

Fife Pension Fund

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Fife Pension Fund
February 2018

Who we are

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

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



About us

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

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

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

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	7
Audit fee	7
Responsibilities	7
Audit scope and timing	9
Financial statements	9
Materiality	9
Internal audit	11
Audit dimensions	11
Independence and objectivity	12
Quality control	13
Adding Value	13

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Fife Pension Fund. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable</p>	<p>Detailed testing of significant journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 presumes a risk of fraud over income; this is expanded to include the risk of fraud over expenditure in the public sector by the Code of Audit Practice and the Financial Reporting Council's Practice Note 10 (revised).</p> <p>The Fife Pension Fund receives</p>	<p>Enquiries and findings of National Fraud Investigation 2017 as they relate to members of Fife Pension Fund.</p> <p>Third party audit certificates covering internal controls and financial statements of major admitted bodies and fund managers.</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Evaluation of the effectiveness of systems for recording income due from employers.</p> <p>Agree income to third party confirmation.</p> <p>Substantive testing of</p>

Audit Risk	Source of assurance	Planned audit work
<p>a significant amount of income from third party sources. This presents a risk due to the extent and complexity of income.</p> <p>The Pension Fund also makes a high volume of payments, including high value payments, which can constitute a risk of misstatement of expenditure.</p>		<p>expenditure.</p> <p>Conduct a review of fund manager service auditor reports providers, where relied upon by management, in accordance with ISA402.</p> <p>Liaise with Internal Audit to evaluate outcomes of the 2017 National Fraud Investigation.</p>
<p>3 Estimation and judgements</p> <p>There are two areas with a significant degree of subjectivity:</p> <ul style="list-style-type: none"> the measurement and valuation of investments; the actuarial valuation. <p>Investments include unquoted property investment companies where valuations use techniques that require significant judgement in determining appropriate assumptions. The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Third party audit certificates covering internal controls of specific fund managers.</p> <p>Quarter 2 (June 2018) custodian's valuation reports.</p> <p>Triennial Review Report by the Actuary.</p> <p>Supporting documents relating to the Triennial Review.</p>	<p>Completion of 'review of work by service auditors' in accordance with ISA402, for significant unquoted investments.</p> <p>Confirm valuations to valuation reports and/or other supporting documentation.</p> <p>Completion of 'review of the work of an expert' in accordance with ISA500, for the work of the actuary.</p> <p>Consideration of the report by PwC in their capacity as consulting actuary to Audit Scotland on actuarial assumptions in use in 2017/18</p> <p>Consideration of GAD reports under Section 13 of the Local Government Pension Scheme (Scotland) of LGPS Scotland funding valuations and employer contribution rates. (see below)</p>

Wider dimension risks

<p>4 Financial sustainability</p> <p>Historic funding levels in the Pension Fund have led to deficit recovery payments over a number of years by member bodies (including Fife Council).</p> <p>In recent years lower returns in the bond market have led to reductions in the discount factor used to value future liabilities. This has increased actuaries' assessments of the value of future liabilities, although this has been partly offset by improved market returns on investments.</p> <p>The triennial valuation of the pension fund can have a significant impact on the financial position of the fund and of its</p>	<p>The 2017 Actuarial Valuation (interim valuations indicate an improved funding position in Fife Pension Fund).</p> <p>The Government Actuary's Department (GAD) is preparing this year an analysis of the funding position of the Local Government Pension Scheme in Scotland. This will cover compliance, consistency, solvency and long term cost efficiency and is required by Section 13 of the Public Service Pensions Act 2013.</p> <p>The dry-run of the analysis carried out last year shows that the GAD use standardised assumptions and can provide</p>	<p>Consideration of the findings of the 2017 Actuarial Valuation alongside the GAD report, if it is available in time for our Annual Audit Report.</p>
---	--	--

Audit Risk	Source of assurance	Planned audit work
<p>member bodies and there is a risk that the 2017 valuation will cause organisations to re-assess the financial sustainability of membership.</p>	<p>insight into the comparable sustainability of each LGPS fund</p>	
<p>5 Financial management</p> <p>General reductions in staff in the finance team may reduce the quality of officer support to the sub-committee and pension board on issues such as investment advice and performance analysis and the sub-committee will need to rely increasingly on the direct interface with external experts on key policy and governance issues.</p> <p>There is a risk that this affects the effectiveness of financial management and governance as we consider that officers provide an essential role of guiding, challenging and interpreting advice and policy.</p>	<p>The Superannuation Fund and Pensions Sub-Committee are considering a proposal to work jointly with Lothian Pension fund for some investment management activities.</p>	<p>Continue to assess the level of support provided to sub-committee and pension board whether internally or by collaboration with other elements of the LGPS.</p> <p>Review financial management reporting.</p>
<p>6 Governance and transparency</p> <p>In October 2017 Fife Council, as the administering authority, revised the responsibilities of the Standards & Audit Committee (governance) and the Superannuation Fund and Pensions Sub-Committee (investments). This followed concerns from Audit Scotland that the role of employer should be distinguished as far as possible from the role of pension administrator.</p> <p>Previous reporting to the Pensions sub-committee and the board has tended to concentrate on investment activity, as a result reports on issues such as administration performance and the financial statements receive a minimal level of formal review at the sub-committee and Board.</p> <p>There is a risk that the sub-committee and the pension board are not sighted on the range of activity and performance that is undertaken by the Fund.</p>	<p>Self assessment by the fund against the requirements of the Office of the Pensions Regulator Code of Practice Number 14.</p> <p>KPMG report “Scottish Public Service Pensions Governance Review” 2017.</p>	<p>Consider further recommendations for changes to governance arrangements in the year especially in the area of member administration performance.</p>

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
5. 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 officer(s) to confirm factual accuracy.
6. We will provide an independent auditor's report to Fife Pension Fund and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Standards and Audit Committee Date
Annual Audit Plan	15 February 2018	22 February 2018
Annual Audit Report	28 September 2018 (Final)	27 September 2018 (Draft)
Independent Auditor's Report	28 September 2018 (Signed)	27 September 2018 (Proposed)

Audit fee

7. The agreed audit fee for the 2017/18 audit of Fife Pension Fund is £33,920 (2016/17: £33,420). In determining the audit fee we have taken account of the risk exposure of Fife Pension Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2018.
8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Standards and Audit Committee, Superannuation Fund and Pensions Sub-Committee, Pension Board and Executive Director of Finance and Corporate Services

9. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.
10. The audit of the financial statements does not relieve management or the Standards and Audit Committee, the Superannuation Fund and Pensions Sub-Committee and the Pensions Board, as those charged with governance, of their responsibilities.

Appointed auditor

- 11.** Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

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

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

14. We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the fund during the year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities;
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

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

16. We calculate materiality at different levels as described below. The calculated materiality values for Fife Pension Fund are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of estimated net assets for the year ended 31 March 2018 based on the latest audited accounts for 2017.	£23 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of planning materiality.	£14 million
Lower level performance materiality – This is a separate trigger point for errors identified in Dealings with Members.	£0.6 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£230,000

17. We review and report on other information published with the financial statements including the management commentary, governance statement and the governance compliance statement. Any issue identified will be reported to the Standards and Audit Committee.

Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Standards and Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	29 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with Head of Finance	31 August 2018
Issue of letter of representation and proposed independent auditor's report	18 September 2018
Agreement of audited unsigned annual accounts	18 September 2018
Issue of Draft Annual Audit Report including ISA 260 report to those charged with governance	20 September 2018

Internal audit

19. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Fife Council's Audit and Risk Management Service (ARMS).

Adequacy of Internal Audit

20. We have undertaken a formal review of internal audit and have concluded that ARMS generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

Areas of Internal Audit reliance

21. To support our audit opinion on the financial statements we plan to place formal reliance on the planned internal audit review of pensioners' payroll. We require sight of this report and its audit working papers before the end of April 2018.

22. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including the ICT review of ALTAIR pensions administration system.

Audit dimensions

23. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

24. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

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

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Fife Pension Fund can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

26. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether Fife Pension Fund has arrangements in place to ensure systems of internal control are operating effectively
- whether Fife Pension Fund can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Fife Pension Fund has assured itself that its financial capacity and skills are appropriate
- whether Fife Pension Fund has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

27. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether Fife Pension Fund can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

28. We will review, conclude and report on whether the fund can provide evidence that it is demonstrating value for money in the use of its resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Independence and objectivity

29. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards

including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

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

Quality control

31. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.
32. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.
33. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Adding Value

34. Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Fife Pension Fund has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Fife Pension Fund

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk