

Fife Pension Fund

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Fife Pension Fund

9 March 2021

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

Introduction

1. Our audit of the Fife Pension Fund is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and [guidance on planning the audit](#). 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.

COVID-19

3. The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant effect on Scottish society and the delivery of public services. It has been necessary for many of the council's finance staff and the pensions administration team to work from home for much of 2020-21 and it may be sometime before we see a full return to office based working.

4. In Audit Scotland we continue to manage the impacts of covid-19 on the audit process and expect that 2020/21 will be more challenging than 2019/20, as the extended reporting timescales last year affect our current year resource position. We have included a bid for additional funding to the Scottish Commission for Public Audit, reflecting impacts of increased costs and reduced productivity on Audit Scotland and its partner firms from Covid-19. This is intended to protect local audit fees. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value 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 promote improved standards of governance, better management and decision making, and the more effective use of resources.

Audit risks

6. We will follow up on the risks and recommendations identified in our Annual Audit Report from 2019-20 (Appendix 1). We will work with the pension fund to explore new and emerging risks associated with delivering a pensions service and the investment strategy whilst complying with relevant regulations and codes.

7. The planning risks that we consider to be most significant are shown together with planned audit work in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

	Significant Audit Risk	Source of assurance	Planned audit work
Financial statement risks			
1	<p>Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result in fraudulent 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"> • Data analytics risk assessment of ledger transactions (including journals) and testing. • Review of accounting estimates. • Focussed testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
2	<p>Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation of retirement benefits.</p> <p>Investments include level 3 investments, such as unquoted property investment companies, where the valuations involve the significant application of judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include financial and demographic assumptions which can have a significant impact on the present value of promised retirement benefits disclosed in the accounts.</p>	<p>User entity complementary controls.</p> <p>Third party audit certificates covering internal controls of the custodian and fund managers.</p> <p>Valuation reports from Investment Managers and Actuary.</p>	<ul style="list-style-type: none"> • Review of user entity controls in relation to the use of service organisations. • Confirmation of valuations to reports and / or other supporting information. • Consider any investment valuation caveats regarding material uncertainty. • Consider the extent to which investment funds are gated as at 31 March 2021. • For a sample of investments undertake a reasonableness check on valuations provided. • Consider the reasonableness of the assumptions used to estimate the present value of promised retirement benefits.
3	<p>New financial systems</p> <p>Fife Council, as the administering authority, introduced new accounts payments and payroll systems in 2020-21 along with a new cloud-based main accounting system.</p>	<p>Council migration controls and checks over opening balances.</p> <p>Reconciliations between new systems and the pensions administration system.</p>	<ul style="list-style-type: none"> • Review the migration of opening balances • Test the controls in the new systems. • Review reconciliation arrangements and year end reconciliations.

	Significant Audit Risk	Source of assurance	Planned audit work
	<p>The move to new systems inevitably increases risk as balances are transferred and interfaces updated. Controls and reconciliations need to be adapted to take account of differences between systems and levels of understanding can take time to build.</p>		
Wider dimension risks			
4	<p>Triennial funding valuation data submission</p> <p>In 2020-21 the pension fund submitted information to the actuary which formed the basis of the 2020 triennial funding valuation.</p> <p>The accuracy of the data submitted is key to the valuation which in turn informs employer contributions and pension fund strategy.</p> <p>Employer body auditors are likely to request assurances from us that data submitted was accurate and complete.</p>	<p>Data cleansing exercise and submission controls.</p>	<ul style="list-style-type: none"> • Review of the data extraction and submission process. • Agreement of information to the pensions administration system. • Consideration of data quality reports from the actuary.

Source: Audit Scotland

8. As set out in ISA 240: “The auditors responsibilities relating to fraud in an audit of the financial statements” there is a presumed risk of material misstatement arising from fraud in the recognition of income. Audit Practice Note 10 extends this risk for public sector bodies to also cover fraud over the recognition of expenditure. We have rebutted these risks for the pension fund on the basis that there is little incentive or opportunity for fraudulent manipulation of the accounts, evidence from previous reviews (including the National Fraud Initiative) and the controls that the fund has in place to monitor member contributions.

Reporting arrangements

9. 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.

10. At the end of our audit we will provide the Superannuation Fund and Pension Committee, the Executive Director Finance and 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

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 January 2021	9 March 2021
Annual Audit Report	31 October 2021	November 2021
Independent Auditor's Report	November 2021	November 2021

Source: Audit Scotland

Audit fee

11. The proposed audit fee for the 2020/21 audit of the Fund is £37,500 (2019/20: £35,700). In determining the audit fee, we have taken account of the risk exposure of the Fund (including the increased complexity and incidence of level 3 investments), 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 and working papers by 30 June 2021.

12. 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 out with our planned audit activity.

Responsibilities

Superannuation Fund and Pensions Committee and Executive Director Finance and Corporate Services

13. 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.

14. The audit of the annual accounts does not relieve management or the Superannuation Fund and Pensions Committee, of their responsibilities.

Appointed auditor

15. 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.

16. 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 accounts

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

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

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities
- have been properly prepared in accordance with the financial reporting framework.

Other information in the annual accounts

19. We also review and report on statutory other information published within the annual accounts: 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.

20. 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 report any uncorrected material misstatements in statutory other information.

Materiality

21. 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.

22. We calculate an overall materiality for the financial statements as a whole based on the net assets of the fund as set out in [Exhibit 3](#).



Exhibit 3

Materiality values - overall for the financial statements as a whole

Materiality	Overall
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of net assets for the year ended 31 March 2021 based on the latest fund valuation at 31 October 2020.	£30 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£18 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at the maximum permitted by Audit Scotland.	£250,000

Source: Audit Scotland

Lower specific materiality – dealings with members

23. In addition to the overall 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.

24. We recognise that transactions with members (contributions receivable and benefits payable) are of importance to the users of the accounts and we set lower specific materiality levels as shown in [Exhibit 4](#).

Exhibit 4

Lower specific materiality values – dealings with members

Materiality	Specific
Specific materiality – It has been set at 1% of contributions receivable for the year ended 31 March 2021 based on the latest budgeted information.	£1 million
Specific performance materiality – Using our professional judgement we have calculated performance materiality at 60% of the specific materiality.	£0.6 million
Reporting threshold (i.e. clearly trivial)	£30,000

Source: Audit Scotland

Timetable

25. 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 5](#).

Exhibit 5

Annual accounts timetable

Key stage	Date
Consideration of unaudited annual report and accounts by those charged with governance	29 June 2021
Latest date for final clearance meeting with Head of Finance	29 October 2021
Issue of Letter of Representation (ISA 580) and proposed independent auditor's report	November 2021
Agreement of audited unsigned annual report and accounts	November 2021
Issue of Annual Audit Report to those charged with governance	November 2021
Meeting of the Superannuation Fund and Pensions Committee to approve the audited annual accounts for signature by: Convenor, Chief Executive and the Executive Director Finance and Corporate Services	November 2021
Independent auditor's report signed	November 2021

Source: Audit Scotland

Internal audit

26. Internal audit is provided by Fife Council's Audit and Risk Management Service (ARMS). As part of our planning process we carried out an assessment of the internal audit function and concluded that ARMS generally operate in accordance with the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

27. 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 ARMS wherever possible to avoid duplication. We plan to consider the findings of the work of ARMS as part of our wider scope audit in 2020/21. We do not plan to place any formal reliance on IA in relation to our financial statements audit.

Audit dimensions

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

Exhibit 6

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

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

Financial management

30. 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
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated how the pension fund has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

31. 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

Superannuation Fund and Pensions 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

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the pension fund can demonstrate value for money in the use of resources, has a clear focus on improvement and that there is a clear link to outcomes delivered.

Independence and objectivity

33. 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.

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

Quality control

35. 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.

36. 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) have also been commissioned to carry out external quality reviews of our work.

37. 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.

Appendix 1: Prior year action plan (2019/20)

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Review of investment manager reports</p> <p>Investment manager reports are not being reviewed and reconciled with custodian reports.</p> <p>Risk – Custodian reports could include valuations which are out of date or otherwise inaccurate, and significant disclosures around investment valuation uncertainty.</p>	<p>As part of the accounts preparation process, investment manager reports are reviewed and reconciled with custodian reports so that significant valuation issues are identified and actioned including:</p> <ul style="list-style-type: none"> • Material valuation uncertainty disclosures • Valuation lag in relation to level 3 investments • Impaired investments. 	<p>Review of investment manager reports will be built into Closure of Accounts process and actioned at that time.</p> <p>Finance Operations Manager</p> <p>31 March 2021</p>
2	<p>Significant changes to governance arrangement due to COVID 19</p> <p>The Annual Governance Statement is required to reflect any significant changes to governance to the point the accounts are approved for signature.</p> <p>Risk- The Annual Governance Statement is not compliant with the applicable framework if significant governance changes have not been covered.</p>	<p>As part of the accounts preparation process, ensure that the Annual Governance Statement includes coverage of significant governance developments up to the date the accounts are approved for signature.</p>	<p>Annual Governance statement has been updated to reflect the events of COVID19 at the end of 2019/20.</p> <p>Pensions Team Leader</p> <p>Complete</p>
3	<p>Investment fair value hierarchy</p> <p>£41.8m of investments had been incorrectly disclosed as level 2 when they should have been shown as level 3.</p> <p>Risk- The fair value hierarchy disclosure is important for the reader's understanding of valuation risk.</p>	<p>As part of the accounts preparation process, ensure that custodian classification of new investments is consistent with that of the investment manager.</p>	<p>Following discussion with the Custodian, investments have been reclassified,</p> <p>Action to review will be built into Closure process</p> <p>Finance Operations Manager</p> <p>Complete</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p>Investment Management Expenses</p> <p>Around £0.446m of investment management expenses were not notified by the investment manager in time for closedown of the accounts and were not therefore included as income and expenditure.</p> <p>Risk- That cost transparency is not properly reflected in the accounts.</p>	<p>As part of the accounts preparation process, ensure that investment managers are complying with the voluntary code on cost transparency and that they provide information to the fund on a timely basis.</p>	<p>A full review of the progress in relation to Cost Transparency and associated disclosure is being undertaken and will be reported to Committee in March 2021 Finance Operations Manager March 2021</p>
5	<p>Service organisation control reports and complementary user entity controls</p> <p>The Fund's wider governance assurance framework does not include the review of service organisation control reports and consideration of complementary user entity controls specified by the custodian.</p> <p>Risk- The controls put in place and operated by the custodian require user entities to have complementary controls of their own.</p>	<p>Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the governance assurance framework.</p>	<p>Review of service organisation control reports will be built into Closure of Accounts process and actioned at that time.</p> <p>Finance Operations Manager 31 March 2021</p>
6	<p>Bank and feeder system reconciliations</p> <p>Whilst bank and feeder system reconciliations had been undertaken there was not always evidence that they had been reviewed on a timely basis. In some cases, this was due to home working arrangements.</p> <p>Risk- That errors and anomalies arising with reconciliations are not escalated appropriately.</p>	<p>Arrangements for the review bank and feeder system reconciliations under homeworking should be clarified and reviews better evidenced.</p>	<p>Evidencing of reviewing reconciliations is completed using software which due to licensing is not available when using your own device in home working environment.</p> <p>Alternative processes have been adopted using spreadsheets until a resolution can be found for licensing arrangements. Dialogue is ongoing with Business Technology Solutions.</p>



No.

Issue/risk

Recommendation

**Agreed
management
action/timing**

Teams have also been reminded of the need to evidence reconciliations

Service Manager

Complete

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