

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest includes a crown at the top with four maple leaves, a shield with a ship on the left and a beaver on the right, and a banner at the bottom with the motto 'CITY OF VANCOUVER'.

AGENDA ITEM

4

**PENSION FUND -
ANNUAL AUDIT PLAN**

FALKIRK COUNCIL

Subject: PENSION FUND - ANNUAL AUDIT PLAN
Meeting: JOINT MEETING OF PENSION COMMITTEE AND PENSION BOARD
Date: 11 MARCH 2016
Author: DIRECTOR OF CORPORATE AND HOUSING SERVICES

1. INTRODUCTION

- 1.1 This purpose of this report is to bring the Annual Audit Plan of Audit Scotland to the attention of the Committee and Board.

2. ANNUAL AUDIT PLAN 2015/16

- 2.1 Audit Scotland has submitted its formal plan for the audit of the 2015/16 pension fund annual report and accounts. A copy of the plan is attached as an appendix to this report.

- 2.2 The key milestones of the audit process are set out on Page 7 of the plan. These include:

23/06/2016 - Consideration of Unaudited Financial Statements by Committee/Board

30/06/2016 - Latest date for Submission of Unaudited Financial Statements

22/09/2016 - Consideration of Audited Financial Statements by Committee/Board

30/09/2016 - Latest date for submission of Audited Financial Statements

30/09/2016 - Latest date for issue of ISA 260 and Annual Audit Report

- 2.3 Matters identified in the Annual Audit Plan as being of potential risk to the Fund are set out on Pages 13 and 14 of the plan and include Administration Performance, Member Training and Risk Management.

- 2.4 It is anticipated that the ISA260 ("Communication of audit matters to those charged with governance") and the Annual Audit Report will form part of the papers for the joint meeting of Committee and Board on 22 September.

- 2.5 The fee for the 2015/16 audit is £23,010 and is unchanged from 2014/15.

3. INTERNAL AUDIT WORK

- 3.1 Internal Audit's Audit Plan for the Pension Fund for 2016/17 will be presented to the joint meeting of the Committee and Board on 23 June 2016.

4. RECOMMENDATION

- 4.1 Members are asked to note the issuing of the Annual Audit Plan by Audit Scotland, consistent with the audit of the pension fund annual report and accounts 2015/16.**

PP **Director of Corporate and Housing Services**

Date: 1 March 2016

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL



Falkirk Council Pension Fund

Annual Audit Plan
2015/16

Prepared for Members of Falkirk Council as the
administering body of Falkirk Council Pension Fund

February 2016



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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Fiona Mitchell Knight as the external auditor of Falkirk Council Pension Fund for the period 2011/12 to 2015/16.

This report has been prepared for the use of Falkirk Council Pension Fund and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission’s annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Falkirk Council Pension Fund's financial statements. This is the last year of our five year audit appointment.
2. This report summarises the key challenges and risks facing Falkirk Council Pension Fund and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing Falkirk Council Pension Fund
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.
- the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- a review and assessment of Falkirk Council Pension Fund's governance and performance arrangements in a number of key areas including: internal controls and adequacy of internal audit
- reporting of National Fraud Initiative arrangements and results
- provision of an Annual Audit Report.
4. We will also attend joint meeting of the Pensions Committee and Pensions Board on a regular basis.

Summary of planned audit activity

3. Our planned work in 2015/16 includes:
 - An audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of Falkirk Council Pension Fund as at 31 March 2016 and its income and expenditure for the year then ended

Responsibilities

5. The audit of the financial statements does not relieve management, the Pensions Board or the Pensions Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

6. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
7. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Chief Finance Officer

8. It is the responsibility of the Chief Finance Officer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - maintaining proper accounting records, and
 - preparing financial statements which give a true and fair view of the state of affairs of Falkirk Council Pension Fund as at 31 March 2016 and its expenditure and income for the year then ended.

Format of the accounts

9. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.

Audit approach

Our approach

10. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Falkirk Council Pension Fund. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Falkirk Council Pension Fund and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how Falkirk Council Pension Fund will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
11. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from
 - planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:
 - comprehensive closedown procedures for the council and group financial statements accompanied by a timetable issued to all relevant staff
 - the appointment of a Pensions Accountant with clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2015/16.
12. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit services are provided by the Internal Audit section of Falkirk Council. We carried out an early assessment of the internal audit function and concluded that it complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).
13. We will place formal reliance on aspects of the work of internal audit in relation to Pensions Administration and Pension Fund Governance Arrangements in 2015/16. Internal audit have already completed and reported on this work using 2014/15 transactions for testing purposes. However, our audit approach allows us to place reliance on testing carried out in the previous year.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (e.g. the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.
16. Based on our knowledge and understanding of Falkirk Council Pension Fund we have set our planning materiality at £7.891 million (10% of contributions as per the 2014/15 audited accounts).
17. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:
 - extent of estimation & judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
18. For 2015/16 performance materiality has been set at £3.945 million. We will report, to those charged with governance, all misstatements identified which are greater than £100,000.

Reporting arrangements

19. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The Pensions Committee is required to consider the unaudited annual accounts at its meeting on 23 June 2016.
20. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.
21. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
22. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.

23. A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	By April 2016
Meetings with officers to clarify expectations of working papers and financial system reports	By April 2016
Consideration of unaudited financial statements by those charged with governance	23 June 2016
Latest submission date of unaudited council financial statements with complete working papers package	By 30 June 2016
Progress meetings with lead officers on emerging issues	As required during the audit
Latest date for final clearance meeting with Pensions Manager and Pensions Accountant	12 August 2016
Agreement of audited unsigned financial statements, and issue of Annual Audit Report which includes the ISA 260 report to those charged with governance	22 Sept 2016
Independent auditor's report signed	22 Sept 2016

24. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Any reports will be issued to the

responsible relevant officers to confirm factual accuracy. Responses to draft reports are expected within two weeks of submission.

25. A copy of all final agreed reports will be sent to the Chief Executive, Chief Finance Officer, Director of Corporate & Housing Services, Pensions Manager, Internal Audit Manager and Audit Scotland's Performance Audit and Best Value Group.
26. We will provide an independent auditor's report to Falkirk Council Pension Fund and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The combined ISA 260 and Annual Audit Report will be issued by 30 September 2016.
27. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
28. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

29. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established as part of financial audit procedures. This is to provide reasonable assurance that those professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.
30. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit

Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

31. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Fiona Mitchell Knight.

Independence and objectivity

32. 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.

33. 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 Falkirk Council Pension Fund.

Audit issues and risks

Audit issues and risks

34. 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 Falkirk Council Pension Fund. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#).

Financial statement issues and risks

35. **Management override of controls** – International Standard on Auditing (ISA) 240 recognises that management are in a unique position and have the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. ISA 240 requires that the risk be recognised in audit plans. We will design and perform audit procedures to address these risks with Falkirk Council Pension Fund.

Wider dimension issues and risks

36. **Administration performance** – A new version of the Scheme operating on a Career Average basis and revised governance arrangements has been effective from 1 April 2015. These arrangements have resulted in an increased workload for the

administration team. Pressures have also been heightened due to unforeseen staff absences, the implementation of a new pensions administration system (Altair), increased queries from members and late year end data returns from employers. A further contributory factor to the higher than normal workload has been the continuous demand for severance estimates reflecting the challenging financial environment faced by Fund employers.

37. As a result, administration performance has deteriorated. There is a risk of regulatory breaches and members may not be able to receive up to date information timeously. Management has advised that temporary staff have been appointed in accordance with the Council's current recruitment and re-deployment policies to alleviate the workload and that key performance information will be included within the Fund's Annual Report.
38. **Members training** – Members of the Pensions Board have a duty to ensure that they maintain sufficient knowledge and understanding of regulatory requirements. This is particularly relevant given the Governance and administration of public service pension schemes Code of Practice no 14 – *governance and administration of public service pension schemes* - issued by the Pensions Regulator (April 2015).
39. Management should make arrangements to assess the skills competencies and knowledge of members and identify any gaps that require to be addressed through further training. Appropriate learning and training records should be maintained to demonstrate steps taken to comply with legal requirements.

40. Risk management – In responding to our 2014/15 Annual Audit Plan management advised us that the Fund’s risk management arrangements would be revisited after the formation of the Pensions Board. It is good practice for the risk register to be reviewed at least annually and to evaluate the internal controls for significant changes. Internal Audit will provide updates to the Pensions Committee on progress made at the year-end.

Fees and resources

Audit fee

- 41.** Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
- 42.** In determining the audit fee we have taken account of the risk exposure of Falkirk Council Pension Fund, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2016.
- 43.** The proposed audit fee for the 2015/16 audit of Falkirk Council Pension Fund is £23,010. Our fee covers:

- the costs of planning, delivering and reporting the annual audit including auditor’s attendance at committees
- your organisations allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors’ travel and subsistence expenses.

- 44.** 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.

Audit team

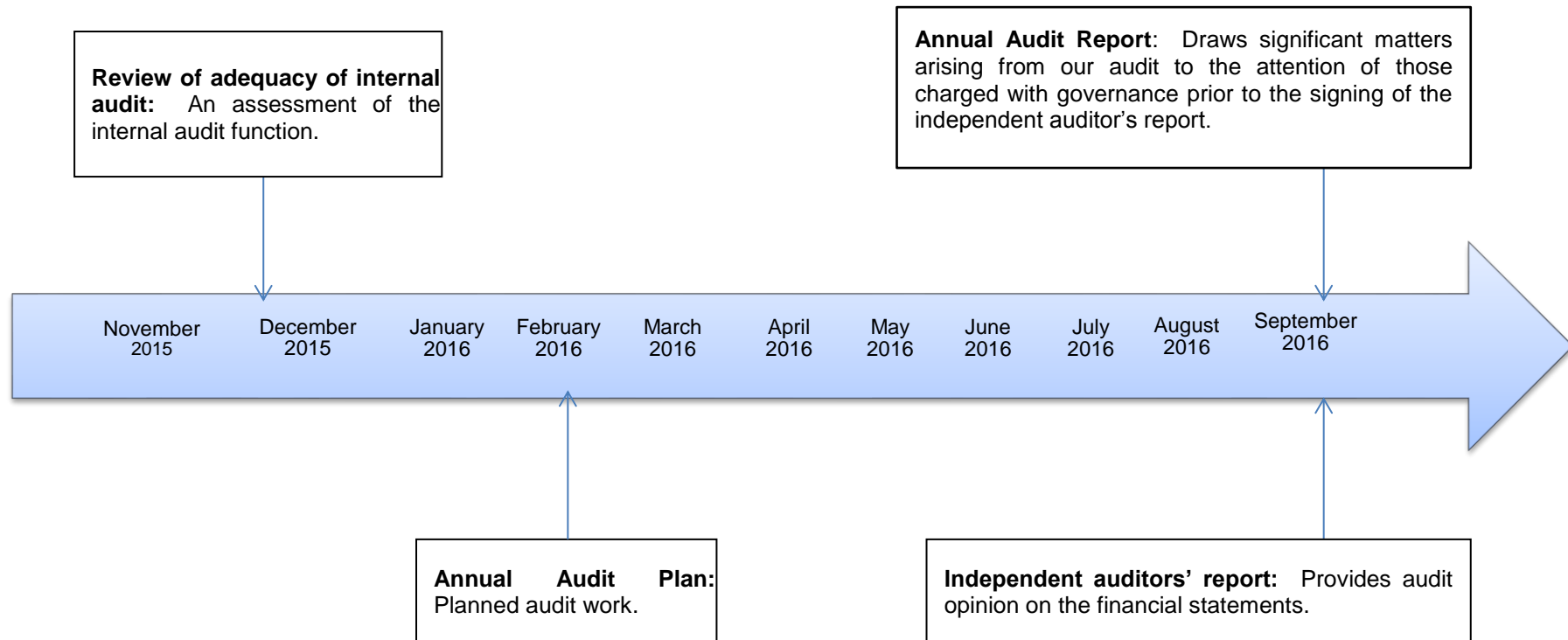
- 45.** Fiona Mitchell Knight , Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Jim Rundell who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Fiona Mitchell-Knight, BA (Hons), FCA Assistant Director (and certifying auditor)	Fiona has been an Assistant Director of Audit Scotland since 2007, following 6 years as the Senior Audit Manager for a number of local authority bodies including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has over 20 years' experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors.
Jim Rundell, MA (Hons), CPFA, Senior Audit Manager	Jim has 31 years public sector audit experience mostly in the local government and health areas. He has worked in a variety of audits including City of Edinburgh Council, NHS Greater Glasgow, Shetland Islands Council, NHS Grampian and Highland Council. Jim has been a Senior Audit Manager for 18 years. He is also a member of Audit Scotland's Performance and Risk Management Group and is responsible for maintaining and updating the Audit Services risk register.
Louise Dodds, BA (Hons), Auditor	Louise joined Audit Scotland in 2011 as part of the professional trainee graduate scheme having studied accountancy at Glasgow Caledonian University. Her experience with Audit Scotland has primarily covered local government and health sectors. Also, in 2014/15 Louise was part of the core audit team that carried out the audit of Falkirk Council Pension Fund.
Toby Freer, BA (Hons), Auditor	Toby has worked on varied Central Government audits since joining Audit Scotland in October 2012. He is at the final stage of qualification for the Institute of Chartered Accountants of Scotland (ICAS). More recently he has been involved in local government and health audits. Furthermore, he provided support to the audit team undertaking the Falkirk Council Pension Fund audit in 2014/15.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for Falkirk Council Pension Fund in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	Management override of controls 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.	<ul style="list-style-type: none"> Scrutiny of financial statements by the Pensions Committee. Quarterly performance reports to the Pensions Committee & Board by fund managers. Reports from the Pension Fund Custodian. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates for bias. Evaluating any significant transactions that are outside the normal course of business. Focused testing of regularity and cut-off assertions during the financial statements audit.
Wider dimension issues and risks			
2	Administration performance Staff absences and increased administrative duties have resulted in a backlog of work and deterioration of overall performance. There is a risk of possible breaches with regulatory administration requirements and members may not be able to retrieve requested information timeously.	<ul style="list-style-type: none"> Appointment of temporary staff. Engagement with employers to ensure timeous data returns. Prioritisation of workload to minimise any risk of non-compliance with regulatory deadlines. Continuous monitoring and recording of administration performance and reporting 	<ul style="list-style-type: none"> Review of arrangements for monitoring potential breaches. Review of administration performance indicators and comparison against previous year.

#	Audit Risk	Source of assurance	Audit assurance procedure
		potential breaches to the Pensions Board / Committee.	
3	Members training Management should assist individual Pensions Board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties. Records of members training should be maintained to demonstrate steps taken to mitigate any skills and knowledge gaps and to comply with legal requirements.	<ul style="list-style-type: none"> Members' attendance at pension related conferences / seminars. Officer and Adviser presentations to the Pensions Board and Committee. Recording of members training in year in training log. Update Training Policy. 	<ul style="list-style-type: none"> Attendance at Committees / Boards. Review of individual committee attendance and training logs. Consistency reviews of Governance disclosures within Annual Report and Accounts.
4	Risk management The core risk register should be updated as part of an overall review of risk management arrangements. Effective risk management arrangements are required to deliver strategic and operational objectives.	<ul style="list-style-type: none"> Review of risk management arrangements. Update central risk register and Statement of Investment Principles. Continued regular reporting of changes in risk profiles to the Pensions Committee. 	<ul style="list-style-type: none"> Discussions with Internal Audit on follow-up work. Review of disclosures within Annual Report and Accounts.