

Falkirk Council Pension Fund

Annual Audit Plan
Year ending 31 March 2021

18 March 2021

Contents

Section	Auditor Responsibility	Page
Executive Summary	Summarise the purpose and key information for the 2020/21 audit	03
Sector Developments	Provide a summary of the overall local government pension scheme environment	05
Financial Statements Risks	Summary of responsibilities, audit approach, materiality, issues and audit risks.	08
Wider Scope Audit Risks	Audit approach for reviewing Pension Fund's compliance with the wider public audit scope areas: <ul style="list-style-type: none">▶ financial position and arrangements for securing financial sustainability▶ suitability and effectiveness of corporate governance arrangements▶ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets	15
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards: Appendix A: Code of Audit Practice: responsibilities Appendix B: Auditor Independence Appendix C: Required communications with the Pensions Committee and Board Appendix D: Timing and deliverables Appendix E: Audit fees Appendix F: Additional audit information	18

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission appointed us as external auditor of Falkirk Council Pension Fund (the Pension Fund) for financial years 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Pension Fund and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Andrew Walton, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Purpose of this report

The Accounts Commission appointed EY as the external auditor of Falkirk Council Pension Fund (“the Pension Fund”) for the five year period to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22.

This Annual Audit Plan, prepared for the benefit of Pension Fund management and the Pensions Committee and Board, sets out our proposed audit approach for the audit of the financial year ending 31 March 2021. This plan sets out the work we will perform to provide our independent auditor’s report on the Pension Fund’s financial statements and meet the wider scope requirements of public sector audit. After consideration by the Pensions Committee and Board, the plan is provided to Audit Scotland and published on their website.

We undertake our audit in accordance with the Code of Audit Practice, issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Pension Fund and the auditor, more details of which are provided in Appendix A.

Financial statement audit

We are responsible for conducting an audit of the financial statements of the Pension Fund. We provide an opinion as to:

- ▶ whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of Practice on Local Authority Accounting (the Code) of the financial transactions of the Fund as at 31 March 2021 and of the amount and disposition at that date of its assets and liabilities;
- ▶ have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2020/21 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.

We also review and report on the consistency of the other information prepared and published by the Pension Fund along with the financial statements.

Wider scope audit responsibilities

Under the Code, we are required to provide judgements and conclusions on the four dimensions of wider-scope public audit:

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

Our key contacts:

Hassan Rohimun
Associate Partner
hrohimun@uk.ey.com

Olga Potapova
Manager
opotapova@uk.ey.com

Our independence:

We confirm that we have undertaken client and engagement continuance procedures, which include an assessment of our continuing independence to act as your external auditor.

Audit dashboard

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and materiality.

Key financial statement risks

There are no new financial statements risks identified at the Pension Fund for 2020/21:

Fraud Risk:

Misstatement due to fraud or error

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. We have determined that the way management may override controls is by manipulating the value of the year-end investment asset balances posted in totality to the accounts at year-end.

Significant Risk:

Valuation of complex investment (unquoted)

We identified valuation of unquoted investments as a significant risk reflecting the valuation complexity of this area and our identification of audit differences in prior years.

Materiality levels will be confirmed on completion of our detailed planning audit work. Indicative levels, based on prior year figures, have been set as follows:

Planning Materiality

£23.2 million

Materiality initially has been set at approximately 1% of prior year net assets.

Tolerable Error

£11.6 million

Materiality at an individual account level, representing 50% of our planning materiality

Reportable differences

£250,000

Level of error above which we will report to committee

We will apply a lower level of materiality level to the audit of the Key Management Personnel disclosure. Professional judgement is also applied to the materiality of related party transactions. Further details on materiality is provided on page 9.

Wider scope risks

We have updated our understanding of the risks impacting the Pension Fund through discussions with management, review of relevant committee reports, and our knowledge of the environment in which the Pension Fund is currently operating. We have identified no specific wider scope risks at this stage of the audit.

2. Sector developments

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Pension Fund operates to inform our audit approach.

2020/21 will see the Fund conclude its triennial Funding Valuation as at 31 March 2020 and results will be published in March 2021.

Understanding the Pension Fund's priorities

The responsibility for the governance of the Pension Fund sits with the Pensions Committee as delegated by Falkirk Council, the Administering Authority. The Pensions Committee is supported by a Pensions Board to ensure that decisions are made with the terms of the Fund rules and with good practice. In addition to Fund employers, key partners include local authorities, actuaries, banks, government agencies, fund managers, legal advisers, communications specialists, corporate governance and litigation specialists, and various other financial institutions.

The majority of the Fund's activities are managed in-house by the Council's Pensions Section however there are increasing collaborative links with both Lothian Pension Fund and Fife Pension Fund. Investment management continues to be a key focus, including both monitoring externally managed funds and the strategic investment decisions being made by the Fund. The Committee is also conscious of meeting the fiduciary duties expected from local authorities in its investments. The Fund achieved a return of (6.6%) during 2019/20, against the revised benchmark return of 0.3%. This adverse performance was largely due to market volatility during the year particularly in the last quarter, driven by the impact of Covid-19.

Responsible investment has become an increasing area of focus and the Pension Fund will be expected to continue to work with its managers and like minded partners in promoting sustainable investments. During 2019/20, the Fund became a member of both the Institutional Investors Group on Climate Change (IIGCC) and the Climate Action 100+ Group. The Fund is currently progressing with investing in sustainable equity mandate.

Triennial valuation

2020/21 will see the Fund conclude its triennial Funding Valuation as at 31 March 2020, the results of which are expected to be published in March 2021.

The Pensions Committee is responsible for setting investment strategy in terms of the five policy groups and the Chief Finance Officer is responsible for implementing the strategy taking proper advice from the Joint Investment Strategy Panel.

The Fund's funding policy is to target a fully funded status over a 20 year period whilst keeping contribution rates as constant as possible (which is secondary to ensuring that the Fund is holding a sufficiently high level of assets to pay benefits in the long term). The Fund's longer term strategy is to reduce its exposure to more volatile assets. A draft of the revised Funding Strategy Statement was circulated to employers and trade unions in October 2020 and will be published by the end of March 2021.

Future Fund structures

A consultation on the review of the current structure of the Local Government Pension Schemes in Scotland was launched in summer 2018 by the Scheme Advisory Board (SAB) with consultees asked to consider four structural options: the status Quo for 11 funds, increased collaboration between the funds, pooling of assets and fund merger. SAB review is still ongoing and they are not expecting to have final recommendations for a year.

In line with previous years, the Pension Fund has continued to extend its collaborative relationship with the Lothian and Fife Pension Funds, with all parties participating in a Joint Investment Strategy Panel to deliver greater efficiencies and providing a platform to further the engagement with the Funds. Separate from the ongoing national review into the structure of LGPS, management continue to have discussions with Lothian Pension Fund to consider how the Fund's working relationship can be placed on a more integrated and mutually beneficial footing. We will consider this through our wider scope work.

3. Financial Statement Risks

Introduction

The Pension Fund's annual financial statements enables the Pension Fund to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit Opinion

We are responsible for conducting an audit of the financial statements of the Pension Fund. We will provide an opinion on the financial statements as to:

- ▶ whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the Fund as at 31 March 2021 and of the amount and disposition at that date of its assets and liabilities;
- ▶ have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2020/21 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.

We also review and report on the consistency of the other information prepared and published by the Pension Fund along with its financial statements.

Other Statutory Information

We will consider the other statutory information within the context of current and future guidance. In particular we need to consider how the Covid-19 pandemic has impacted the Pension Fund and how this is reported in the financial statement narrative.

As in previous years, the management commentary and narrative reporting continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including the Financial Reporting Council. We will continue to work with the Chief Finance Officer to support the ongoing enhancement in disclosures, including narrative commentary, contained within the 2020/21 financial statements.

Audit Approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Substantive tests of detail of transactions and amounts. For 2020/21 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Reading other information contained in the financial statements, including the board's statement to ensure that the annual report is fair, balanced and understandable, the Pensions Committee and Board reporting appropriately addresses matters communicated by the Committees and management; and reporting whether it is materially inconsistent with the financial statements.
- ▶ Ensuring we maintain auditor independence throughout our audit.

IAS 19 Audit Scotland Protocols procedures:

- ▶ Engaging with auditors for applicable scheme member bodies in line with the protocols laid out by Audit Scotland for IAS 19 assurance both for Fund and local government body auditors

Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss expectations regarding our detection of misstatements in the financial statements if required.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Materiality Level

Indicative Planning Materiality £23.2 million	Planning materiality (PM) - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For initial planning purposes, materiality for 2020/21 has been set at £23.2 million (2019/20: £46.5 million). This represents approximately 1% of the Pension Fund's prior year net assets, which is a reduction from the prior year level of 2%. This is the result of a reassessment of the drivers of materiality to the users of the accounts, and is in line with levels used across the sector.
Tolerable Error £11.6 million	Tolerable error (TE) - materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £11.6 million (2019/20: £23.25 million) which represents 50% of planning materiality.
Summary of Audit Differences £250,000	Summary of Audit Differences (SAD) Nominal amount - the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £250,000 (2019/20: £250,000).

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Based on these considerations, we will apply lower materiality levels to the following areas we consider to be material by nature rather than size:

- ▶ Key Management Personnel disclosure; and
- ▶ Related Party Transactions.

We will therefore review the disclosures related to these areas in greater detail compared to the materiality thresholds outlined above.

Covid-19 Pandemic - Impact on Financial Statements

- ▶ The governance statement should outline any changes to the control environment as a result of the pandemic, and the steps being taken by the Pension Fund to maintain a robust control environment. This should include consideration of how key governance functions are continuing to operate, such as key committee meetings and the delivery of internal audit's programme of work.
- ▶ The Pension Fund's management commentary should clearly summarise the performance of the Pension Fund, including the impact of Covid-19 on both its financial performance and future planning, and its impact of key statutory performance indicators.
- ▶ Significant events after the balance sheet date are required to be disclosed within the financial statements, either through the post balance sheet events note; in specific accounting notes; or in the management commentary and governance statement. The detail required in the disclosures will reflect the specific circumstances of the Pension Fund.
- ▶ 2020/21 is the first financial year where the full impact of Covid19 on day to day accounting transactions will be seen in the financial statements. Covid-19 will continue to have a potentially materially impact on the financial statements, in particular on the valuation uncertainty around complex investments and managed property funds, specifically where "material valuation uncertainty" clauses as per VPS3 and VPGA10 of the RICS Red Book Global have been included in investment manager reports previously.

Impact on Audit Process

Following the impact of Covid-19 on the financial statement preparation and audit process in 2020, Audit Scotland has set its reporting deadline for local government bodies at 31 October 2021, a month later than the traditional timeframe but a month earlier than the 2020 revised deadlines. These deadlines will continue to be reviewed through the year as circumstances change, however the FRC and Audit Scotland have made clear that any deadlines are secondary to the primacy of audit quality and ensuring completeness of work regardless of the environment in which audit takes place and ensuring work is undertaken in accordance with required standard.

We have outlined the planned timing for the key deliverables of the audit process in Appendix D. These reflect initial discussions with management to maintain our planned reporting dates in line with prior year timetables. We will continue to work closely with management to assess the timeframes and logistics for the completion of our 2020/21 audit.

Going Concern

In accordance with the CIPFA Code of Practice on Local Government Accounting, the Pension Fund prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. In 2019/20, the CIPFA bulletin 05 (closure of the 2019/20 financial statements) stated that while there is likely to be a significant impact of Covid-19 on local authority financial sustainability, the rationale for the going concern basis of reporting had not changed.

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Pension Fund and its financial sustainability.

As part of our 2019/20 audit process, we asked management to prepare a going concern assessment, outlining the main areas of consideration in arriving at its conclusion that the Pension Fund was a going concern with no material uncertainties around this conclusion. We also challenged management on the adequacy of some of the disclosures and the expected medium term impact of Covid-19; a number of improved disclosures were made to the financial statements.

Our audit procedures around going concern for this year remain under development, to ensure we reflect the requirements of the revised ISA's and also the revised Practice Note 10. We will agree the required arrangements with management in advance of the yearend audit and report our conclusions as part of our yearend reporting.

Significant Risks

We have set out one significant risk identified for the current year audit along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit.

1. Misstatements due to fraud or error

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Other than the valuation of investments, we have not identified any specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have determined that the way management could be most likely to override controls is by manipulating the value of the year-end investment asset balances posted in totality to the accounts at year end.

Work we will perform:

- ▶ Testing the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates.
- ▶ Evaluating the business rationale for any significant unusual transactions.
- ▶ Obtaining third party confirmations of the Fund's externally held investment balances at the Pension Fund's year end 31 March 2021 from both custodians and investment managers. We will investigate any differences in valuation between these sources and agree the final agreed balance for investments in the accounts.

2. Valuation of complex investments

We identify significant risk in respect of valuation of complex investments. At this stage of our audit planning, we have not identified any other significant financial statement risks. We will confirm our updated risk assessment as part of our Annual Audit Report.

Valuation of complex investments has been considered as part of our consideration of the fraud risk around management override. We also identified this as a significant risk reflecting the complexity of this area and expectations around audit differences based on our prior audit experience.

As of 31 March 2020, the Fund held investments of £2.3 billion of which around 70% (£1.6 billion) were classified as Level 2 and Level 3 investments, meaning there are not publicly quoted prices in place for these types of investments in an active market. We have therefore assigned a significant risk to the valuation of Private Equity and Infrastructure Funds, Managed Property Funds, Pooled Investments and Private Debt. Around 50% of the pooled investments are in listed equities, our audit focus around this risk is focused on the remaining harder to value assets included in pooled investments.

In our previous audit of the Fund financial statements, we identified audit differences related to the valuation of these investments (2019/20 overall difference was £6.5 million). This occurred where valuation gains to 31 March were not reported to the Pension Fund before the unaudited accounts were prepared, but were available by the publication of the audited financial statements. Management has previously elected not to adjust for these differences, noting the financial statements are prepared with the best information available at the time of preparation in line with required statutory requirements.

The identification of unadjusted audit differences drives an additional risk for our audit in line with the requirements of our internal engagement acceptance and continuance process.

Work we will perform:

- ▶ Review relevant controls' reports for qualifications or exceptions that may affect the audit risk and scope, and obtain bridging letters for the period between report dates and financial statement dates where they differ.
- ▶ For each Fund manager we will obtain the most up to date Financial Statements for each investment/Fund, and the capital statement for the date of the Financial Statements along with the capital statement as of 31 March 2021. We will review the audit opinions for the fund to identify any possible issues with the valuation in the year and recalculate the Fund's share of the investment based on its percentage ownership.
- ▶ Review the basis of the valuation for unquoted investments to be satisfied that it is in line with the Fund's accounting policy and CIPFA requirements.
- ▶ Assess the impact of any differences arising from the timing of valuation reports for 31 March on the financial statements, including the turnaround impact from the prior year unadjusted difference.
- ▶ If valuations of managed property funds would be again reported on the basis of "material valuation uncertainty", as per VPS3 and VPGA10 of the RICS Red Book Global, perform additional substantive procedures, such as additional key items testing, agreement to audited financial statements of investments where possible and agreement of the Net Assets Value on a per unit basis from the financial statements.

4. Wider scope audit risks

The Code sets out the four dimension that comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money. The Accounts Commission has also set five strategic Audit Priorities in its 2019-24 strategy. In 2020/21 auditors are not specifically asked to consider and report on these through our audit work, however we will continue to consider them as part of our wider scope work through the year.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. We set out our areas of focus, along with specific significant risks relating to each dimension below.

Audit dimension	Significant risk	Work we will perform in 2020/21
<p>Financial sustainability: considers the medium and longer term sustainability of the Fund including ensuring contributions, investment income and the ability to liquidate investments as required are sufficient to cover benefits over the short term and the Fund as a whole can meet its estimated liabilities as they crystallise over the longer term.</p>	<p>No specific additional audit focus</p>	<p>2020/21 will see the Fund conclude its triennial Funding Valuation as at 31 March 2020. The funding position for the triennial valuation will be impacted by the asset valuations impacted by Covid-19 on investment returns. The Fund investment return over inter-valuation period between 2017 and 2020 was 4.5% compared to a target of 10.9% predominantly due to Covid-19. The valuation assumptions were agreed by the Pensions Committee in August 2020 with marginal changes made to the pension and salary increases assumptions and the remainder remaining in line with the previous valuation.</p> <p>The Fund's investment strategy was subject to review in collaboration with the Fund's partners Lothian Pension Fund and Fife Pension Fund in 2018/19. The strategy is designed to support the Fund in achieving the aim of being fully funded over a rolling 20 year period from the Fund valuation date. Due to the long-term nature of this strategy, no revisions were required last year as a result of the market volatility. The strategy will be subject to review once the results of the triennial valuation are known.</p> <p>We will consider the Fund's progress in delivering investment strategy once the results of the triennial valuation are known. We will continue to review the developing relationship with Lothian and Fife Pension Funds.</p>

Audit dimension

Significant risk Work we will perform in 2020/21

Financial management: considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

No specific additional audit focus

In our 2019/20 annual audit report we concluded that the Pension Fund established core financial management arrangements and we are satisfied that these are adequate for the current management of its financial activities. We considered changes to the internal control environment resulting from the remote working arrangements with no significant changes noted.

We will give consideration to the financial management arrangements in place at the fund through our financial statement audit procedures. We will consider and report on the Fund`s arrangements in respect of financial monitoring, review and reporting through the year and controlling its income and expenditure.

We will also consider the results of the Pension Fund`s Internal Audit findings for the year in relation to financial management.

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.

No specific additional audit focus

In our 2019/20 Annual Audit Report we concluded that overall the Pension Fund established a sound basis to demonstrate good governance and transparency in its operational activity. We considered the Governance Statement was consistent with our findings from our audit procedures and recognised that sufficient detail was included in relation to the impact of Covid-19 on the Fund.

Our audit strategy for 2020/21 will consider:

- ▶ Whether governance arrangements are appropriate and continuing to operate effectively, particularly in light of the impact of the Covid-19 pandemic on working arrangements.
- ▶ The effectiveness of governance scrutiny arrangements in place through the Fund`s Pensions Committee and Board.
- ▶ Whether the Pension Fund demonstrate adequate progress against external and internal audit recommendations to ensure they are implemented in a timely manner?
- ▶ Whether arrangements are in place for ensuring compliance with regulatory requirements, addressing requests from the regulator and reporting as identified and applicable.
- ▶ The development and uptake of training for Pensions Committee and Board members.

Audit dimension

Value for money:
considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

Significant risk Work we will perform in 2020/21

No specific additional audit focus

In 2019/20, we concluded that the Fund's investment and administration costs remained comparable with the majority of Scottish Pension Funds and that arrangements were in place to scrutinise the performance of Fund managers.

During 2019/20, the Pension Fund has moved one of its investment mandates in-house allowing to be delivered in more cost-effective manner. We concluded that there was an appropriate level of scrutiny of fund manager performance to support the Fund in complying with their investment principles.

We will review the Fund's performance across the short, medium and longer term against its overall investment strategy and aims.



Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Pensions Committee and Board

D - Timing and deliverables of the audit

E - Audit fees

F - Additional audit information

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

Appendix B: Independence Report

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Appendix C: Required Communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Pensions Committee and Board of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Pensions Committee and Board to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Pensions Committee and Board into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Pensions Committee and Board may be aware of 	<p>Annual Audit Report or as occurring if material.</p>

Required communication

Our reporting to you

Related parties

Significant matters arising during the audit in connection with the entity's related parties including, when applicable:

- ▶ Non-disclosure by management
- ▶ Inappropriate authorisation and approval of transactions
- ▶ Disagreement over disclosures
- ▶ Non-compliance with laws and regulations
- ▶ Difficulty in identifying the party that ultimately controls the entity

Annual Audit Report or as occurring if material.

Independence

Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence

Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:

- ▶ The principal threats
- ▶ Safeguards adopted and their effectiveness
- ▶ An overall assessment of threats and safeguards
- ▶ Information about the general policies and process within the firm to maintain objectivity and independence

Annual Audit Plan

Annual Audit Report

Internal controls

Significant deficiencies in internal controls identified during the audit

Annual Audit Report

Representations

We will request written representations from management and/or those charged with governance.

Annual Audit Report

Subsequent events

Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.

Annual Audit Report

Material inconsistencies and misstatements

Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.

Annual Audit Report

Fee Reporting

- ▶ Breakdown of fee information when the audit plan is agreed
- ▶ Breakdown of fee information at the completion of the audit
- ▶ Any non-audit work

Annual Audit Plan

Annual Audit Report

Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline agreed with management, in accordance with the deadlines set by the most recent planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2020/21 audit cycle. The timetable will continue to be subject to ongoing consideration through the ongoing Covid-19 pandemic and its impact on accounting and audit arrangements.

	Audit Activity	Deliverable	Timing
JAN			
FEB	▶ Audit planning; setting scope and strategy for the 2020/21 audit	Annual Audit Plan	March 2021
MAR			
APR			
MAY	▶ Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information	We will continue to monitor Audit Scotland performance audit programme following Covid-19	Throughout 2021
JUN			
JUL	▶ Year-end substantive audit fieldwork on unaudited financial statements	Audit clearance meeting	July - August 2021
AUG	▶ Conclude on results of audit procedures	Certify Annual Financial Statements	
SEP	▶ Issue opinion on the Pension Fund's financial statements	Issue Annual Audit Report	TBD (see note 1)

Note 1 - Before the Covid-19 pandemic the financial statements were finalised and approved, with our annual audit report, in September annually to meet the Audit Scotland deadline at the end of the month. In 2019/20, due to the Covid-19 pandemic, Audit Scotland extended the reporting deadline to November to reflect the additional pressures on both audited bodies and auditors. The current deadline for 2020/21 accounts and audit reports is October, but this is subject to ongoing review and will continue to be under review by both management and the audit team. This will include consideration of alignment with the Council financial statement production and audit timetable, as the Pension Fund's administering body.

Appendix E: Audit fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on 'Our Approach to setting audit fees' (http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf).

Audit Fees	2020/21	2019/20
Component of fee:		
Auditor remuneration - expected fee	22,130	£21,490
Auditor remuneration - fee variation	TBD - note 1	£6,000
Audit Scotland fixed charges:		
Pooled costs	2,100	£2,100
Audit support costs	1,220	£1,300
Total fee	TBD - note 1	£30,890

Note 2- The audit fee for the 2020/21 outlined above reflects the Audit Scotland expected base fee for the year. We are in the process of discussing fee requirements with Audit Scotland to ensure the fee accurately reflects the amount of work that is required following increased expectations arising from FRC reviews and the added complexity of auditing level 3 investments since our initial audit appointment period. We will report the finalised expected fee when it is agreed with Audit Scotland and communicated to management.

The expected fee for each body, when set for the year, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit. Should any of these circumstances not be in place throughout the audit, it is expected that additional costs will be incurred through the course of the audit which will be subject to recovery in line with the agreed process and rates set out by Audit Scotland. Under this process, fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, or more with the approval of Audit Scotland.

Appendix F: Additional audit information

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the going concern basis of accounting.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Read other information contained in the financial statements, the Audit, Risk & Governance Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: [Quality of public audit in Scotland annual report 2019/20 | Audit Scotland \(audit-scotland.gov.uk\)](#)

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report:

[EY UK Transparency Report 2020 | EY UK](#)

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2021 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ey.com