

**REPORT TO:** PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD– 8 MARCH 2021

**REPORT ON:** TAYSIDE PENSION FUND – AUDIT SCOTLAND ANNUAL AUDIT PLAN 2020/21

**REPORT BY:** EXECUTIVE DIRECTOR OF CORPORATE SERVICES

**REPORT NO:** 73-2021

**1 PURPOSE OF REPORT**

This report provides a summary of the responsibilities and approach of Audit Scotland in respect of Tayside Pension Fund for 2020/21.

**2 RECOMMENDATIONS**

The Sub-Committee is asked to note the report by Audit Scotland.

**3 FINANCIAL IMPLICATIONS**

None

**4 MAIN TEXT**

4.1 Following Audit Scotland's appointment as external auditor for Dundee City Council for five years 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 2021. 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 appointed for a five year period, and the financial year 2020/2021 marks the fifth 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**

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**18 FEBRUARY 2021**

# Tayside Pension Fund

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

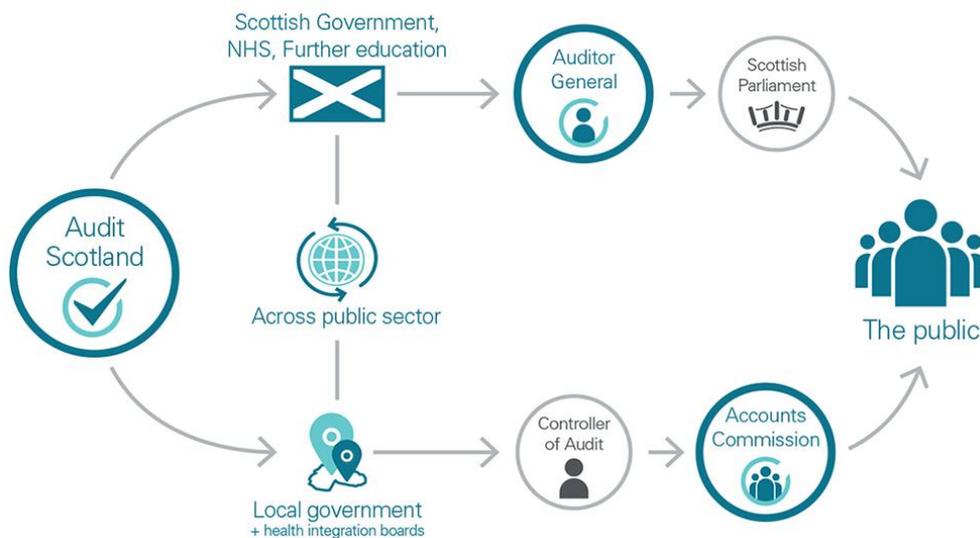
Prepared for Tayside Pension Fund

8 March 2021

## 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

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1. Our audit of the Tayside Pension Fund (the Fund) is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and [guidance on planning the audit](#). This plan contains an overview of the planned scope and timing of our audit. It sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and to meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency, and value for money.

## Impact of Covid-19 on public audit

3. The public health crisis caused by the Covid-19 pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. A January 2021 paper, [Covid-19 What it Means for Public Audit An Update](#), restates the principles and approach we are taking following the reintroduction of significant restrictions in Scotland.

5. Audit Scotland is unable to meet the audit timetables which were possible before Covid-19, but we will aim to conclude the audit as early as possible. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, revisions to this annual audit plan may be necessary.

## Adding value

6. 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. 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.

## Audit risks

7. Building on our knowledge from previous years, discussions with staff, attendance at Pension sub-committee meetings and a review of supporting information we have identified the significant financial statement and wider dimension audit risks. These risks are detailed in [Exhibit 1](#).

## Exhibit 1

### Significant risks for the 2020/21 audit

 Significant Audit Risk	Source of assurance	Planned audit work
<b>Risks of material misstatement and opinion risks</b>		
<p><b>1 Risk of material misstatement caused by 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 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 in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the Annual Governance Statement and the assurances obtained in support of the statement, including the internal audit annual report.</li> <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 Estimation and judgements</b></p> <p>There is a significant degree of estimation and judgement in the measurement and valuation of some material account areas, including:</p> <ul style="list-style-type: none"> <li>Valuation of investments which include level 3 investments, such as unquoted equity, where valuations involve significant application of judgement in determining values included in the financial statements.</li> <li>Actuarial valuation of future retirement benefits which depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Investment management carried out by experienced fund managers.</li> <li>The majority of investments are listed securities and are readily capable of valuation.</li> <li>Unquoted investments are valued by third parties including investment managers and independent valuers.</li> <li>The actuary provides a report on the actuarial present value of promised pension benefits. The impact of any legal rulings is factored into the value.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the work of the valuers, including focused substantive testing of the valuation of material assets.</li> <li>'Review of the work of an expert' in accordance with ISA 500, for the work of third parties undertaking valuations of material unquoted investments.</li> <li>Confirmation of valuations to valuation reports and / or other supporting documentation.</li> <li>Confirm that investment values are correctly reflected within the 2020/21 accounts.</li> <li>Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used, with reference to the report produced by</li> </ul>

the consulting actuary to Audit Scotland.

- Confirm that valuation data in the actuarial report is correctly reflected within the 2020/21 accounts.

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### Wider audit dimension risks

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#### 3 Administration performance reporting

Improvements have been made to administration performance reporting to ensure they provide members with sufficient information to adequately scrutinise administration performance, including compliance with statutory processing deadlines.

However, legacy issues in the pension administration system have caused some issues with the underlying data feeding into the reports. This may limit members' ability to scrutinise the fund's administration performance.

- Opportunity for members to ask questions of the officer presenting the reports, to ensure they are able to understand the information presented, and any limitations on the data available.
- The impact of the legacy issues will decrease over time, thereby increasing the accuracy and timeliness of the information presented in the reports.
- Review administration performance reports presented to the Sub-Committee.
- Observation of scrutiny of reporting by members during Sub-Committee meetings.

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#### 4 Triennial valuation of the fund as at 31 March 2020

The triennial valuation of the fund as at 31 March 2020 was carried out by the fund's actuary (Barnett Waddingham) during 2020/21. The results will be formally reported to the Sub-Committee in March 2021.

The results of the valuation will impact on future employer contribution rates, as well as the future funding and investment strategies of the Fund.

The results of the valuation therefore present a risk to the financial sustainability of the fund.

- The results of the valuation show that the funding level has increased from 107% to 109%.
- Employer contribution rates will remain the same for the period 2021/22 to 2023/24 following the valuation.
- Review the actuary's report on the triennial valuation of the fund as at 31 March 2020.
- Consider reports on the triennial valuation presented to the Sub-Committee.
- Review future investment and funding strategies produced following the valuation.

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Source: Audit Scotland

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8. ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a risk in any audit with significant income streams. However, we have rebutted this risk of material misstatement for the 2020/21 audit as:

- 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.

9. The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. We have also rebutted this risk of material misstatement for the 2020/21 audit as:

- 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 the amount of contributions paid.
- 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 room for the Fund to manipulate the amount of these fees.

## Reporting arrangements

10. This audit plan, the outputs set out at [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).

11. 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 relevant officers to confirm their factual accuracy, prior to the issue and publication of final reports.

12. At the end of our audit we will provide the Pension Sub-Committee, Executive Director of Corporate Services and the Accounts Commission with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit. We will also issue an independent auditor's report containing our opinion on the Annual Report and Accounts.

## Exhibit 2 2020/21 Audit outputs

Audit Output	Committee Date
Management Report <i>(A management report will only be required where reportable issues are identified during our interim testing)</i>	21 June 2021
Annual Audit Report	20 September 2021
Independent Auditor's Report	20 September 2021

Source: Audit Scotland

## Audit fee

**13.** The agreed fee for the 2020/21 audit of the Fund is £26,250 (£25,670 in £25,670). 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 Annual Report and Accounts, with a complete working papers package, by 30 June 2021.

**14.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual 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.

## Responsibilities

### Pension Sub-Committee and Executive Director Corporate Services

**15.** Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance that enable them to successfully deliver their objectives.

**16.** 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.

### Appointed auditor

**17.** 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.

**18.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. 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

## Annual Report and Accounts

**19.** The audit of the Annual Report and Accounts, including the financial statements, will be the foundation and source for most of the 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 and 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 from material misstatement.

**20.** We will give an opinion on whether the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities
- have been properly prepared in accordance with the relevant legislation, the applicable accounting framework and other reporting requirements.

## Other information in the annual accounts

**21.** We also review and report on the other information published within the Annual Report and Accounts including the management commentary, annual governance statement and the governance compliance statement. We give an opinion on whether these have been prepared in accordance with the appropriate regulations and guidance. We also read and consider the other information in the Annual Report and Accounts and report any material inconsistencies with the financial statements or our knowledge of the audit.

## Materiality

**22.** We apply the concept of materiality in planning and performing the audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements.

**23.** We calculate materiality at different levels as described below. The calculated planning materiality values for the Fund are set out in [Exhibit 3](#).



### Exhibit 3

#### Materiality levels for the 2020/21 audit

Materiality	Amount
<b>Planning materiality:</b> This is the calculated figure we use to assess the overall impact of audit adjustments within the financial statements. It has been set at 1% of net assets for the year ended 31 March 2020 based on the latest audited accounts.	£36.7 million
<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 75% of planning materiality.	£27.5 million
<b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£250,000

Source: Audit Scotland

#### Lower specific materiality

**24.** In addition to planning materiality we 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 accounts. We have applied a lower specific materiality for transactions (e.g. payments to pensioners and income from employers and members). These materiality levels are set out in [Exhibit 4](#).

### Exhibit 4

#### Lower specific materiality values - Transactions

Materiality	Amount
<b>Transaction planning materiality:</b> This is the calculated figure we use in assessing the overall impact of audit adjustments on the dealings with members and employers within the financial statements. It has been set at 1% of contributions receivable and for the year ended 31 March 2020 based on the latest audited accounts.	£1.0 million
<b>Transaction performance materiality:</b> Using our professional judgement, we have calculated transaction performance materiality at 75% of transaction planning materiality.	£0.8 million
<b>Reporting threshold for transactions:</b> 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.	£52,000

Source: Audit Scotland

#### Timetable

**25.** To support the efficient use of resources it is critical that a timetable is agreed with us for the production and audit of the annual accounts. The proposed timetable for the 2020/21 annual report and accounts is included at [Exhibit 5](#). If issues arise during the course of the audit (i.e. impact of Covid-19 on the production or audit of accounts) that mean it is not practical to certify the accounts by the agreed date then we will communicate this to the Fund at the earliest opportunity available and agree a revised timetable for the completion of the audit.

## Exhibit 5

### Annual Report and Accounts audit timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	21 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Latest date for final clearance meeting	31 August 2021
Issue of Letter of Representation (ISA 580) and proposed independent auditor's report	9 September 2021
Agreement of audited unsigned annual report and accounts	9 September 2021
Issue of Annual Audit Report to those charged with governance	20 September 2021
Meeting of the Pension Sub-Committee to approve the audited annual accounts for signature by Chair of the Pension Sub-Committee, Chief Executive and Executive Director Corporate Finance	20 September 2021
Independent auditor's report certified by appointed auditor	20 September 2021

Source: Audit Scotland

### Using the work of internal audit

**26.** 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 annual assessment of the internal audit function at audited bodies.

**27.** PricewaterhouseCoopers (PwC) were appointed to provide internal audit services to the Fund for 2019/20 and 2020/21. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

**28.** For the 2020/21 audit we plan to consider the results of internal audit's work in terms of our wider audit dimension responsibilities.

### Audit dimensions

**29.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

## Exhibit 6

### Audit dimensions



Source: Code of Audit Practice

### Financial management

**30.** Financial management in the context of a pension fund is complex and includes not just investment and funding strategy, but also arrangements for contract management, performance review, budget setting, forecasting and the financial control environment. We will review, conclude and report on:

- the Fund's financial performance and funding levels for the year, including performance against its investment strategy
- whether arrangements are in place to ensure systems of internal control are operating effectively
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### Financial sustainability

**31.** We will comment on the Fund's financial sustainability. We define financial sustainability as having medium term (two to five years) and longer term (greater than five years) financial plans in place. 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 funding arrangements and the investment strategy in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

### Governance and transparency

**32.** 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. The knowledge and skills of the Pension Sub-Committee and Pension Board members is key to this process. We will review, conclude and report on:

- the governance disclosures in the annual report and accounts

- 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 on the financial and performance reporting
- the quality and timeliness of financial and performance reporting on the Fund's administration and investments
- consistency of the annual governance statement and the governance compliance statement with the disclosures made in the financial statements.

### Value for money

**33.** 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 is demonstrating value for money in the use of resources, has focus on improvement and that there is a clear link to the outcomes delivered.

### Independence and objectivity

**34.** 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 robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. These arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**35.** The appointed auditor for 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

**36.** 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.

**37.** 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 and internal quality reviews. The Institute of Chartered Accountants of Scotland (ICAS) have also been commissioned to carry out external quality reviews of our work.

**38.** 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 or to Audit Scotland's Audit Quality and Appointments group.

# Tayside Pension Fund

## Annual Audit Plan 2020/21

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)

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