

# Orkney Islands Council Pension Fund



Annual Audit Plan 2016/17



Prepared for Members of Orkney Islands Council Pension Fund Sub-Committee and  
Pensions Board

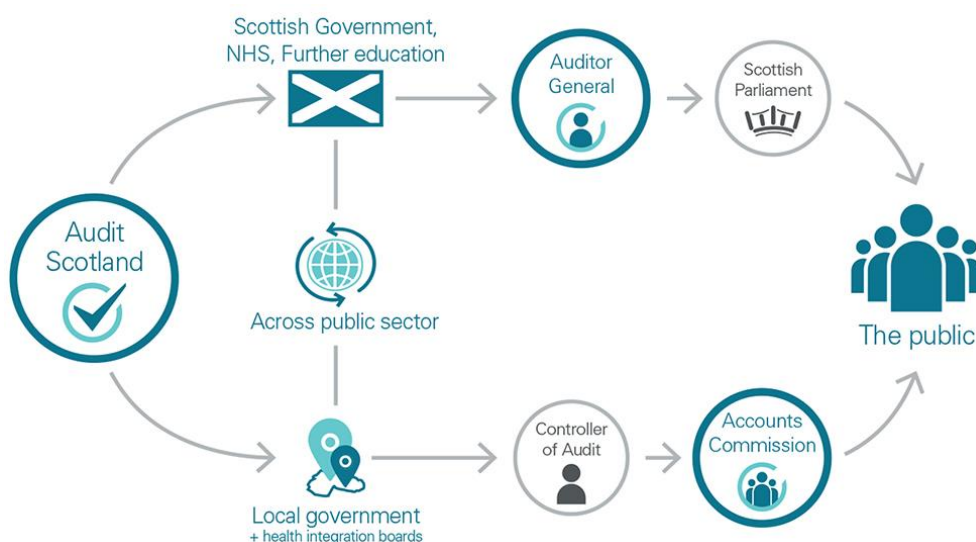
16 February 2017



## 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

---

|                               |          |
|-------------------------------|----------|
| <b>Risks and planned work</b> | <b>5</b> |
| Audit risks                   | 5        |
| Reporting arrangements        | 7        |
| Audit fee                     | 7        |
| Responsibilities              | 8        |
| <br>                          |          |
| <b>Audit scope and timing</b> | <b>9</b> |
| Financial statements          | 9        |
| Materiality                   | 9        |
| Internal audit                | 11       |
| Audit dimensions              | 11       |
| Independence and objectivity  | 12       |
| Quality control               | 13       |

# 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 Orkney Islands 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   |
|--|--|--|
| <b>Financial statement issues and risks</b>  |  |  |
| <p><b>1 Risk of management override of controls</b></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"> <li>Owing to the nature of this risk, assurances from management are not applicable.</li> </ul> | <ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>  |
| <p><b>2 Risk of fraud over income and expenditure</b></p> <p>Under ISA 240 there is an inherent risk of fraud over the recognition of revenue. Orkney Pension Fund receives investment income from third party sources. This represents a risk due to the extent and complexity of income. ISA240 also extends this risk to misstatement of expenditure.</p> | <ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable.</li> </ul> | <ul style="list-style-type: none"> <li>Evaluating the effectiveness of systems for income recognition and recording.</li> <li>Analytical procedures on income and expenditure streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> <li>Review service auditor reports.</li> </ul> |

| Audit Risk   | Management assurance  | Planned audit work  |
|--|---|---|
| <p><b>3 Preparation of annual report and accounts</b></p> <p>In 2015/16, changes were required to ensure the annual report and accounts met the requirements of the Code of practice on local authority accounting in the UK, CIPFA guidance and the Local Authority Accounts (Scotland) Regulations 2014 and other relevant guidance. There is a risk of misstatement in the financial statements if there continues to be an inadequate audit trail between workings and accounts.</p> | <ul style="list-style-type: none"> <li>An extended trial balance will be prepared to allow for a clear reconciliation between the ledger balances and investment analysis.</li> <li>Relevant guidance and regulations will be reviewed to ensure the 2016/17 annual report and accounts meet their requirements.</li> </ul>   | <ul style="list-style-type: none"> <li>Ongoing communication with finance staff to ensure they are aware of changes impacting on the 2016/17 financial statements.</li> <li>Review of disclosure checklists.</li> <li>Review of accounts closedown procedures.</li> </ul> |
| <p><b>4 Changes to financial reporting</b></p> <p>There are changes to the accounting code for 2016/17 financial statements:</p> <ul style="list-style-type: none"> <li>Presentation changes to the format of the pension fund account.</li> <li>Application of IFRS 13 Fair Value measurement has been applied to pension fund investments</li> <li>New recommended disclosures in respect of management expenses.</li> </ul>   | <ul style="list-style-type: none"> <li>Relevant guidance and regulations will be reviewed to ensure the 2016/17 annual report and accounts meet their requirements.</li> </ul>  | <ul style="list-style-type: none"> <li>Communication of technical changes with officers.</li> <li>Review disclosures as part of our financial statements audit.</li> </ul>  |
| <b>Wider dimension risk</b>  |   |   |
| <p><b>5 Altair pension system</b></p> <p>In previous years, the Altair ICT system has been increasingly used to record member entitlements and to perform calculations. However, the pace of migrating information to the new system remains slow, reducing the efficiency of service provided to members.</p>   | <ul style="list-style-type: none"> <li>Migration of data exercise to be completed by summer 2017.</li> <li>Revised internal controls procedures to be developed.</li> </ul>   | <ul style="list-style-type: none"> <li>Ongoing communication with pension staff to ensure that migration exercise is completed.</li> </ul>  |
| <p><b>6 Local elections</b></p> <p>There may be changes to the composition of the Orkney pension board and the Pensions Fund sub-committee as a result of the local government elections in May 2017. There is a risk that, following the elections, a number of new members do not have the necessary experience and understanding of their role and responsibilities in such areas as governance, scrutiny and decision making.</p>  | <ul style="list-style-type: none"> <li>Training and support for current members is available and they are reminded regularly of opportunities and support available from officers.</li> <li>Seminars are organised on relevant topics on a regular basis and individual requests are taken into consideration and appropriate support provided.</li> <li>Training and induction is</li> </ul> | <ul style="list-style-type: none"> <li>We will monitor the council's arrangements for developing members and preparations for inducting newly elected members.</li> </ul>   |

| Audit Risk | Management assurance | Planned audit work |
|------------|----------------------|--------------------|
|------------|----------------------|--------------------|

under preparation and will be provided to new members.

## 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](http://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 Head of Finance 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 members of the Orkney Pension Fund sub-committee 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. We are required to complete the annual audit report by 29 September 2017 but will endeavour to finalise the report for submission to the Pensions Fund Sub-committee on 20 September 2017.

## Exhibit 2

### 2016/17 Audit outputs

| Audit Output                                       | Target date       | Pensions Fund Sub-committee |
|--|-------------------|-----------------------------|
| Annual Audit Plan                                  | 28 February 2017  | 22 February 2017            |
| Annual Audit Report including ISA 260 requirements | 29 September 2017 | 20 September 2017           |
| Signed Independent Auditor's Report                | 29 September 2017 | N/A                         |

## Audit fee

6. The proposed audit fee for the 2016/17 audit of the fund is £19,670. 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 outwith our planned audit activity.

## Responsibilities

### Orkney Pension Fund Sub-Committee

**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 Pension Fund Sub-committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**10.** Our responsibilities as independent auditor are established by the 1973 Act for local government, 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, regularity 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 adopted 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 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.

**15.** The calculated materiality values for the fund are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

| Materiality level   | Amount         |
|---|----------------|
| <p><b>Planning materiality - Net Asset Statement</b></p> <p>This is the calculated figure we use in assessing 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 2017 based on the latest audited accounts for 2015/16.</p>   | £1.105 million |
| <p><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 calculated performance materiality at 50% of planning materiality.</p> | £0.555 million |
| <p><b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.</p>   | £0.011 million |



**16.** We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration. Any issue identified will be reported to the Pension Fund Sub-Committee.

#### Timetable

**17.** 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 and planned Pension Fund Sub-Committee dates:

## Exhibit 4

### Financial statements timetable

|  Key stage   |  Date |
|---|--|
| Consideration of unaudited financial statements by the Pension Fund Sub-Committee   | 31 August 2017   |
| Latest submission date of unaudited financial statements with complete working papers package   | 30 June 2017   |
| Latest date for final clearance meeting with Head of Finance  | 31 August 2017   |
| Agreement of audited unsigned financial statements;<br>Issue of Annual Audit Report including ISA 260 report to those charged with governance | 22 September 2017  |
| Independent auditor's report signed   | 29 September 2017  |

## Internal audit

**18.** 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 Orkney Islands Council Internal Audit section.

### Adequacy of Internal Audit

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

### Areas of reliance

**20.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- migration of data to Altair pension system
- payments to pensioners

## 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 system 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.

### Independence and objectivity

**26.** 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.

**27.** The engagement lead for Orkney Islands Council Pension Fund is Gillian Woolman, 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 Orkney Islands Council Pension Fund.

## Quality control

**28.** 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.

**29.** 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 Auditor General 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.

**30.** 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.

## 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](mailto: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](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)