

# Tayside Pension Fund

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

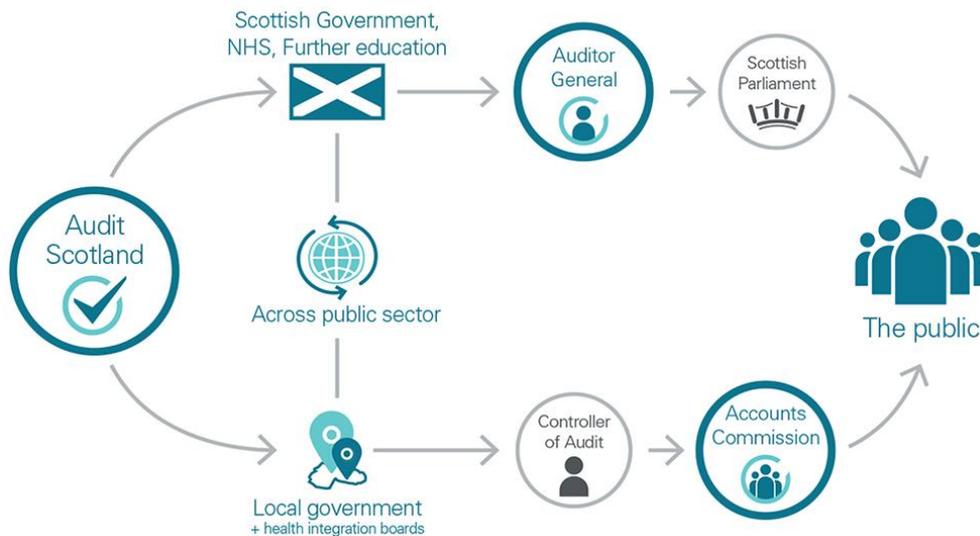
Prepared for Tayside Pension Fund

March 2019

## Who we are

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

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



## About us

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

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

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

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# Risks and planned work

1. Our audit of the Tayside Pension Fund (the Fund) is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and other relevant guidance. This plan contains an overview of the planned scope and timing of our audit. It sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and to meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency, and value for money.

## Adding value

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

## Audit risks

4. Building on our knowledge from previous years, discussions with staff, attendance at committee meetings and a review of supporting information, we have identified a number of key financial and wider dimension audit risks. These risks are detailed in [Exhibit 1](#).

## Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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 to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of fraud over income and expenditure</b></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</p>	<p>Service auditor reports are reviewed.</p> <p>Pension contributions reconciliations performed for individual employers.</p>	<ul style="list-style-type: none"> <li>• Evaluation of the effectiveness of systems of internal control.</li> <li>• Analytical procedures on income and expenditure streams.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>the Financial Reporting Council's <a href="#">Practice Note 10 (revised)</a>.</p> <p>The Fund receives a significant amount of income from third party sources, including pension contributions and investment income. This presents a risk due to the extent and complexity of income.</p> <p>The Fund also makes a high volume of payments, including high value payments, which can constitute a risk of misstatement of expenditure.</p>	<p>Regular monitoring and reporting of fund manager performance.</p> <p>Participation in the 2018-19 National Fraud Initiative.</p>	<ul style="list-style-type: none"> <li>• Agree income to third party confirmation.</li> <li>• Substantive testing of expenditure.</li> <li>• Evaluation of progress in relation to the 2018/19 National Fraud Initiative.</li> <li>• Review the content of service auditor reports.</li> </ul>
<b>3</b>	<p><b>Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation of future retirement benefits.</p> <p>Investments include level 3 investments such as unquoted equity, where valuations involve the significant application of judgement in determining values included in the accounts.</p> <p>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 entails a risk of misstatement in the financial statements.</p>	<p>Investment management carried out by experienced fund managers.</p> <p>The majority of investments are listed securities and are readily capable of valuation.</p> <p>Unquoted investments are valued by third parties including investment managers and independent valuers.</p> <p>Actuary provides a report on the actuarial present value of the promised pension benefits.</p> <p>The Government Actuary's Department will carry out a review of the 2017 actuarial valuations of the Scottish Local Government Pension Scheme funds in accordance with Section 13 of the Public Service Pensions Act 2013.</p>	<ul style="list-style-type: none"> <li>• 'Review of the work of an expert' in accordance with ISA 500, for the work of third parties undertaking valuations of significant unquoted investments.</li> <li>• Confirmation of valuations to valuation reports and/or other supporting documentation.</li> <li>• 'Review of the work of an expert' in accordance with ISA 500, for the work of the actuary.</li> <li>• Consideration of the report by the consulting actuary to Audit Scotland on actuarial assumptions in use in 2018/19.</li> </ul>
<b>Wider dimension issues and risks</b>			
<b>4</b>	<p><b>Governance and transparency – Pension administration performance reporting</b></p> <p>In our 2016/17 Annual Audit Report, we recommended improvements to pension administration performance reporting to incorporate performance against targets and regular reporting of benchmarking performance data to members.</p> <p>In our 2017/18 Annual Audit Report, we noted that administration performance measures and targets have been identified. However, this has yet to be reflected in administration</p>	<p>Updated performance reports presented to Pension Sub-Committee.</p>	<ul style="list-style-type: none"> <li>• Review and assess the revised pension administration performance reporting arrangements.</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
	performance reporting to the Pension Sub-Committee.	

Source: Audit Scotland

## Reporting arrangements

5. 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](http://www.audit-scotland.gov.uk).
6. 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.
7. At the end of our audit we will provide the Pension Sub-Committee, Executive Director Corporate Services and the Accounts Commission with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit. We will also issue an independent auditor's report containing our opinion on the financial statements.

## Exhibit 2

### 2018/19 Audit outputs

Audit Output	Target date	Pension Sub-Committee Date
Annual Audit Plan	14 March 2019	25 March 2019
Annual Audit Report	30 September 2019	23 September 2019
Independent Auditor's Report	30 September 2019	23 September 2019

Source: Audit Scotland

### Audit fee

8. The agreed audit fee for the 2018/19 audit of the Fund is £25,120 (2017/18: £24,390). In determining the audit fee, we have taken account of the risk exposure of the Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 30 June 2019 .
9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Pension Sub-Committee and Executive Director Corporate Services

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance that enable them to successfully deliver their objectives.
11. The audit of the annual accounts does not relieve management or the Pension Sub-Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

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

# Audit scope and timing

## Annual report and accounts

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

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

15. We will give an opinion on whether the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2019 and of the amount and disposition at that date of its assets and liabilities
- have been properly prepared in accordance with the relevant legislation, the applicable accounting framework and other reporting requirements.

## Other information in the annual accounts

16. We review and report on other information published within the annual accounts including the management commentary, annual governance statement and the governance compliance statement. We give an opinion on whether these statements have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also review the content of the pension fund annual report for consistency with the financial statements and with our knowledge. We consider whether the information is otherwise materially misstated. We are not required to consider the wider compliance of the annual report with regulatory requirements.

## Materiality

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

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



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Asset planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the investment assets within the financial statements. It has been set at 1% of net assets based on the latest audited accounts for 2018.	£36.906m
<b>Transaction planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the dealings with members and employers within the financial statements. It has been set at 1% of contributions receivable and transfers in based on the latest audited accounts for 2018.	£0.991m
<b>Asset performance materiality</b> – 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 asset performance materiality at 50% of asset planning materiality.	£18.453m
<b>Reporting threshold (i.e., clearly trivial) on assets</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at just under 1% of planning materiality.	£250,000
<b>Transaction performance materiality</b> – Using our professional judgement, we have calculated transaction performance materiality at 50% of transaction planning materiality.	£0.496m
<b>Reporting threshold (i.e. clearly trivial) on transactions</b> – This has been calculated at 5% of transaction planning materiality.	£50,000

Source: Audit Scotland

### Lower specific materiality

- 20.** In addition to planning materiality we set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the accounts.
- 21.** We recognise that transactions with members and employers, including contributions receivable, benefits payable and transfers out of/into the fund account are of importance to the users of the accounts and we set specific planning materiality, performance materiality and reporting threshold levels as shown above.

## Timetable

22. To support the efficient use of resources it is critical that an annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual report and accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	24 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2019
Latest date for final clearance meeting	30 August 2019
Issue of Letter of Representation (ISA 580) and proposed independent auditor's report	12 September 2019
Agreement of audited unsigned annual accounts	12 September 2019
Issue of Annual Audit Report to those charged with governance	23 September 2019
Meeting of the Pension Sub-Committee to approve the audited annual accounts for signature by the Chair of the Pension Sub-Committee, Chief Executive and Executive Director Corporate Finance	23 September 2019
Independent auditor's report signed	30 September 2019

Source: Audit Scotland

## Internal audit

23. Internal audit is delivered utilising a mix of in-house and external resources and overseen by Dundee City Council's Senior Manager – Internal Audit. KPMG LLP were approved as the co-sourced partner for the delivery of internal audit services with effect from November 2017. As part of our planning process, we carried out an assessment of the internal audit function and concluded it generally operates in accordance with Public Sector Internal Audit Standards (PSIAS).
24. In our 2017/18 Annual Audit Report we recommended that the Pensions Sub-committee should receive internal audit plans and reports for scrutiny, including an annual report with the internal auditor's opinion on the adequacy of the control environment for the Fund. We note that internal audit outputs are now scheduled to be reviewed regularly by the Pensions Sub-committee and that plans are being progressed to ensure that appropriate assurances are provided by internal audit. We will continue to keep this area under review.

### Using the work of internal audit

25. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning to ensure the total resource is used efficiently or effectively.

## Audit dimensions

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

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

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

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

### Financial management

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

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

## Governance and transparency

**29.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. The knowledge and skills of the Pension Sub-Committee and Pension Board members is key to this process. We will review, conclude and report on:

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

## Value for money

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

## Sale and Leaseback of Dundee House

**31.** A proposal by Dundee City Council to sell the Dundee House building and lease it back over a 40 year period was discussed at a meeting of the Policy and Resources Committee on 21/2/2019. The Fund has offered to purchase the building directly or through a special purpose vehicle. If agreed, the transaction is likely to take place in financial year 2019/20. We will monitor developments in relation to the sale and leaseback as part of our ongoing audit work.

## Independence and objectivity

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

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

## Quality control

**34.** 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.

- 35.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. The Institute of Chartered Accountants of Scotland (ICAS) has also been commissioned to carry out external quality reviews of our work.
- 36.** 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.

# Tayside Pension Fund

## Annual Audit Plan 2018/19

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