

Fife Council Pension Fund

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

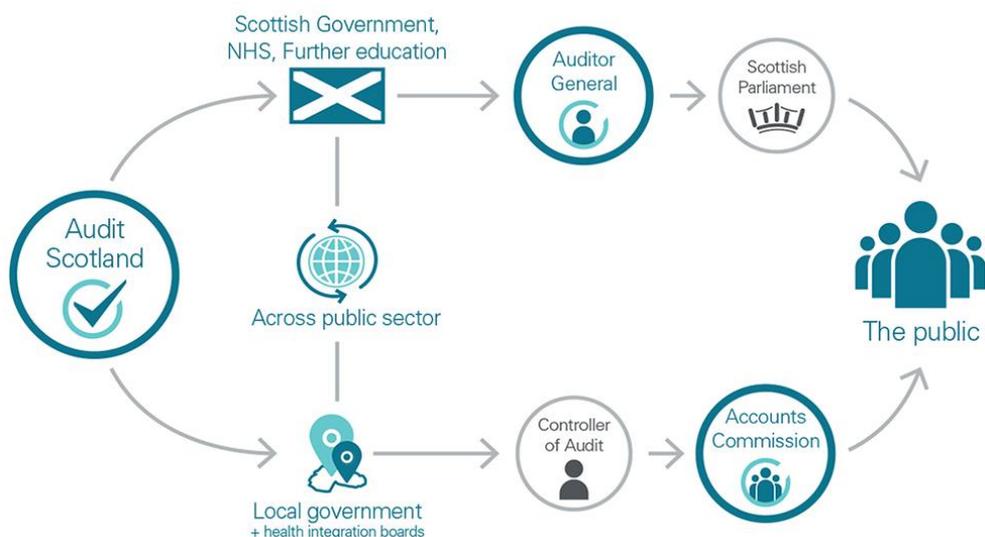
Prepared for Members of Fife Council as Administrating Authority for Fife Council Pension Fund

February 2017

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.

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	6
Audit fee	7
Responsibilities	7
Audit scope and timing	8
Financial statements	8
Internal audit	10
Audit dimensions	10
Strategic plan for the five year appointment	11
Independence and objectivity	12
Quality control	12

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Fife Council Pension Fund (the fund). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>ISA 240 also assumes a risk that income receivable may be misstated.</p>	<ul style="list-style-type: none"> Assurance letters from the Chief Financial Officers of scheduled and admitted bodies that confirm that contributions for the year were correctly calculated and paid based on stringent controls which exist within the pension administration team. 	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.

Audit Risk	Management assurance	Planned audit work
<p>3 Accounts preparation</p> <p>The Finance Operations Division, which is responsible for preparation of the financial statements, was restructured in 2016/17. This resulted in changes to the key staff involved in the accounts preparation process.</p> <p>As staff involved are new to the process there is a risk of omissions or errors which could impact on the completeness and accuracy of the financial statements.</p>	<ul style="list-style-type: none"> Finance Operations Team are aware of the issues and appropriate handover, knowledge transfer and shadowing arrangements are in place to ensure that the financial statements are completed accurately and in time. 	<ul style="list-style-type: none"> Ongoing communication with finance staff to ensure they are aware of changes impacting on the 2016/17 accounts. Review of disclosure checklists. Review of account closedown procedures.
<p>4 Lack of quality review of information in draft Annual Report</p> <p>The previous year's audit report identified that a number of the other statements contained in the draft Annual Report e.g. the Management Commentary, the Market Commentary and the Performance Commentary would have benefited from a quality assurance review and management has agreed to reconsider the content of these in 2016/17 to mitigate the risk of non-compliance and to ensure open and transparent reporting.</p>	<ul style="list-style-type: none"> Sufficient time will be built into the process to ensure the appropriate checks and reviews are carried out. 	<ul style="list-style-type: none"> On-going discussions with officers about disclosure requirements. Review of disclosure checklists. Review of account closedown procedures.
<p>5 Investment valuation</p> <p>Investments include assets, such as property where quoted market prices are not available. The assumptions and judgements behind such valuations may have a significant effect on the fund's net asset value.</p> <p>There is a risk that insufficient consideration is given to the judgements and valuations applied to these investments.</p>	<ul style="list-style-type: none"> Officers liaise with the funds custodian, Northern Trust and investment consultant, Hymans Robertson, on these issues. 	<ul style="list-style-type: none"> Evaluate the use of experts in performing valuations. Ensure that disclosure guidelines are appropriately followed. Evaluate the significant assumptions and judgements made in the valuation of unquoted assets and liabilities.

Audit Risk	Management assurance	Planned audit work
<p>6 Investment management expenses</p> <p>Investment management costs are subject to increased scrutiny. For example, disclosure is now required for trading taxes, which previously were absorbed within valuation at purchase. Investment management costs have a direct impact on investment performance and expense ratios are commonly compared between funds.</p> <p>There is a risk that measurement errors give a misleading view of costs and performance.</p>	<ul style="list-style-type: none"> Officers liaise with the funds custodian, Northern Trust and investment consultant, Hymans Robertson, on these issues. 	<ul style="list-style-type: none"> Review the calculation of investment management costs and confirm to supporting evidence. Confirm trading costs are included, as required by current CIPFA / LASAAC guideline. Assess whether costs are grossed up where appropriate, and not subsumed within valuations. Compare the basis for inclusion of investment management costs with other funds audited by Audit Scotland.

Reporting arrangements

3. 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.

4. 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 officer(s) to confirm factual accuracy.

5. We will provide an independent auditor's report to the fund, and the Accounts Commission summarising the results of the audit of the annual accounts. We will provide the members of Fife Council as Administering Authority and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Superannuation and Pension Fund Sub-Committee Date
Annual Audit Report including ISA 260 requirements	29 September 2017	To be confirmed following election of new council
Signed Independent Auditor's Report	29 September 2017	September 2017

Audit fee

6. The agreed audit fee for the 2016/17 audit of the fund is £33,420. 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. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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

8. 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, propriety and regularity that enable them to successfully deliver their objectives.

9. The audit of the financial statements does not relieve management or the Standards and Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. 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

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority of the audit 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 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 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 of material misstatement.

13. We will give an opinion on the financial statements as to whether:

- they give a true and fair view of the financial transactions of the fund during the year ended 31 March 2017 and the amount and disposition as at that date of its assets and liabilities;
- they have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the UK; and
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the fund are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 0.5% of net assets for the year ended 31 March 2017 based on the latest audited accounts for 2015/16.	£18.5 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.	£11.1 million
Lower level performance materiality - This is a separate trigger point for errors identified in the fund account.	£0.66 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been capped at £100,000.	£100,000

15. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the governance compliance statement. Any issue identified will be reported to the Standards and Audit Committee.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	By 30 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Executive Director Finance and Corporate Services	31 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	20 September 2017
Independent auditor's report signed	29 September 2017

Internal audit

17. 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 internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Fife Council's Audit and Risk Management Service (ARMS).

Adequacy of Internal Audit

18. We have undertaken a formal review of internal audit and have concluded that ARMS generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

Areas of reliance

19. To support our audit opinion on the financial statements we plan to place formal reliance on the planned internal audit reviews of the pensioners' payroll.

20. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- pension fund governance
- ICT review of pensions administration system

Audit dimensions

21. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). The appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 5

Audit dimensions



Financial sustainability

22. 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 body's financial sustainability in the longer term. We define this as medium term

(two to five years) and longer term (longer than five years) sustainability. 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 arrangements in place to address any identified funding gaps
- whether the fund can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

23. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the fund has arrangements in place to ensure systems of internal control are operating effectively
- whether the fund can demonstrate the effectiveness of budgetary control systems in communicating accurate and timely financial performance
- how the fund has assured itself that its financial capacity and skills are appropriate
- whether the fund has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

24. 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. We will review, conclude and report on:

- 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 finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

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

Strategic plan for the five year appointment

26. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 6

Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability		Financial planning (Actuary's review 2017)	
Financial management			
Governance and transparency	Role of Boards		
Value for money			

Independence and objectivity

27. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

28. The engagement lead for Fife Council Pension Fund is Brian Howarth, Assistant 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 Fife Council Pension Fund.

Quality control

29. 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.

30. 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 issued by Audit Scotland and approved by the Accounts Commission for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

31. 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.

Fife Council Pension Fund

Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk