

REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD– 18 MARCH 2024

REPORT ON: TAYSIDE PENSION FUND – AUDIT SCOTLAND ANNUAL AUDIT PLAN 2023/24

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 74-2024

1 PURPOSE OF REPORT

This report provides a summary of the responsibilities and approach of Audit Scotland in respect of Tayside Pension Fund for 2023/24.

2 RECOMMENDATIONS

The Sub-Committee is asked to:

- Note the contents of the report by Audit Scotland (Appendix A)
- Provide Audit Scotland with confirmation of any instances of actual, suspected or alleged fraud, as a requirement of the revised International Standard on Accounting (ISA) 240.

3 FINANCIAL IMPLICATIONS

None

4 MAIN TEXT

4.1 Following Audit Scotland’s appointment as external auditor for Dundee City Council for five years from 2022/23, they have produced the above report outlining the planned approach to the audit of Tayside Pension Fund (“the Pension Fund”) for the year ending 31 March 2024. The document sets out the statutory and professional responsibilities in terms of the Code of Audit Practice and also outlines their key audit objectives.

4.2 The report in appendix A sets out information on the proposed audit approach focussing on the key issues and risks facing the Pension Funds in terms of corporate governance arrangements, ownership and valuation of investments, regulatory and accounting compliance and other issues relevant to the opinions on the financial statements. The document also sets out the key stages of the planned audit process, together with a summary of procedures for working with internal audit, materiality considerations and arrangements for communication and reporting.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

8 MARCH 2024

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Tayside Pension Fund

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Tayside Pension Fund

March 2024

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Contents

Introduction	3
Annual accounts audit planning	5
Wider Scope	9
Reporting arrangements, timetable, and audit fee	10
Other matters	12

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Tayside Pension Fund (the Fund). The main elements of our work include:
 - an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
 - an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary and the Annual Governance Statement
 - consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
 - provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

Respective responsibilities of the auditor and the Fund

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

Auditor responsibilities

3. 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.
4. 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

5. The Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view. It must prepare other reports in the annual accounts in accordance with applicable requirements.
6. The Fund also has responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable it to deliver its objectives.

7. The audit of the annual accounts does not relieve management or the Pension Sub-Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

8. In line with the ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Fund have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration. Similar assurances will also be sought as part of the audit completion process.

Adding value

9. We aim to add value by tailoring audit work to the circumstances of the Fund and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Pension Sub-Committee and by recommending and encouraging good practice. In so doing, we intend to help the Fund promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts audit planning

10. The annual accounts are an essential part of demonstrating the Fund's stewardship of resources and its performance in the use of those resources.

11. As part of our audit we perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of the highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. 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 obtain reasonable assurance that 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 2023/24 audit

14. We have assessed materiality for the Fund as described in [Exhibit 1](#) on page [6](#). During the audit we will also apply our risk based professional judgement to the extent of testing required of non-material account areas to reflect the needs of users of the accounts.

Exhibit 1

Materiality levels for the 2023/24 audit

Materiality	Amount
<p>Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It is set based on our assessment of the needs of the users of the financial statements and the nature of the Fund's operations. For the year ended 31 March 2024 we have set our materiality at 2 per cent of gross assets based on the audited 2022/23 financial statements.</p>	£97 million
<p>Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65 per cent of planning materiality.</p>	£63 million
<p>Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.</p>	£1 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. 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 informed by our discussions with management, attendance at committees and review of other relevant information.

16. 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 advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identify significant risks of material misstatement to the financial statements. These are the risks that have the greatest impact on our planned audit procedures. [Exhibit 2](#) on page [7](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

Significant risks of material misstatement to the 2023/24 financial statements

Risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</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"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate any significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

Consideration of the risks of fraud in the recognition of revenue 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 statement*, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk of fraud over income recognition (ISA 240). We also considered the risk of fraud over expenditure, and the risk of external fraud (in accordance with Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)).

19. We have rebutted the presumption that a material risk exists, with the exception of management override, as noted in [Exhibit 3](#) above. This is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- income and expenditure arising from dealing with members is in accordance with regulations with low inherent risk and effective internal control arrangements
- the Fund appoints a global custodian to safeguard the assets of the fund and ensure that all investment income and transactions are brought to account
- evidence from the National Fraud Initiative does not indicate material risks
- experience in the sector and of the audit of the Fund, including review of past misstatements.

20. As a result, our audit plan does not include any specific work in these areas in addition to our standard audit procedures.

Other areas of audit focus

21. As part of our assessment of audit risks, we have identified one other area where we consider there is a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider it to represent a significant risk. We will keep this area under review as our audit progresses.

22. The area of specific audit focus is the actuarial valuation of future retirement benefits. The valuation is based on a range of financial and demographic estimations about the future including investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements. To address this risk we will:

- Assess the competence, capabilities, and objectivity of the actuary in line with ISA 500.
- Review the information provided to the actuary by the Fund.
- Review the assumptions used by the actuary to reach the valuation of future retirement benefits.
- Review officers' arrangements for ensuring the completeness and accuracy of professional estimations for pensions.

Wider Scope

23. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

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

- **Financial management:** this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** we will consider the results of the recent triennial valuation and whether the Fund is planning effectively to achieve its long term objectives as outlined in the Funding Strategy Statement.
- **Vision, leadership, and governance:** we will conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by 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.

Wider scope risks

25. Our planned work on the wider scope areas is risk based and proportionate. We have identified one wider scope risk around the triennial valuation of the Fund as at 31 March 2023. The valuation was carried out by the Fund's actuary (Barnett Waddingham) during 2023/24. The results of the valuation will impact on future employer contribution rates, as well as the future funding and investment strategies of the Fund. The results of the valuation therefore present a risk to the financial sustainability of the Fund.

26. We will review the actuary's report on the triennial valuation of the Fund as at 31 March 2023 and consider related reports presented to the Pension Sub-Committee. We will also consider the impact of the valuation results on the Fund's future investment and funding strategies.

27. In addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy.

29. We will provide an Independent Auditor's Report to Tayside Pension 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 target dates for our audit outputs.

Exhibit 3 2023/24 audit outputs

Audit Output	Target Date	Pension Sub-Committee Date
Annual Audit Plan	31 March 2024	18 March 2024
Independent Auditor's Report	30 September 2024	23 September 2024
Annual Audit Report	30 September 2024	23 September 2024

Source: Audit Scotland



31. This Annual Audit Plan, the other outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

32. To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the annual accounts. A proposed timetable for the 2023/24 annual accounts audit is shown in [Exhibit 4](#).

Exhibit 4

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited 2023/24 Annual Accounts by those charged with governance	24 June 2024
Latest submission date for the receipt of the unaudited 2023/24 Annual Accounts with complete working papers package	30 June 2024
Latest date for final clearance meeting with the Senior Manager, Financial Services	11 September 2024
Agreement of audited 2023/24 Annual Accounts for consideration by Pension Sub-Committee	16 September 2024
Issue of proposed Annual Audit Report to those charged with governance (along with letter of representation and proposed Independent Auditor's Report)	16 September 2024
Pension Sub-Committee meeting to consider the Annual Audit Report and approve the audited annual accounts for signing	23 September 2024
Independent Auditor's Report certified by appointed auditor and Annual Audit Report finalised and issued	23 September 2024

Source: Audit Scotland

Audit fee

33. In determining the audit fee, we have taken account of the risk exposure of Tayside Pension Fund and the planned management assurances in place. The proposed fee for 2023/24 is £32,180 (£30,360 in 2022/23), an increase of 6 per cent. The Fund will receive a fee rebate of £846 in respect of unspent 2022/23 travel budgets. This can be offset against the 2023/24 audit fee meaning the net charge to the Fund for the year will be £31,334.

34. In setting the fee we have assumed that the Fund has sound governance arrangements in place and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee also assumes there will be no major changes in respect of the scope of the audit during the year. Where our audit cannot proceed as planned a supplementary fee may be levied.

Other matters

Internal audit

35. It is the responsibility of the Fund to establish adequate internal audit arrangements. The Fund's internal audit function is provided by PwC. We have reviewed internal audit's plan as part of our planning process.

36. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

External audit team

37. There is a change in the engagement lead for the Tayside Pension Fund audit this year as Brian Howarth, Audit Director, is retiring. The engagement lead (i.e. the appointed auditor) from the 2023/24 audit will be Rachel Browne, Audit Director. Rachel has over 25 years of public sector audit experience in local government, NHS and central government audits, including the audit of pension funds. The incoming and outgoing engagement leads are holding handover discussions to ensure a smooth transition.

38. There are also changes in the core audit team for 2023/24. Richard Smith will be the Senior Audit Manager for the audit and Mary O'Connor is the Senior Auditor. They will lead and manage the external audit team on a day-to-day basis and met with officers as part of our planning work to discuss the arrangements for the 2023/24 audit.

Independence and objectivity

39. We are independent of Tayside Pension Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

40. 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.

41. The Ethical Standard requires 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.

Audit quality

42. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with

external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

43. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

44. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

45. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

46. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Tayside Pension Fund

Annual Audit Plan 2023/24

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

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