

Tayside Pension Fund

Annual Audit Plan 2017/18



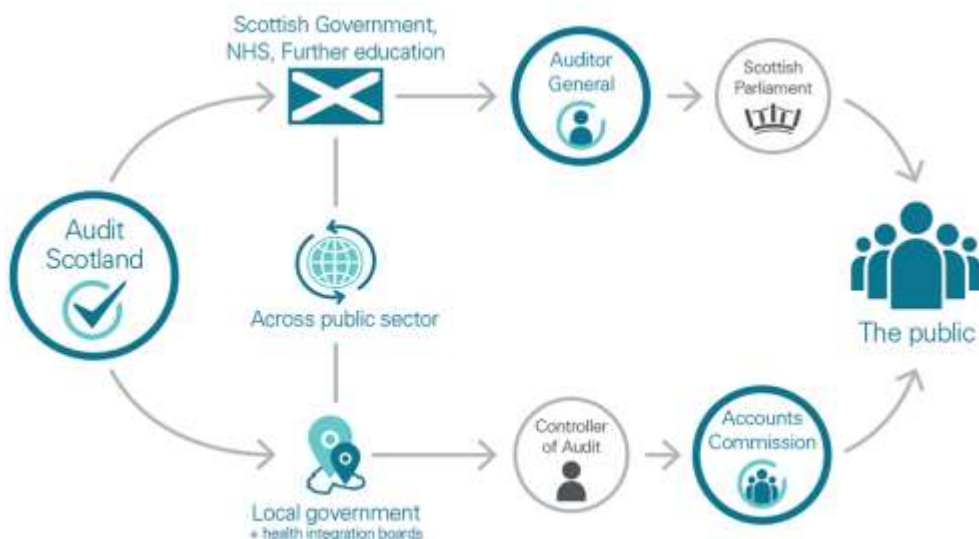
 AUDIT SCOTLAND

Prepared for Tayside Pension Fund
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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 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, including the new approach to Best Value.
2. 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

3. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for Tayside Pension 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

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>As stated in International Standard on Auditing (ISA) 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i>, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and</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.

Audit Risk	Source of assurance	Planned audit work
thus a significant risk.		
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The Fund receives a material amount of income from a variety of sources including pension contributions and investment income.</p> <p>Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure. The Fund incurs significant expenditure on pension payments.</p>	<ul style="list-style-type: none"> • service auditor reports are reviewed • pension contributions reconciliations are performed for individual employers • regular monitoring and reporting of fund manager performance. 	<ul style="list-style-type: none"> • analytical procedures on income and expenditure transactions • evaluate the effectiveness of systems of internal control • substantive testing of transactions focusing on the areas of greatest risk • review the content of service auditor reports.
<p>3 Estimation and judgements</p> <p>There are two main areas within the financial statements which require the exercise of estimation and judgement:</p> <ul style="list-style-type: none"> • the measurement and valuation of investments • the actuarial present value of promised retirement benefits. <p>Valuation of investments can be one of the more volatile elements of financial statements. There is a significant degree of subjectivity in the measurement and valuation of investments. This includes level 3 investments, such as unquoted equity, where valuations use techniques that require significant judgement in determining appropriate assumptions.</p> <p>The actuarial present value of the promised pension benefits (calculated in line with International Accounting Standard (IAS) 19 <i>Employee Benefits</i> assumptions) depends on a number of assumptions about the future, all of which are based on actuarial judgements.</p> <p>The subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • investment management carried out by seven experienced fund managers • the majority of investments are listed securities and are readily capable of valuation • unquoted investments are valued by third parties including investment managers and independent valuers • regular reports from the Custodian are reviewed • actuary provides a report on the actuarial present value of the promised pension benefits. 	<ul style="list-style-type: none"> • review the work of an expert (professional valuer and actuary) in accordance with ISA500 • evaluate the significant assumptions and judgements made in the valuation of unquoted assets and liabilities • test valuations to valuation reports and/or other supporting documentation • test amounts reported for the present value of the promised pension benefits.
<p>4 Repatriation of the Transport Fund</p> <p>The Pension Sub-Committee</p>	<ul style="list-style-type: none"> • management consideration of the proper accounting treatment and disclosure in advance of preparing the 	<ul style="list-style-type: none"> • review the accounting treatment and disclosures within the financial

Audit Risk	Source of assurance	Planned audit work
<p>approved a proposal to repatriate the assets and liabilities of the single employer Tayside Transport Fund back to the main fund in 2017/18. The aim of the proposal was to improve efficiencies. The repatriation took place in June 2017 and this will need to be properly accounted for and reported in the 2017/18 financial statements.</p> <p>This is a one-off transfer and therefore there is an increased risk of misstatement in the financial statements</p>	<p>financial statements</p> <ul style="list-style-type: none"> consultation with the external auditors about accounting treatment. 	<p>statements.</p>

Wider dimension risks

<p>5 Pension administration performance</p> <p>The workload of the pension administration section continues to grow and continues to stretch the existing resources available.</p> <p>Two service providers were appointed in June 2017, one to carry out the Guaranteed Minimum Pension reconciliation which is due to be submitted to HMRC by December 2018 and one to process the legacy backlog of specific cases. Two temporary staff were recruited for a period of six months from April/May 2017 to alleviate the backlog of cases.</p> <p>There is a risk that the workload will continue to stretch the resources available.</p>	<ul style="list-style-type: none"> regular monitoring of performance of service delivery 	<ul style="list-style-type: none"> review pension administration performance through administration performance indicators monitor the impact of the outsourced work.
<p>6 Pension administration performance reporting</p> <p>In our 2016/17 Annual Audit Report we recommended improvements to pension administration performance reporting to incorporate performance against targets and regular reporting of benchmarking performance data to members.</p> <p>Without regular reporting of performance management may be unable to demonstrate the specific pressures on administration services and the impact of those pressures on</p>	<ul style="list-style-type: none"> performance against administration service targets are to be reported in line with the Administration Strategy. benchmarking data available from CIPFA is to be reported . 	<ul style="list-style-type: none"> review and assess the revised pension administration performance reporting arrangements..

Audit Risk	Source of assurance	Planned audit work
providing the service.		

Reporting arrangements

4. 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.

5. 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.

6. We will provide an independent auditor's report to Dundee City Council, as the administering authority for the Fund, and the Accounts Commission setting out our opinions on the annual accounts. The Annual Audit Report will be issued by 3 September 2018.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Pension Sub-Committee Date
Annual Audit Plan	19 February	5 March
Annual Audit Report including ISA 260 requirements	20 August *	3 September
Signed Independent Auditor's Report	3 September	3 September

* This date is the date the proposed Annual Audit Report will be presented for those charged with governance. To allow for potential subsequent post balance sheet events, the formal Annual Audit Report cannot be presented until after the date of certification of the annual accounts on 3 September.

Audit fee

7. The proposed audit fee for the 2017/18 audit of Tayside Pension Fund is £24,390 (2016/17: £24,040). 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 on 4 June 2018.

8. 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 Sub-Committee and Executive Director Corporate Services

9. 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.

10. Dundee City Council is the administering body for Tayside Pension Fund. The Council has delegated responsibility for the management of the Fund to the Pension Sub-Committee. The Sub-Committee's responsibilities include receiving and agreeing the Annual Report and Accounts. In 2016/17 we reported that contrary to these arrangements the accounts and supporting reports were carried out by the Council's Scrutiny Committee. In 2017/18 the Annual Report and Accounts and all audit reports are to be considered by the Pension Sub-Committee

11. The audit of the financial statements does not relieve management or the Pension Sub-Committee, as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

13. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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

14. 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.

15. 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 and the amount and disposition of its assets and liabilities
- they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements

Materiality

16. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

17. 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
<p>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 contributions receivable based on the latest audited accounts for the year ended 31 March 2017.</p>	<p>Main Fund £9.586 million Transport Fund £44,000</p>
<p>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 50% of planning materiality.</p>	<p>Main Fund £4.793 million Transport Fund £22,000</p>
<p>Reporting threshold (i.e. clearly trivial) – 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 5% of planning materiality (with a maximum level of £100,000).</p>	<p>Main Fund £0.1 million Transport Fund £2,200</p>



18. 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 Sub- Committee.

Timetable

19. 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 Sub- Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	4 June
Latest submission date of unaudited annual accounts with complete working papers package	30 June
Latest date for final clearance meeting with Executive Director of Corporate Services	13 August
Agreement of audited unsigned annual accounts	20 August
Issue of proposed Annual Audit Report including ISA 260 report to those charged with governance	
Independent auditor's report signed	3 September

Internal audit

20. 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. The internal audit service is delivered utilising a mix of in-house and external resources and overseen by the council's Senior Manager - Internal Audit.

21. KPMG LLP were approved as the co-sourced partner for the delivery of internal audit services with effect from November 2017 (PwC had previously been the co-sourced partner until June 2017).

Adequacy of Internal Audit

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

Areas of Internal Audit reliance

23. To support our audit opinion on the financial statements we plan to place formal reliance on the planned internal audit review of Pension Fund – Administration.

24. in respect of our wider dimension audit responsibilities we plan to consider internal audit work on the Altair self-service module.

Audit dimensions

25. 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



Source: Code of Audit Practice

26. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

27. 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

Financial management

28. 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

29. 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

30. 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

31. Auditors appointed by the Accounts Commission or Auditor General 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 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

32. The engagement lead for the Fund is Fiona Mitchell-Knight, Assistant Director – Audit Services. 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

33. 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.

34. 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

35. 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.

Adding Value

36. Through our audit work we aim to add value to the Fund. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Fund has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

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