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance.
- Whether the Fund has arrangements in place to ensure systems of internal control are operating effectively.



Vision, Leadership and Governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Consideration

Fife Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in Fife. The main functions of the Administering Authority are the management and investment of the assets of the Fund and administration of the scheme benefits. Fife Council carries out its role as Administering Authority via:

- The Pensions Committee: delegated responsibility by Fife Council for maintaining the Fund.
- The Fife Pension Board: assists Fife Council in ensuring compliance with legislation and ensuring efficient and effective governance and administration of the scheme.
- The Joint Investment Strategy Panel (JISP).
- Finance & Corporate Services Directorate and the Pensions Governance Group (PGG).

In September 2021, Fife Council appointed an Independent Professional Observer (IPO) to provide support and guidance to both members of the Pensions Committee and Pensions Board to assist them in discharging their duties in relation to the Pension Fund.

The Pensions Committee is responsible for setting the high-level investment strategy and delegates the implementation of that strategy to the Executive Director Finance and Corporate services, who delegates this to the Head of Finance.

The Pensions Team, responsible for ensuring that benefits are paid accurately and on time and to provide clear information on the benefit options available to help members plan for retirement, is accountable to the Pensions Committee, Pension Board, scheme employers and members.

Both the Pensions Committee and Head of Finance receive advice from the Joint Investment Strategy Panel (JISP) which comprises FCA qualified investment professionals from the Lothian Pension Fund as well as two independent advisors. This arrangement supports the collaborative relationship between Fife, Falkirk and

Consideration

Lothian Pension Funds, which entails the Lothian Fund, through its investment vehicle, LPFI Limited to provide investment support.

In 2021/22, the relationship with LPFI Limited expanded to increase the use of LPFI's internal investment management capabilities with LPFI Limited now acting as a Fund Manager for some of the investment portfolios.

The PGG is an officer's group, chaired by the Head of Finance, with primary purpose to provide assurance to the Pensions Committee and Pensions Board through the monitoring of the requirements measured by the Pensions Regulator's Code of Practice No.14 and reviewing and managing risk. A risk register is maintained by the PGG with quarterly updates presented to the Pensions Committee.

In its 2021/22 Governance Compliance Statement, the Council, as Administering Authority, reported that it is compliant with all principles with the exception of training where partial compliance was recorded. Partial compliance was reported as not all members of the Pensions Committee had complied with the policy and completed the minimum training hours requirement as outlined in the policy.

Induction training was carried out in June 2022 following the Local Government Elections and the appointment of new members to the Committee.

Our audit response:

We will review, conclude and report on:

- Whether the Fund can demonstrate that the governance arrangements in place are appropriate and operating effectively.
 - The transparency of decision-making, financial reporting and performance data.
-



Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Consideration

The Fund has appointed a number of investment managers who are employed to invest in assets for the Fund in accordance with agreed objectives. Safeguarding of the Fund assets is undertaken by the Custodian, Northern Trust.

Officers at Fife Council and Lothian Pension Fund monitor the performance of managers with performance reports presented to each quarterly meeting of the JISP and the Pensions Committee.

The Fund took part in a CEM Benchmarking exercise in 2020/21. The results demonstrated that the Fund investment costs were slightly above other funds, as a result of the implementation style. The results also demonstrated a net 7 year return above the LGPS median.

In 2021/22 the Pensions Committee approved a Statement of Responsible Investment Principles (SRIP) which sets out to clarify the Fund's agreed approach to Responsible Investment. It is intended that the statement will be used as a guide for investment decision making. Although not a signatory to the Principles of Responsible Investment (PRI), the Fund supports the six PRI principles. Since approval of the SRIP the Fund has joined Climate Action 100 as well as continuing to participate in the Scottish Responsible Investment Group adopting a collective approach.

In 2021, the Fund initiated a review of its scheme administration. An internal review was followed by an independent review carried out by Hymans Robertson. The aim of the review was to ensure that the Pensions Team continues to meet its service requirements to members and employers. An action plan is being developed with a view to addressing recommendations over the next 18 months.

The Fund has an Administration Strategy and suite of key performance indicators (KPIs) which are reported to the Pensions Committee on a quarterly basis. The Administration Strategy was updated and approved by the Pensions Committee in September 2022. Following the approval of the updated Administration Strategy in there is a commitment to produce a revised set of KPIs. Work is continuing to develop the suite of KPIs, which will be concluded for reporting in March 2023. In

Consideration

the meantime, performance reporting has continued to be presented to the Pensions Committee.

Our audit response:

We will review, conclude and report on;

- How the Fund demonstrates a focus on improvement.
- How the Fund provides a clear link between investment decisions and actual performance achieved.
- The effectiveness of working with partners including collaboration with Lothian Pension Fund.

Your Azets audit management team

Nick Bennett: Engagement Lead

nick.bennett@azets.co.uk

Nick has over 30 years' experience of public sector auditing and has been heavily involved in developing public sector accounting standards. Nick's experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector. Nick is the appointed Engagement Lead to Fife Pension Fund.



Karen Jones: Engagement Manager

karen.jones@azets.co.uk

Karen is one of the directors responsible for our Audit Scotland appointments. She has considerable experience in planning and delivering public sector audits, producing management reports and liaising with senior management and audit committees.

Karen will work alongside Nick to deliver the external audit to Fife Pension Fund.



Audit timetable

The submission date for audited annual accounts in local government is generally set to be consistent with the date specified in the accounts regulations by which the Fund is required to approve its audited accounts. The Coronavirus (Scotland) Act 2000 permitted a deferral in 2019/20 and 2020/21 to 30 November, and a temporary amendment to the accounts regulations allowed a submission date of 30 November for 2021/22. However, the submission date is returning to pre-pandemic 30 September for 2022/23.

We have set out below target months which align to the schedule of Pensions Committee meetings. We aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues.

Audit work/output	Description	Target month/s	Pensions Committee	Deadline
Audit plan	<p>Planning meetings, understanding the entity, risk assessment.</p> <p>Audit plan setting out the scope of our audit, including key audit risks, presented to the Pensions Committee.</p>	February / March	28 March 2023	31 March 2023
Interim audit	Interim audit including review of accounting systems.	April - June	N/A	N/A
Final audit	Accounts presented for audit and final audit visit begins	July - September	N/A	N/A

Audit work/ output	Description	Target month/s	Pensions Committee	Deadline
Independent Auditor's Report	This report will contain our opinions on the financial statements, annual governance statement and management commentary.	September	28 September 2023	30 September 2023
Annual Report to the Pension Committee and the Controller of Audit	At the conclusion of each year's audit we issue an annual report summarising our work and all opinions, conclusions, significant issues and recommendations. This report pulls together all of our work under the Code of Audit Practice.	September	28 September 2023	30 September 2023

Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

High quality audit work is essential to successfully deliver a fully ISA and Code of Audit Practice compliant audit. For 2022/23, the new auditor appointment process provided Audit Scotland with a fair representation of the current audit market and highlighted the increasing requirements, expectations and scrutiny of the audit profession.

These factors have led to above inflation increases in the cost of audit. Whilst these increases are significant, they are consistent with evidence obtained from the profession and other UK audit agencies. On setting fees, Audit Scotland has ensured that efficiencies have been fully utilised to mitigate the impact.

For the local government sector, the average fee increase is 12.5%, where the average fee for local government pension fund audits was previously £34,001 and has risen to £38,625.

Audit Scotland sets an “expected” audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors’ experience, new requirements, or significant changes to the audited body.

The expected fee level notified to the Fund for 2022/23 is £42,240, which is £4,710 higher than the fee agreed in the previous year and reflects the sectoral increase of 12.5%.

As auditors, we negotiate a fee with the Fund that reflects our assessment of the work required to address the risks identified during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

For 2022/23, we propose setting the audit fee above the expected fee level to reflect the following areas of work:

Area	Fee
Additional costs associated with this being the first year of our audit appointment and developing our understanding of the Fund, increased focus on IT general controls, and delivering a hybrid style audit.	£3,985

Our audit fee for the current year (with prior year comparatives) is as follows:

	2022/23	2021/22
Auditor remuneration	£60,915	£32,240
Pooled costs	-	£3,380
Audit support costs	£2,160	£1,730
Sectoral cap adjustment	(£16,850)	-
Total fee	£46,225	£37,530

We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge a fee for additional audit work. An additional fee will also be required in relation to any other significant exercises not within our planned audit activity.

Audit independence and objectivity

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, the FRC's Ethical Standard stipulates that where an auditor undertakes non-audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence.

Azets has not been appointed to provide any non-audit services during the year.

We confirm that we comply with the FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Fund, its committee members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 1: Responsibilities of the Auditor and the Fund

The Accounts Commission, Controller of Audit and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.



We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Pensions Committee and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

	<h3>Financial management</h3> <p>Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.</p> <p>Auditor considerations</p> <p>Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.</p>
	<h3>Financial sustainability</h3> <p>Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.</p> <p>Auditor considerations</p> <p>Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.</p>

	<h3 data-bbox="507 302 1169 347">Vision, leadership and governance</h3> <p data-bbox="507 383 1401 533">Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.</p> <p data-bbox="507 562 863 595">Auditor considerations</p> <p data-bbox="507 616 1388 887">Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.</p>
	<h3 data-bbox="507 949 1246 994">Use of resources to improve outcomes</h3> <p data-bbox="507 1030 1412 1261">Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.</p> <p data-bbox="507 1290 863 1323">Auditor considerations</p> <p data-bbox="507 1344 1414 1494">Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.</p>

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

Funds responsibilities

Fife Council is the administering authority for the Fife Pension Fund. The Council delegates this responsibility to the Pensions Committee. The Pensions Committee has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Fund responsibilities
Corporate governance	<p>The Fund is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>The Fund has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report, where applicable, in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p>

Area	Fund responsibilities
	<p>The Fund is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Fund is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The Fund is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Financial position</p>	<p>The Fund is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Appendix 2: Impact of revised auditing standards

Revised auditing standards, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The table below provides further detail on the implications of these new requirements.

Key change	Impact on the Fund & our approach
Enhanced risk identification and assessment, promoting more focused auditor responses to identified risks	<p>Management and those charged with governance may receive more up-front questions as we plan the audit and identify and assess risks of material misstatement.</p> <p>We may conduct planning and risk assessment procedures at a different time to ensure that our understanding is comprehensive, and that information is leveraged effectively and efficiently.</p> <p>To facilitate a more robust risk-assessment, we may request additional information to enhance our understanding of systems, processes and controls. For example, we may request:</p> <ul style="list-style-type: none"> • a better understanding of the Fund's structure and operations and how it integrates information technology (IT) • more information about the Fund's processes for assessing risk and monitoring its system of internal control • more detailed narratives about how transactions are initiated, recorded, processed and reported • policies and procedure manuals, flowcharts and other supporting documentation to validate our understanding of the information systems relevant to the preparation of the financial statements • more information to support our inherent risk assessment.

Key change	Impact on the Fund & our approach
	<p>This information not only informs our risk assessment but also assists us in determining an appropriate response to risks identified, including any new significant risks which require a different response.</p>
<p>Understanding and acting on risks associated with IT</p>	<p>We will be asking tailored questions and making information requests to understand the IT environment, including:</p> <ul style="list-style-type: none"> • IT applications • supporting IT infrastructure • IT processes • personnel involved in the IT processes. <p>Combined with the controls that may be needed to address the identified and assessed risks of material misstatement, this understanding may also identify existing and new risks arising from the use of IT. Therefore, we will be asking more focused questions and requesting additional information to understand the general IT controls that address such risks. For example, we may have questions in relation to general IT controls over journal entries (e.g. segregation of duties related to preparing and posting entries) to address risks arising from the use of IT.</p> <p>Depending on our assessment of the complexity of systems and associated risks, we may also involve additional team members, such as IT specialists.</p>
<p>Enhanced procedures in connection with fraud</p>	<p>We will be asking targeted questions as part of an enhanced approach to fraud, including discussing with the Fund:</p> <ul style="list-style-type: none"> • any allegations of fraud raised by employees or related parties • the risks of material fraud, including those specific to the sector. <p>Combined with other information, and any inconsistencies in responses from those charged with governance and management, we determine implications for further audit procedures. Work in connection with fraud may also now include the use of audit data analytics, or the inclusion of specialists in our engagement team to ensure we obtain sufficient appropriate audit evidence to conclude whether the</p>

Key change	Impact on the Fund & our approach
	<p>financial statements are materially misstated as a result of fraud.</p> <p>In addition to existing communication and reporting requirements relating to irregularities and fraud, there may be further matters we report in connection with management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.</p> <p>These enhanced requirements may assist in the prevention and detection of material fraud, though do not provide absolute assurance that all fraud is detected or alter the fact that the primary responsibility for preventing and detecting fraud rests with the Fund and management.</p>
<p>Enhanced requirements for exercising professional scepticism</p>	<p>Challenge, scepticism and the application of appropriate professional judgement are key components of our audit approach. You may receive additional inquiries if information is found that contradicts what our team has already learned in the audit or in instances where records or documents seen in the course of the audit appear to have been tampered with, or to not be authentic.</p>
<p>Using the right resources, in the right way, at the right time</p>	<p>One of our new strategic quality objectives sets out that we will strive to use the right resource, in the right way, at the right time. This may mean increasing the use of specialists (for example in relation to general IT controls) or changing the shape of the audit engagement team to ensure that we are able to provide appropriate challenge and feedback in specialist areas.</p> <p>This will include appropriate use of technology, including data analytics.</p>

Appendix 3: Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Fund and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Materiality

	Materiality £million
Overall materiality for the financial statements	53.000
Performance materiality	39.750
Trivial threshold	0.250

Materiality

Our initial assessment is based on approximately 1.5% of the Fund's 2021/22 net assets as disclosed in the 2021/22 audited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Fund.

Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to

	an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In accordance with Audit Scotland's planning guidance this should not exceed £250,000.

Special materiality for dealings with members

	Materiality £million
Dealings with members materiality	5.700
Performance materiality	4.275
Trivial threshold	0.250

Materiality	We apply a lower materiality for dealings with members, based on the fact these transactions are significant to the Fund's activities and it would not be appropriate to use the asset-based materiality to them. Our initial assessment is based on approximately 5% of the Fund's 2021/22 gross expenditure as disclosed in the 2021/22 audited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing the Fund's dealings with members.
Performance materiality	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

Appendix 4: National risk areas under scope of audit in 2022/23

Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in:

- helping drive change and improvement in this uncertain and evolving area of work
- supporting public accountability and scrutinising performance
- helping identify and share good practice.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, auditors are required to provide answers to the questions set out in the following table which are intended to gather basic information on the arrangements for responding to climate change in each body:

Key questions

What targets has the body set for reducing emissions in its own organisation or in its local area?

Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?

How does the body monitor and report progress towards meeting its emission targets internally and publicly?

Has the body considered the impact of climate change on its financial statements?

What are the areas of the financial statements where climate change has, or is expected to have, a material impact?

Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place.

A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

For 2022/23 audits, auditors are advised to consider risks related to cyber security at audited bodies. However, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission consider that meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23.



© Azets 2023. All rights reserved. Azets refers to Azets Audit Services Limited. Registered in England & Wales Registered No. 09652677. VAT Registration No. 219 0608 22. Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.

Accounting | Tax | Audit | Advisory | Technology
