

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD– 21 MARCH 2022

REPORT ON: TAYSIDE PENSION FUND – AUDIT SCOTLAND ANNUAL AUDIT PLAN 2021/22

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 85-2022

1 PURPOSE OF REPORT

This report provides a summary of the responsibilities and approach of Audit Scotland in respect of Tayside Pension Fund for 2021/22.

2 RECOMMENDATIONS

The Sub-Committee is asked to:

- Note the contents of the report by Audit Scotland (Appendix 1)
- 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, plus an additional one year, from 2016/17, 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 2022. 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 Council’s Auditors are normally appointed for a five-year period, and the financial year 2021/2022 marks the sixth year of Audit Scotland’s appointment to Tayside Pension Fund. Normally at the end of each five-year period a new auditor is appointed, either Audit Scotland or a private sector accountancy firm. Covid-19 had an impact on the 2019/2020 audits of public sector bodies and the vast majority of these audits were reported later than normal. Planning for and potentially reporting of 2020/2021 annual audit work is also being affected. In October 2020, Audit Scotland approved the extension of current audit appointments for one year to include the 2021/2022 audit year. This decision reflects the need for stability and continuity given the longer-term impact of Covid-19 on audited bodies and the difficulty of running the necessary audit procurement exercise during the pandemic.

4.3 The report in appendix 1 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 screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

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**

7 MARCH 2021

Tayside Pension Fund

Annual Audit Plan 2021/22



Prepared for Tayside Pension Fund

March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Tayside 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 2021/22 annual report and accounts to support our opinions on the financial statements
- work to support our audit opinions on the other statutory information published within the 2021/22 annual report and accounts, including the Management Commentary, Annual Governance Statement and the Governance Compliance Statement
- reviewing the Fund's participation in the National Fraud Initiative
- consideration of arrangements in relation to the four audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency, and value for money.

Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required. Any such changes will be communicated to the Fund at the earliest opportunity available.

Adding value

4. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by identifying areas for improvement, and by recommending and encouraging good practice. We also attend meetings of the Pension Sub-Committee. 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.

Respective responsibilities of the auditor and the Fund

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Fund. Key responsibilities are summarised below.

Auditor responsibilities

6. 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.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the Fund to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

The Fund's responsibilities

8. The Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view. The Fund also has 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.

9. The Executive Director of Corporate Services, 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.

10. 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

11. 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 or Pension Board 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.

Managing the transition to 2022/23 audits

12. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Audit of the financial statements

13. Our approach to the audit of the 2021/22 annual report and 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 2022, 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 2021/22 (the 2021/22 Code).

Materiality

14. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. 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 2021/22 audit

15. We assess materiality at different levels as detailed in [Exhibit 1](#), along with the levels set for the 2021/22 audit of the Fund.

Exhibit 1

Materiality levels for the 2021/22 audit

Materiality	Amount
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 audited annual report and accounts.	£48.496 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 assessed performance materiality at 75% of planning materiality.	£36.372 million
Reporting threshold: 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 £0.250 million as this is the maximum amount allowable under Audit Scotland's audit approach guidance.	£0.250 million

Source: Audit Scotland

Lower specific materiality levels for the 2021/22 audit

16. In addition to overall materiality, we can 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 financial statements. We recognise that transactions (for example, payments to pensioners and income from employers and members) are of importance to the users of the financial statements and we set lower specific materiality levels for these account areas as shown in [Exhibit 2](#).

Exhibit 2

Lower specific materiality levels for the 2021/22 audit – Transactions

Materiality	Amount
Transaction planning materiality: This has been set at 1% of contributions receivable and transfers in for the year ended 31 March 2021 based on the latest audited annual report and accounts.	£1.069 million
Transaction performance materiality: Using our professional judgement, we have calculated transaction performance materiality at 75% of transaction planning materiality.	£0.802 million
Reporting threshold for transactions: We will report to those charged with governance all unadjusted misstatements related to transactions more than the 'reporting threshold' amount. This has been calculated at 5% of transaction planning materiality.	£0.050 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

17. 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.

18. 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. Only one such risk has been identified for the 2021/22 financial statements audit. This is shown in [Exhibit 3](#) along with details of the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 3

Significant risks of material misstatement to the 2021/22 financial statements

Significant 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"> • Detailed testing of journal entries, with a focus on significant risk areas, including year-end and post-close down entries. • Detailed testing of accounting estimates, assessing any changes to the methods and underlying assumptions used to prepare these compared to the prior year. • 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.

Source: Audit Scotland

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

19. 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 fund managers, its custodian and the bank provides a clear separation of duties reducing the risks relating to investment income.
- Further controls are in place for contribution income which is paid over from employers. This consists of employer and employee contributions. A reconciliation process is in place.
- Anti-fraud procedures and arrangements are in place.

20. 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 and recorded by the Fund's custodian.
- Pension benefits are the Fund's main expenditure stream. There is no real incentive for the Fund to manipulate these payments.
- Controls are in place to ensure the proper amounts of benefits are paid and second officer checks are in place.
- Other expenditure relates mostly to investment management fees. There is little scope for the Fund to manipulate the amount of these fees.

21. 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

22. 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 investment assets
- actuarial valuation of future retirement benefits.

23. 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

24. 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.

Audit dimensions

Wider scope of public sector audit

25. The [Code of Audit Practice](#) sets out the four dimensions 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 audit dimensions in audited bodies.

Audit dimensions

26. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4 Audit dimensions



Source: Code of Audit Practice

27. In summary, the four dimensions cover the following:

- **Financial management** – Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – We will comment on the Fund's financial sustainability in the longer term. We define this as medium term (two to five years) and long term (longer than five years).

- **Governance and transparency** – Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial performance and other information.
- **Value for money** – Value for money refers to using resources effectively and continually improving services.

Conclusions on wider scope responsibilities

28. The appointed auditor is required to report conclusions on the wider scope responsibilities and consider the audit dimensions specific in the Code of Audit Practice, [Exhibit 4](#).

29. As part of our audit planning work we have reviewed the wider dimensions of public sector audit applicable to the Fund and identified one wider code risk, as detailed in [Exhibit 5](#). This exhibit sets out the risk, sources of assurance from management and the further audit procedures we plan to perform to gain assurances over the risk. The conclusions from this work will be reported within our 2021/22 Annual Audit Report.

Exhibit 5

Audit dimension risks for the 2021/22 audit

Description of risk	Sources of assurance	Planned audit response
<p>1. Pension Administration Capacity</p> <p>Legislation passed in early 2022 requires funds to implement the ‘remedy’ to age discrimination within the Local Government Pension Scheme identified by the McCloud and Sargent rulings.</p> <p>Compliance with this legislation will involve a significant and administratively complex body of work for the Fund.</p> <p>There is a risk that that the Fund does not have sufficient capacity to complete this work, or that it impacts upon routine pension administration work.</p>	<ul style="list-style-type: none"> • Action has begun to implement the remedy, with briefings and advice provided to employers in late 2021, and template and guidance notes due to be provided in early 2022. • Outline project plan and timeline provided to the Pension Sub-Committee in December 2021. • Required additional resources identified and recruitment exercise due to begin in April 2022, with a view to live casework beginning in October 2022. 	<ul style="list-style-type: none"> • Consideration of reports to the Pension Sub-Committee relating to progress in implementing the remedy. • Review of quarterly Pension Administration performance reports to the Pension Sub-Committee.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

- 30.** The outputs set out in [Exhibit 6](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website: www.audit-scotland.gov.uk.
- 31.** 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.
- 32.** We will provide an independent auditor's report (i.e. audit certificate) to the Fund and the Accounts Commission setting out our opinions on the annual report and 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.
- 33.** [Exhibit 6](#) outlines the Sub-Committee meeting dates for our key audit outputs. 2021/22 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 report and accounts by the 20 September 2022.

Exhibit 6 2021/22 Audit outputs

Audit Output	Pension Sub-Committee Date
Annual Audit Plan	21 March 2022
Independent Auditor's Report	19 September 2022
Annual Audit Report	19 September 2022



Source: Audit Scotland

Timetable

- 34.** To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the annual report and accounts. The proposed timetable for the 2021/22 audit is shown in [Exhibit 7](#).

Exhibit 7

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	27 June 2022
Latest submission date of the unaudited annual report and accounts with complete working papers package to external audit	30 June 2022
Latest date for final clearance meeting	7 September 2022
Agreement of audited annual report and accounts for consideration by the Pension Sub-Committee	12 September 2022
Issue of Proposed Annual Audit Report to those charged with governance (including Letter of Representation and proposed independent auditor's report) *	12 September 2022
Pension Sub-Committee meeting to consider Proposed Annual Audit Report and approve and sign audited annual report and accounts	19 September 2022
Independent auditor's report certified by appointed auditor	20 September 2022
* <i>The finalised Annual Audit Report will be issued after the audited 2021/22 Annual Report and Accounts are certified.</i>	

Source: Audit Scotland

Audit fee

35. The agreed fee for the 2021/22 audit of the Fund is £26,980 (£26,250 in 2020/21), an increase of 2.8 per cent. In determining the audit fee we have taken account of the risk exposure of the Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

36. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package, by 30 June 2022. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, 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. Any such additional fee will be discussed and agreed with management prior to the work being undertaken.

Other matters

Internal audit

37. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities, and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

38. From our initial review of the 2021/22 internal audit plan, we do not plan to place formal reliance on internal audit's work for our financial statements responsibilities. However, we do plan to consider the findings of internal audit's work in terms of our wider audit dimension responsibilities.

Independence and objectivity

39. 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

40. The appointed auditor for the audit of 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

41. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

42. 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 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. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

43. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the appointed auditor.

Tayside Pension Fund

Annual Audit Plan 2021/22

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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