

# Tayside Pension Fund

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Tayside Pension Fund  
February 2020

## 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. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and 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 Tayside Pension Fund (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 Pension Sub-Committee meetings, and a review of supporting information we have identified the significant audit risks for the Fund. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [exhibit 1](#).


## Exhibit 1 Significant risks for the 2019/20 audit

 Significant Audit Risk	Source of assurance	Planned audit work
<b>Financial statement risks</b>		
<p>1 <b>Risk of material misstatement caused by 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>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the Annual Governance Statement and the assurances obtained in support of the statement, including internal audit's assurance letter.</li> <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>

	Significant Audit Risk	Source of assurance	Planned audit work
2	<p><b>Estimation and judgements</b></p> <p>There is a significant degree of estimation and judgement in the measurement and valuation of some material account areas, including:</p> <ul style="list-style-type: none"> <li>Valuation of investments which include level 3 investments, such as unquoted equity, where valuations involve the significant application of judgement in determining values included in the accounts.</li> <li>Actuarial valuation of future retirement benefits which depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Investment management carried out by experienced fund managers.</li> <li>The majority of investments are listed securities and are readily capable of valuation.</li> <li>Unquoted investments are valued by third parties including investment managers and independent valuers.</li> <li>Actuary provides a report on the actuarial present value of the promised pension benefits. The impact of any legal rulings is factored into the value.</li> <li>The Government Actuary's Department carried 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. This concluded that fund valuations were compliant with relevant regulations.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the work of the valuer(s), including focused substantive testing of the valuation of material assets.</li> <li>'Review of the work of an expert' in accordance with ISA 500, for the work of third parties undertaking valuations of material unquoted investments.</li> <li>Confirmation of valuations to valuation reports and / or other supporting documentation.</li> <li>Confirm that investment values are correctly reflected within the 2019/20 accounts.</li> <li>Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used, with reference to the report produced by the consulting actuary to Audit Scotland.</li> <li>Confirm that valuation data in actuarial report is correctly reflected within the 2019/20 accounts.</li> </ul>

### Wider dimension risks

3	<p><b>Internal Audit annual assurance report</b></p> <p>In 2018/19 we recommended that an Annual Internal Audit Report should be prepared for the Pension Sub-Committee to provide independent assurance on the overall risk management, internal control and corporate governance processes relating specifically to the Fund.</p> <p>There is a risk that weaknesses in the control environment of the Fund are not communicated to members of the Pension Sub-Committee prior to approving the Annual Governance Statement.</p>	<ul style="list-style-type: none"> <li>Internal Audit will prepare an assurance letter to the Pension Sub-Committee confirming whether they are aware of any significant issues impacting the risk management, internal control and corporate governance processes of the Fund. This will be provided in advance of the approval of the Annual Governance Statement.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the Annual Governance Statement and the assurances obtained in support of the statement, including internal audit's assurance letter.</li> </ul>
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	Significant Audit Risk	Source of assurance	Planned audit work
4	<p><b>Administration performance reporting</b></p> <p>In 2018/19 we recommended that management should consider further developing the administration performance reporting to the Pension Sub-Committee to ensure this provides a clear picture of how the pension administration team are coping with the increased demand, including any impact on processing times.</p> <p>Towards the end of 2019 the Fund self-referred itself to the Pension Regulator in relation to its failure to issue 1,788 deferred benefit entitlement and options notifications to members within the two-month statutory timescale. This was only reported to the Pension Sub-Committee through the quarterly administration performance reporting after the breach had occurred.</p> <p>There is a risk that administration performance reporting is not providing members with sufficient information to adequately scrutinise administration performance, including compliance with statutory deadlines.</p>	<ul style="list-style-type: none"> <li>• Exception reports being developed by IT contact to provide live information of cases due for processing for all statutory deadlines. This will enable processing activity to be better prioritised to prevent significant backlogs arising.</li> <li>• Administration performance reporting to Pension Sub-Committee to be developed to ensure key performance indicators include compliance with statutory deadlines.</li> </ul>	<ul style="list-style-type: none"> <li>• Review disclosures in the Annual Governance Statement regarding non-compliance with the statutory deadline and the action taken to address the related control weaknesses.</li> <li>• Review and assess revised pension administration performance reporting arrangements, including compliance with statutory deadlines.</li> </ul>
5	<p><b>Contribution returns</b></p> <p>In 2018/19 a number of employer bodies did not submit year end contribution returns by the 31 May deadline.</p> <p>We recommended that appropriate mechanisms be put in place to escalate late provision of information in future years.</p> <p>It was agreed that a formal timetable in relation to year end contribution returns will be developed and communicated to employer bodies.</p> <p>There is a risk that the Fund does not have sufficient information to verify the pension contributions figures in the 2019/20 accounts.</p>	<ul style="list-style-type: none"> <li>• Development of a formal year end timetable in relation to year end contribution returns which has been communicated to employer bodies.</li> <li>• Active progress monitoring of returns independent of the pension administration team.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of receipt of returns against formal timetable.</li> <li>• Review of a sample of year-end employer contributions returns.</li> </ul>

5. ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a risk in any audit with significant income streams. However, we have rebutted this risk of material misstatement for the 2019/20 audit as:

- There is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are limited.
- The split of responsibilities between the Fund, its fund managers, its custodian and the bank provides a clear separation of duties reducing the risks relating to investment income.
- Further controls are in place for contribution income which is paid over from employers. This consists of employer and employee contributions. A reconciliation process is in place.
- Anti-fraud procedures and arrangements are in place.

6. The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. We have also rebutted this risk of material misstatement for the 2019/20 audit as:

- Investments are managed by external investment managers and recorded by the Fund's custodian.
- Pension benefits are the Fund's main expenditure stream. There is no real incentive for the Fund to manipulate the amount of contributions paid.
- Controls are in place to ensure the proper amounts of benefits are paid and second officer checks are in place.
- Other expenditure relates mostly to investment managements fees. There is little room for the Fund to manipulate the amount of these fees.

## Reporting arrangements

7. This audit plan, the outputs set out at [exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

9. 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 Annual Report and Accounts.

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## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Committee Date
Annual Audit Report	21 September 2020
Independent Auditor's Report	21 September 2020

Source: Audit Scotland

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## Audit fee

**10.** The agreed fee for the 2019/20 audit of the Fund is £25,670 (£25,120 in 2018/19). 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 Report and Accounts, with a complete working papers package by 30 June 2020.

**11.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited Annual Report and 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

**12.** Audited bodies are responsible 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.

**13.** The audit of the Annual Report and Accounts does not relieve management or the Pension Sub-Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

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

**15.** Auditors in the public sector give independent opinions on the financial statements and other information within the annual accounts.



# Audit scope and timing

## Annual report and accounts

**16.** The Annual Report and Accounts, which include the financial statements, will be the foundation and source for most 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 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 and 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.

**17.** 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 2020 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

**18.** We also review and report on the other information published within the Annual Report and Accounts including the management commentary, annual governance statement and governance compliance statement. We give an opinion on whether these have been prepared in accordance with the appropriate regulations and guidance. We also read and consider the other information in the Annual Report and Accounts and report any material inconsistencies.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements.

**20.** We calculate materiality at different levels as described below. The calculated materiality levels for the Fund are set out in [exhibit 3](#).

### Exhibit 3

#### Materiality levels for the 2019/20 audit

Materiality	Amount
<b>Planning materiality</b> – This is the calculated figure we use to assess the overall impact of audit adjustments within the financial statements. It has been set at 1% of net assets based on the audited accounts for the year ended 31 March 2019.	£38.931 million
<b>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 performance materiality at 50% of planning materiality.	£19.466 million
<b>Reporting threshold</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 1% of planning materiality.	£250,000

Source: Audit Scotland

#### Lower specific materiality

**21.** 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. We have applied a lower specific materiality for transactions (e.g. payments to pensioners and income from employers and members). These materiality levels are set out in [exhibit 4](#).

### Exhibit 4

#### Lower specific materiality levels – Transactions



Materiality	Amount
<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 audited accounts for the year ended 31 March 2019.	£0.978 million
<b>Transaction performance materiality</b> – Using our professional judgement, we have calculated transaction performance materiality at 50% of transaction planning materiality.	£0.493 million
<b>Reporting threshold for transactions</b> – We will report to those charged with governance all unadjusted misstatements related to transactions more than the 'reporting threshold' amount. This has been calculated at 5% of transaction planning materiality.	£50,000

Source: Audit Scotland

## Timetable

**22.** To support the efficient use of resources it is critical that a timetable is agreed with us for the production and audit of the Annual Report and Accounts. The agreed timetable for the 2019/20 audit is included at [exhibit 5](#).

### Exhibit 5 Annual Report and Accounts audit timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	22 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting	30 August 2020
Issue of Letter of Representation (ISA 580) and proposed independent auditor's report	10 September 2020
Agreement of audited unsigned annual report and accounts	10 September 2020
Issue of Annual Audit Report to those charged with governance	21 September 2020
Meeting of the Pension Sub-Committee to approve the audited annual accounts for signature by Chair of the Pension Sub-Committee, Chief Executive and Executive Director Corporate Finance	21 September 2020
Independent auditor's report signed	21 September 2020

Source: Audit Scotland

## Internal audit

**23.** 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 annual assessment of the internal audit function at audited bodies.

**24.** The internal audit function at Tayside Pension Fund has been delivered utilising a mix of in-house and external resources and overseen by Dundee City Council's Senior Manager – Internal Audit. The Fund is now putting in place its own separate contractual arrangement.

**25.** Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). However, in our 2018/19 Annual Audit Report we recommended that Internal Audit should provide independent assurance to the Pension Sub-Committee on the overall risk management, internal control and corporate governance processes relating specifically to the Fund, prior to the Sub-Committee approving the Annual Governance Statement. This has been included in the significant risks for the 2019/20 audit in [exhibit 1](#).

### Using the work of internal audit

**26.** For the 2019/20 audit we plan to consider the results of internal audit's work in terms of our wider dimension audit responsibilities.

### Audit dimensions

**27.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [exhibit 6](#).

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## Exhibit 6

### Audit dimensions



Source: Code of Audit Practice

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### 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 arrangements are in place to ensure systems of internal control are operating effectively
- whether the Fund can demonstrate the effectiveness of the budgetary control system
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### Financial sustainability

**29.** We will 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

## Governance and transparency

**30.** 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 on the decision making and on the 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

**31.** 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.

## 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 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 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 appointed auditor or to Audit Scotland's Audit Quality and Appointments group.

# Tayside Pension Fund

## Annual Audit Plan 2019/20

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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)