

# Dumfries and Galloway Council Pension Fund

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Dumfries and Galloway Council Pension Fund

March 2023

# Contents

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Introduction	3
Financial statements audit planning	5
Wider Scope	9
Reporting arrangements, timetable, and audit fee	10
Other matters	13
Appendix 1. Your audit team	15

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Dumfries and Galloway Council Pension Fund (the Fund). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts and the provision of an Independent Auditor's Report
- an opinion on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement
- reviewing the Fund's participation in the National Fraud Initiative
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of Dumfries and Galloway Council Pension Fund for the period 2022/23 to 2026/27 inclusive. An introduction to the members of your audit team is at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by attending meetings of the Pensions Sub-Committee and by recommending and encouraging good practice. In so doing, we will help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and the Fund

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Fund. Key responsibilities are summarised below.

### Auditor responsibilities

7. 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.

8. 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 wider scope arrangements within the Fund. In doing this, we aim to support improvement and accountability.

### The Fund's responsibilities

9. The Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view. The Fund also has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

10. The Head of Finance and Procurement, as Section 95 Officer, is responsible for the administration of financial affairs. The Pension Sub-Committee has been delegated responsibility for the oversight of internal and external audit.

11. 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.

### Communication of fraud or suspected fraud

12. In line with ISA 240, in presenting this plan to the Pension Sub-Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the Pension Sub-Committee have any such knowledge or concerns relating to the risk of fraud within the Fund, we invite them to communicate this to the appointed auditor for consideration.

# Financial statements audit planning

## Introduction

**13.** Our approach to the audit of the 2022/23 accounts, including the financial statements, has been designed to support the appointed auditor's opinion as to whether the annual report and accounts give a true and fair view of the Fund's finances for the year ended 31 March 2023, and have been properly prepared in accordance with International Financial Reporting Standards and the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

## Materiality

**14.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2022/23 audit

**15.** We assess materiality at different levels as described in [Exhibit 1](#), along with the levels set for the 2022/23 audit of the Fund.

## Exhibit 1

### Materiality levels for the 2022/23 audit

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross investment assets based on the audited annual accounts for 2021/22.	£21.928 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 assessed performance materiality at 65% of planning materiality.	£14.253 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 capped at £250,000 as this is the	£250 thousand

maximum amount allowable under Audit Scotland's audit approach guidance.

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**16.** Our risk assessment draws on our cumulative knowledge of the Fund, and consideration of its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at Pension Sub-Committee meetings and review of other relevant information.

**17.** Based on our risk assessment process, we identify significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. Two such risks have been identified for the 2022/23 financial statements audit. These are shown in [Exhibit 2](#) along with details of the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries, with a focus on significant risk areas, including year-end and post-close down entries.</li> <li>• Detailed testing of accounting estimates, assessing any changes to the methods and underlying assumptions used to prepare these compared to the prior year.</li> <li>• Evaluation of significant transactions that are outside the normal course of business, identified through detailed testing of income and expenditure, accruals and cut off transactions.</li> </ul>
<p><b>2. Estimation applied to Level 3 investments</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments. Level 3 investments have at least</p>	<p>Unquoted investments are valued by third parties including investment managers and independent</p>	<ul style="list-style-type: none"> <li>• Confirmation of year-end valuations to valuation reports and/or other supporting documentation, including third party confirmation.</li> <li>• Review the relevant investment manager controls' reports for</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>one input that could have a significant effect on the instrument's valuation that is not based on observable market data. Changes in the valuation assumptions used could affect the net book value of the investments and valuations and involve the application of considerable judgement in determining appropriate amounts. The 2021/22 annual accounts of the Fund show that, as at 31 March 2022, the value of Level 3 investments is £62.4 million (5.7% of the total fund value) based on the valuations provided by investment managers.</p>	<p>valuers who follow detailed professional, accounting and industry codes and guidelines.</p>	<p>qualifications or exceptions that may affect the audit risk.</p> <ul style="list-style-type: none"> <li>• Review the arrangements in place at the Fund to assess investment managers governance arrangements.</li> <li>• Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to acknowledge areas with significant judgement and estimation uncertainty.</li> <li>• Assess the expertise and competency of investment managers.</li> </ul>

Source: Audit Scotland

## Consideration of the risks of fraud in the recognition of income and expenditure

**18.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Fund because:

- There is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are limited.
- The split of responsibilities between the Fund, its investment managers and the bank, provides a clear separation of duties reducing the risks relating to investment income.
- Having considered the value and the nature of contribution income, which is paid over from employers, we have concluded there is not a significant risk in this area.

**19.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the Fund because:

- Investments are managed by external investment managers
- Pension benefits are the Fund's main expenditure stream. There is no real incentive for the Fund to manipulate these payments
- Other expenditure relates mostly to investment management fees. There is little scope for the Fund to manipulate the amount of these fees.

**20.** We have not, therefore, incorporated specific additional audit procedures into our audit plan in relation to the risks of fraud in the recognition of income and expenditure, over and above our standard audit procedures.

### Other areas of audit focus

**21.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. This assessment identified two areas which involve a significant degree of estimation and judgment and represent an increased risk of misstatement in the financial statements. These areas of specific audit focus are:

- valuation of Level 2 investment assets
- actuarial valuation of future retirement benefits.

**22.** While these areas require specific audit focus, based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks.

### Audit risk assessment process

**23.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.



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# Wider Scope

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## Introduction

24. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

25. In summary, the four wider scope areas cover the following:

- **Financial management** – we consider the financial capacity of the Fund and whether there are sound budgetary processes and internal controls in place.
- **Financial sustainability** – 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the leader of the Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the Fund demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

## Conclusions on wider scope responsibilities

26. We have not identified any significant wider scope audit risks. However, we have identified a wider scope area of focus in relation to financial sustainability. As highlighted in the 2021/22 Annual Accounts of the Fund, the fund is subject to a detailed actuarial valuation process on a triennial basis. The most recent valuation (as at 31 March 2020) indicated that the Fund was in deficit with the value of assets equating to 92 per cent of projected future liabilities. Employer contributions have been set to seek to address this deficit in the medium to longer term. The level of employer contributions will be reviewed during the next detailed actuarial triennial valuation at 31 March 2023.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**27.** The outputs set out in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**28.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy, prior to the issue and publication of final reports.

**29.** We will provide an independent auditor's report to the Fund and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Fund and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**30.** [Exhibit 3](#) outlines the Pension Sub-Committee meeting dates for our key audit outputs. 2022/23 remains a transitional year, and there is a risk that pre-Covid audit timetables may not be achieved. However, our intention is for the Fund audit work to be completed in time to enable certification of the annual accounts by the 21 September 2023.

## Exhibit 3 2020/21 Audit outputs

Audit Output	Target date	Pension Sub-Committee Date
Annual Audit Plan	31 March 2023	22 June 2023
Independent Auditor's Report	30 September 2023	21 September 2023
Annual Audit Report	30 September 2023	21 September 2023

Source: Audit Scotland



## Timetable

**31.** To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

**32.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**33.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

### Exhibit 4 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	22 June 2023
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting	8 September 2023
Agreement of audited annual accounts for consideration by the Pension Sub-Committee	13 September 2023
Issue of Proposed Annual Audit Report to those charged with governance (including Letter of Representation and proposed independent auditor's report) *	13 September 2023
Pension Sub-Committee meeting to consider Proposed Annual Audit Report and approve and sign audited annual report and accounts	21 September 2023
Independent auditor's report certified by appointed auditor	21 September 2023

\* *The finalised Annual Audit Report will be issued after the audited 2022/23 Annual Accounts are certified.*

Source: Audit Scotland

## Audit fee

**34.** In determining the audit fee, we have taken account of the risk exposure of the Fund and the planned management assurances in place. The proposed audit fee for 2022/23 is £30,330 (£26,950 in 2021/22).

**35.** Our fees have increased in 2022/23 and this reflects the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**36.** In setting the fee for 2022/23 we have assumed that the Fund has effective governance arrangements and will prepare comprehensive and accurate annual accounts for audit in line with the agreed timetable for the audit. The audit fee also assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**37.** It is the responsibility of the Fund to establish adequate internal audit arrangements. From our initial review of the 2022/23 internal audit plan, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. However, we will consider the findings of internal audit's work.

## Independence and objectivity

**38.** Auditors appointed by the Auditor General for Scotland or Accounts Commission 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. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**39.** 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

**40.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**41.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**42.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1), applicable from 15 December 2022, and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**43.** Audit Scotland is committed to delivering high quality audits. 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 supplementary 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. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**44.** 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.

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# Appendix 1. Your audit team

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**45.** The senior team involved in the external audit of the Fund have significant experience in public sector audit

Fiona Mitchell-Knight FCA

Audit Director

[FMitchell-Knight@audit-scotland.gov.uk](mailto:FMitchell-Knight@audit-scotland.gov.uk)

Fiona is the appointed auditor and engagement lead for the audit of Dumfries and Galloway Council Pension Fund and will sign off the independent auditor's report on the Fund's annual accounts. Fiona has 30 years of public sector audit experience with Audit Scotland, covering local government, health, pension funds and the further education sector.

Peter Lindsay CPFA

Senior Audit Manager

[PLindsay@audit-scotland.gov.uk](mailto:PLindsay@audit-scotland.gov.uk)

Peter has over 26 years of public sector audit experience covering local government, health and the central government sector. Peter will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resources and executed.

Aimee MacDonald CA

Audit Manager

[aimacdonald@audit-scotland.gov.uk](mailto:aimacdonald@audit-scotland.gov.uk)

Aimee has 9 years of public sector audit experience, delivering audits across several areas of the Scottish public sector. Aimee will lead and be responsible for day-to-day management of the audit and will be your primary contact.

**46.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# Dumfries and Galloway Council Pension Fund

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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