

Dumfries and Galloway Council Pension Fund

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Dumfries and Galloway Council Pension Fund

March 2024

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Introduction

Summary of planned audit work

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

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts and the provision of an Independent Auditor's Report
- an opinion on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement
- reviewing the Fund's participation in the National Fraud Initiative
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Audit Appointment

2. Fiona Mitchell-Knight, Audit Scotland has been appointed as the external auditor of the Fund for the period 2022/23 to 2026/27 inclusive. The 2023/24 financial year is the second year of the five-year audit appointment.

3. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

4. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by attending meetings of the Pensions Sub-Committee and by recommending and encouraging good practice. In so doing, we will help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the Fund

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

Auditor responsibilities

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

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

The Fund's responsibilities

8. The Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view. The Fund also has the 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 enable them to deliver their objectives.

9. The Head of Finance and Procurement, as Section 95 Officer, is responsible for the administration of financial affairs. The Pensions Sub-Committee has been delegated responsibility for the oversight of internal and external audit.

10. The audit of the annual report and accounts does not relieve management or the Pensions Sub-Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

11. In line with ISA 240, in presenting this plan to the Pensions Sub-Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the Pensions Sub-Committee have any such knowledge or concerns relating to the risk of fraud within the Fund, we invite them to communicate this to the appointed auditor for consideration.

Financial statements audit planning

Introduction

12. Our approach to the audit of the 2023/24 accounts, including the financial statements, has been designed to support the appointed auditor's opinion as to whether the annual report and accounts give a true and fair view of the Fund's finances for the year ended 31 March 2024, and have been properly prepared in accordance with International Financial Reporting Standards and the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

Materiality

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

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#), along with the levels set for the 2023/24 audit of the Fund.

Exhibit 1

Materiality levels for the 2023/24 audit

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross assets based on the audited annual accounts for 2022/23.	£20.095 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£15.071 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting	£1 million

threshold' amount. This has been capped at 5% of planning materiality, the maximum amount allowable under Audit Scotland's audit approach.

Source: Audit Scotland

15. ISA 320 states that in certain circumstances it is appropriate to set a separate materiality level (or levels) for classes of transaction, account balances or disclosures. This is a matter where auditors need to apply their judgement. As contributions received and benefits paid are considered to be of public interest and applying the above materiality figures would dwarf these figures, a separate lower materiality level has been set for contributions received and benefits paid. For these two account areas materiality levels have been set as follows:

- Planning Materiality – based on a threshold of 10% of benefits paid, overall planning materiality has been calculated as £3,538,700.
- Performance materiality – based on the same 75% threshold used above, performance materiality has been calculated as £2,654,025.
- Clearly Trivial – capped at 5% of planning materiality, clearly trivial has been calculated as £176,900.

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of the Fund, and consideration of its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at Pensions Sub-Committee meetings and review of other relevant information.

17. Based on our risk assessment process, we identify significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. Two such risks have been identified for the 2023/24 financial statements audit. These are shown in [Exhibit 2](#) along with details of the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by the management override of controls	Owing to the nature of this risk, assurances from management	<ul style="list-style-type: none"> • Detailed testing of journal entries, with a focus on significant risk areas, including year-end and post-close down entries.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of accounting estimates, assessing any changes to the methods and underlying assumptions used to prepare these compared to the prior year. • Evaluation of significant transactions that are outside the normal course of business, identified through detailed testing of income and expenditure, accruals and cut off transactions.
<p>2. Estimation applied to Level 3 Investments</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments. Level 3 investments have at least one input that could have a significant effect on the instrument's valuation that is not based on observable market data. Changes in the valuation assumptions used could affect the net book value of the investments and valuations and involve the application of considerable judgement in determining appropriate amounts. The 2022/23 annual accounts of the Fund show that, as at 31 March 2023, the value of Level 3 investments is approximately £74 million (7.4% of the total fund value) based on the valuations provided by investment managers.</p>	<p>Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed professional, accounting and industry codes and guidelines.</p>	<ul style="list-style-type: none"> • Confirmation of year-end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk. • Review the arrangements in place at the Fund to assess investment managers governance arrangements. • Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to acknowledge areas with significant judgement and estimation uncertainty. • Assess the expertise and competency of investment managers.

Source: Audit Scotland

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

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Fund because:

- There is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are limited.
- The split of responsibilities between the Fund, its investment managers, and the bank, provide a clear separation of duties reducing the risks relating to investment income.
- Having considered the value and the nature of contribution income, which is paid over from employers, we have concluded there is not a significant risk in this area.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the Fund because:

- Investments are managed by external investment managers.
- Pension benefits are the Fund's main expenditure stream. There is no real incentive for the Fund to manipulate these payments.
- Other expenditure relates mostly to investment management fees. There is little scope for the Fund to manipulate the amount of these fees.

20. We have not, therefore, incorporated specific additional audit procedures into our audit plan in relation to the risks of fraud in the recognition of income and expenditure, over and above our standard audit procedures.

Other areas of audit focus

21. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. This assessment identified two areas which involve a significant degree of estimation and judgment and represent an increased risk of misstatement in the financial statements. These areas of specific audit focus are:

- valuation of Level 2 investment assets.
- actuarial valuation of future retirement benefit, including the impact of the updated triennial valuation at 31 March 2023.

22. While these areas require specific audit focus, based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks.

Audit risk assessment process

23. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

Wider Scope

Introduction

24. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

25. In summary, the four wider scope areas cover the following:

- **Financial management** – we consider the financial capacity of the Fund and whether there are sound budgetary processes and internal controls in place.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the Fund demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

26. Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. The administering authority (Dumfries and Galloway Council) has a statutory duty to make arrangements to secure Best Value on behalf of the Fund, which are subject to audit. The outcome of audit work on the administering authority's Best Value arrangements will be reported in the 2023/24 Dumfries and Galloway Council Annual Audit Report, however, any significant issues identified will be referenced within the 23/24 Annual Audit Report of the Fund.

Conclusions on wider scope responsibilities

27. We have not identified any significant wider scope audit risks. While they are not significant risks, we will follow up a number of recommendations covering wider scope areas reported in our 2022/23 Annual Audit Report. We will report an update within our 2023/24 Annual Audit Report.

28. We will also report on the Fund's financial position. The Fund is subject to a detailed actuarial valuation process on a triennial basis. The most recent

valuation (as at 31 March 2023) indicated that the Fund was in surplus with the value of assets equating to 122 per cent of projected future liabilities. Employer contributions will be set from 2024/25 considering this surplus in the medium to longer term.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

29. The outputs set out in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy, prior to the issue and publication of final reports.

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

32. [Exhibit 3](#) outlines the Pensions Sub-Committee meeting dates for our key audit outputs.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Pensions Sub-Committee Date
Annual Audit Plan	31 March 2024	7 March 2024
Independent Auditor's Report	30 September 2023	19 September 2024
Annual Audit Report	30 September 2023	19 September 2024

Source: Audit Scotland



Timetable

33. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

34. We intend to take a hybrid approach to the 2023/24 audit with a blend of onsite and remote working. We will continue to work closely with management to

identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	25 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting	4 September 2024
Agreement of audited annual accounts for consideration by the Pensions Sub-Committee	19 September 2024
Issue of Proposed Annual Audit Report to those charged with governance (including Letter of Representation and proposed independent auditor's report) *	19 September 2024
Pensions Sub-Committee meeting to consider Proposed Annual Audit Report and approve and sign audited annual report and accounts	19 September 2024
Independent auditor's report certified by appointed auditor	19 September 2024
<p>* <i>The finalised Annual Audit Report will be issued after the audited 2023/24 Annual Accounts are certified.</i></p>	

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of the Fund and the planned management assurances in place. The proposed audit fee for 2023/24 is £32,150 (£30,330 in 2022/23).

36. Our fees have increased in 2023/24 and this reflects the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

37. In setting the fee for 2023/24 we have assumed that the Fund has effective governance arrangements and will prepare comprehensive and accurate annual accounts for audit in line with the agreed timetable for the audit. The audit fee also

assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

38. It is the responsibility of the Fund to establish adequate internal audit arrangements. From our initial review of the 2023/24 internal audit plan, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. However, we will consider the findings of internal audit's work.

Independence and objectivity

39. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

40. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Fund.

Quality control

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

42. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits and ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews.

43. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews. Progress with implementing improvement actions is regularly monitored by Audit Scotland's Quality and Ethics Committee

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

The audit team

45. Key contacts in the audit team are:

- Fiona Mitchell-Knight FCA, Audit Director
- Peter Lindsay CPFA, Senior Audit Manager
- Aimee MacDonald CA, Audit Manager
- Ciaran O'Brien CA, Senior Auditor

46. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Dumfries and Galloway Council Pension Fund

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

www.audit-scotland.gov.uk/accessibility

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