

Scottish Borders Council Pension Fund

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for members of Scottish Borders Council Pension Fund Committee and Board

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.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit of Scottish Borders Council Pension Fund ("the fund") 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 management, attendance at audit and risk committee meetings and a review of supporting information we have identified the following main risk areas for the Scottish Borders Council Pension Fund. We have categorised these risks into financial risks and wider dimension risks. These risks, and the planned audit work, 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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over expenditure</p> <p>Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA 240 requirements to aspects of expenditure such as pension payments and investments.</p>	<p>Regular budget monitoring and reporting</p> <p>Robust internal controls in financial systems to mitigate risk of error or manipulation</p>	<p>Analytical procedures on payment streams.</p> <p>Detailed testing of payments focusing on the areas of greatest risk.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement</p>	<p>Actuarial valuation to provide pension figures for the financial statements. Officer</p>	<p>Completion of 'review of the work of an expert' for the actuary.</p>

Audit Risk	Management assurance	Planned audit work
<p>of investment assets for a pension fund by investment managers. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>review of actuary information to ensure data and assumptions used are reasonable.</p>	<p>Focused substantive testing of key areas.</p>
<p>4 Disclosure Requirements New disclosure requirements require the application of International Financial Reporting Standard (IFRS) 13 for pension fund investment assets, as well as changes to the way management expenses are disclosed per the 2016/17 Code of Practice in local authority accounting in the United Kingdom ("the Code") . These changes introduce the risk that the financial statements are not prepared in accordance with financial reporting standards.</p>	<p>Officers preparing the accounts keep their knowledge of the Code up to date.</p>	<p>Review and assess the valuation methodology, the presentation of investments held at fair value and management expenses.</p>
<p>Wider dimension risks</p>		
<p>5 Financial sustainability There is a risk to financial sustainability as a result of pension fund maturing and the number of pension benefits paid out becoming greater than the contributions paid in. Additionally, should scheduled or admitted bodies to the fund fold whilst their share of assets are in deficit, the remaining bodies to make up the shortfall.</p>	<p>Management review & revise funding strategy every 3 years based on actuary's triennial valuation. Funds are managed to ensure that deficits are minimised.</p>	<p>Review of the financial position of the fund and comment in annual audit report. Review scheduled or admitted bodies for instances of failure and assess the impact on the fund as part of standard audit procedures.</p>
<p>6 Change in Custodian During the year there was a change in Custodian. This introduces the risk that investment assets aren't properly managed and secured.</p>	<p>Custodian procured to ensure experienced and secure management of investment assets.</p>	<p>Substantive testing of investment assets will provide assurance that investment assets are complete with the proper rights and obligations in place.</p>
<p>7 Budgetary control The fund does not prepare an annual budget; there is a risk of lack of transparency and scrutiny available over the costs that can be controlled by the pension fund such as administration and investment costs.</p>	<p>Budget setting will be assessed to determine the value of scrutiny.</p>	<p>An assessment on the adequacy of the budget procedures in place.</p>

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 reports 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 Scottish Borders Council Pension Fund and the Accounts Commission summarising the results of the audit of the annual accounts. We will also provide them 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	Pension Fund Committee Date
Annual Audit Report including ISA 260 requirements	15 September 2017	TBC
Signed Independent Auditor's Report	30 September 2017	N/A

Audit fee

6. The fee for the 2016/17 audit of Scottish Borders Council Pension Fund is £19,710. In determining the audit fee we have taken account of the risk exposure of the fund, the 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

Pension Fund Committee and Chief Financial Officer

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 and propriety that enable them to successfully deliver their objectives.

9. The audit of the financial statements does not relieve management or the Pension Fund 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 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 Scottish Borders Council Pension 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 Scottish Borders Council Pension 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 in accordance with applicable law and the 2016/17 Code of the financial transactions of the fund during the year ended 31 March 2017, and of the amount and disposition at that date of its assets and liabilities
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

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. The calculated materiality values for Scottish Borders Council Pension 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 10% of gross value of benefits and transfers out for the year ended 31 March 2016 (the latest audited accounts).	£2.150 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.	£1.290 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 calculated at 4% of planning materiality (rounded).	£ 0.085 million

15. When establishing the audit approach, materiality for the financial statements is determined as a whole. However in certain circumstances it is appropriate to apply a lower level of materiality to one or more particular classes of transactions, account balances or disclosures, where misstatements of lesser amounts could influence the economic decisions of users taken on the basis of the financial statements. In the case of a pension fund this applies to member contributions and pensions payments and therefore we will use a lower materiality level when assessing these income and expenditure streams.

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

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	27 June 2017
Latest submission date of unaudited financial statements with complete working papers package	27 June 2017
Latest date for final clearance meeting with Chief Financial Officer	8 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	TBC
Independent auditor's report signed	30 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 a team of Scottish Borders Council staff overseen by the Chief Officer Audit & Risk.

Adequacy of Internal Audit

19. Our review of internal audit concluded that the internal audit function operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

Audit dimensions

20. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Financial sustainability

21. 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 longer term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether the pension fund can demonstrate the effectiveness of funding and investment decisions it has made.

Financial management

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

Governance and transparency

23. 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 pension 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.

24. An additional area we will cover in our 2016/17 audit is a follow-up review of the previous Audit Scotland national performance audit:

- The Role of Boards. This report was published in September 2010. The follow up review will assess the governance, decision-making and scrutiny arrangements of the pension fund committee and board.

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 pension fund can provide evidence that it is demonstrating value for money in the use of its resources
- the pension fund can demonstrate that it has focus on administrative improvement and efficiency
- the pension fund can demonstrate that investment costs are minimised whilst receiving good quality investment advice.

Independence and objectivity

26. Auditors appointed by the Accounts Commission 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 Scottish Borders 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 Scottish Borders 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 approved by the Accounts Commission. 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.

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