

Falkirk Council Pension Fund

Annual Audit Plan 2010/11

April 2011



 AUDIT SCOTLAND

Falkirk Council Pension Fund

Annual Audit Plan 2010/11

Contents

Summary Plan	1	Quality control	8
Summary of planned audit activity	1	Fees and resources	9
Introduction	1	Independence and objectivity	9
Our responsibilities	2	Appendix A	11
Our approach to the audit of accounts	2	Summary assurance plan	11
Responsibility for the preparation of accounts	3	Appendix B	14
Format of the Accounts	4	Audit team	14
Audit issues and risks	4	Appendix C	15
Summary assurance plan	7	Reliance on Internal Audit	15
Materiality	7	Appendix D	16
Reporting arrangements	7	Independence and Objectivity	16



Summary Plan

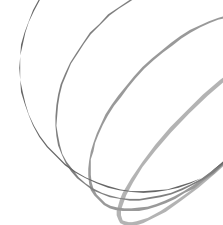
Summary of planned audit activity

Based on our analysis of the risks facing Falkirk Council Pension Fund (FCPF), our planned work in 2010/11 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of Falkirk Council Pension Fund as at 31 March 2011 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973, the 2010 Code of practice on local authority accounting in the United Kingdom (the 2010 Code) and the 2007 Pensions Statement of Recommended Practice (the 2007 Pensions SORP)
- a review and assessment of the fund's governance and performance arrangements in a number of key areas including a review of adequacy of internal audit and arrangements to support the governance compliance statement/annual governance statement and information in the annual report
- provide an annual report on the audit addressed to Members and the Controller of Audit.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Falkirk Council Pension Fund in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the fund's financial statements. This report summarises the key challenges and risks facing the fund and sets out the audit work that we propose to undertake in 2010/11. Our plan reflects:
 - the risks and priorities facing the fund
 - current national risks 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 Accounts Commission
 - relevant issues brought forward from previous audit reports on Falkirk Council.



Our responsibilities

2. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and guided by the auditing profession's ethical guidance.
3. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
4. In carrying out our audit, we seek to gain assurance that Falkirk Council Pension Fund:
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which give a true and fair view of the financial position at 31 March 2011 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973, the 2010 Code and the 2007 Pensions SORP
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - proactively manages and reviews its investment and administration performance
 - has made proper arrangements for securing best value in its use of resources.

Our approach to the audit of accounts

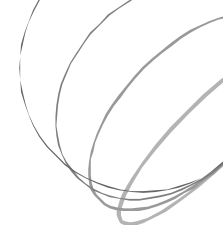
5. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the fund, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding 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, understanding how Falkirk Council Pension Fund will include these in the financial statements and developing procedures to audit these



- assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
6. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit are:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for provision of accounts and working papers
 - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package.
7. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. Internal audit is provided to Falkirk Council Pension Fund by Falkirk Council's Internal Audit Service. 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 work on which we intend to place reliance in 2010/11 is detailed at appendix C.
8. At the completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit of the Falkirk Council Pension Fund containing observations and recommendations on significant matters which have arisen during the course of the audit.

Responsibility for the preparation of accounts

9. It is the responsibility of the Chief Finance Officer as proper officer, to prepare Falkirk Council Pension Fund's financial statements in accordance with Code This means:
- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of Falkirk Council Pension Fund as at 31 March 2011 and its expenditure and income for the year then ended.



Format of the Accounts

10. The financial statements should be prepared in accordance with the 2010 Code and 2007 Pensions SORP, which constitute proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.

Audit issues and risks

11. Based on our experience, discussions with staff and a review of committee minutes and supporting information, we have identified the main issues and risks for the audit of the fund and these are detailed below.

Audit Requirements


12. **Amendment to Pension Regulations** - In January 2011 the Scottish Government confirmed the amendment to the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 requiring an administering authority to publish a pension fund annual report, and that the financial statements included within the annual report require to be audited. The pension accounts abstract will still be considered accounts of the administering authority and the Code will therefore continue to be regarded as proper accounting practice to be observed in the preparation and publication of those accounts. The appointed auditor of the administering authority is required to issue a separate audit opinion on the accounts relating to the pension fund.

Governance

13. **Governance structure** - Falkirk Council Pension Fund is administered by Falkirk Council. The council intends to review the Pension Fund governance arrangements following the issue of guidance by the Scottish Public Pensions Agency in the Spring of 2011. Revised arrangements will need to be put in place, with a reporting framework to support a separate audit. We intend to monitor progress in this area.
14. **Governance compliance statement** - A separate governance compliance statement is required to support the pension fund accounts in 2010/11. The council will need to consider its publication requirements for this statement and, given the statement's specific purpose, will need to consider whether a separate Annual Governance Statement will be required within the pension fund accounts to cover wider governance arrangements for the Pension Fund.

Investment performance and sustainability

15. **Funding position** - In accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) Regulations 1998, an actuarial valuation was carried out as at 31 March 2008. The valuation showed a funding level of 79% representing a shortfall in assets in relation to the fund's



liabilities. By March 2009, the funding level had fallen to a low point of 58% in the aftermath of the economic recession. However, the most recent update in January 2011 shows a recovery in the funding level to 83%

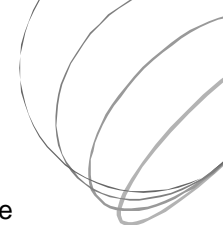
16. **Fund Performance** - The pension fund appoints a range of fund managers and a global custodian to manage allocated portfolios of fund investments. Each fund manager is required to perform against a benchmark and performance is regularly monitored by the Investment Committee. A performance measurement report submitted to the Investment Committee in February 2011 reflected a short term performance annual return above benchmark but a medium term performance annual return slightly below benchmark. The last reported longer term performance return, which is key component in measuring the Funds ability to meet its future pension liabilities was broadly similar to the return earned by a large universe of funds as measured by the WM company.

Contributions and administration

17. **The impact of the economic downturn** - The economic downturn has resulted in public sector bodies identifying significant savings in order to balance their budgets. Some of the employing bodies, including Falkirk Council, may be undertaking early retirement and redundancy programmes or examining alternative ways of working such as outsourcing. Not only will this result in increased workloads for pension officers, it may impact on the cash flow of the funds in that payments will be greater than contributions received.
18. **Contributions** - Under regulation 35 of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 it is the responsibility of employing bodies to 'contribute to the appropriate fund in each year the amount appropriate for that authority' and 'must make payments to the appropriate fund on an account of the amount required for the whole year.' From 1 April 2009 the regulations introduced variable contribution rates for employees depending on their salary banding. This has increased the complexity of checking contributions and may increase the risk of incomplete contributions.
19. **Membership data** - Falkirk Council Pension Fund has 38 active admitted and scheduled bodies, each contributing to the pension fund on a monthly basis. There is a risk that discrepancies may exist between the contributions data provided by employers and that which is held by the pension fund and effective data verification and monitoring arrangements should be in place. In addition, the Pensions Regulator has issued guidance on data quality with full compliance required by December 2012.

The future of Local Government Pension Schemes

20. **Lord Hutton report** - In March 2011, Lord Hutton issued his final report on behalf of the Independent Public Service Pensions Commission. The report sets out a comprehensive analysis of



public sector pensions, the challenges faced by the sector and the four aspects which need to be addressed:

- affordability and sustainability of pension provision
- adequacy and fairness - providing an adequate level of retirement income with a reasonable degree of certainty
- supporting productivity by removing barriers to the movement of employees e.g. implications for outsourcing and third sector service provision
- transparency and simplicity for scheme members and taxpayers.

21. Lord Hutton's report sets out options for each of those aspects. With a rise in scheme members' contributions and a change in the basis of the scheme from final salary to career average among the issues being considered, the report has significant implications for the Local Government Pension Scheme.
22. **Pathfinder Project** - In April 2009 a report was commissioned from Hymans Robertson to carry out research into current pension fund management arrangements and to examine opportunities for rationalisation and greater efficiencies. The final report on their findings and conclusions was produced in October 2009 and made a case for the grouping of investments assets to deliver reduced management costs, improved performance and risk management.
23. COSLA leaders endorsed a second phase of research in January 2010, focussing on the detailed modelling of options for merging the current eleven funds and reviewing pensions administration management, including current service levels and costs and options for improved service delivery models. The final report on phase 2 of the research is expected in June 2011.

Other Issues

24. **International Financial Reporting Standards** – From 2010/11, local government financial statements will be prepared in accordance with the IFRS-based local authority accounting Code. There are a number of additional disclosures that are required and we will consider the arrangements and progress of the FCPF in preparing for this change.
25. **Change in rate of pension increase** - The June 2010 Budget announced the intention to change the rate of pension increase from the Retail Price Index (RPI) to the Consumer Price Index (CPI), effective from April 2011. The change will result in a reduction in future cash payments made by pension funds and this would potentially lead to an improvement in funding levels. It is unclear at this time what the impact will be on employer contribution rates, with the position made clearer after the 2011 actuarial valuation.



Summary assurance plan

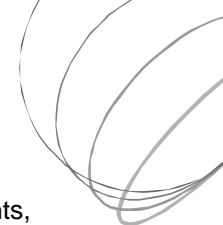
26. Specific risks are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in this appendix. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Materiality

27. 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.
28. International Standard on Auditing 320 states that, *“information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*
29. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
30. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting arrangements

31. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The draft Annual Report, including the Governance Compliance Statement, has a submission deadline this year of 30 September. The deadline target for audit completion in this transitional year is 30 November. To achieve this target, it is critical that Falkirk Council and



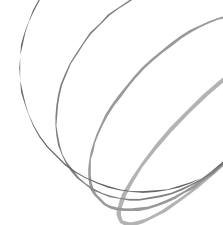
external audit work together to agree a timetable which takes account of submission requirements, planned committee dates and audit resources.

32. 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 Chief Finance Officer to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
33. A copy of all final agreed reports will be sent to the Chief Executive, Chief Finance Officer, Chief Internal Auditor and Audit Scotland's Best Value and Scrutiny Improvement Group.
34. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).
35. The full range of outputs to be delivered by the audit team as part of the Falkirk Council Pension Fund audit are summarised below:

Planned outputs	Target delivery date
Governance	
Governance management letter	By 31 August 2011
Financial statements	
Report in terms of ISA 260 (Communication of audit matters to those charged with governance)	By 28 November 2011
Independent auditor's report on the financial statements	By 30 November 2011
Annual report to Members and Controller of Audit	By 30 November 2011

Quality control

36. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Falkirk Council Pension Fund and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in the case of Falkirk Council (Falkirk Council Pension Fund) this is Mark Taylor, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
37. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

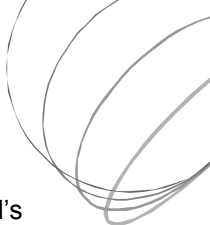


Fees and resources

38. Our agreed fee for the 2010/11 of Falkirk Council Pension Fund audit is £25,000. This sum is included within the total fee for Falkirk Council which is separately reported in the Annual Audit Plan for the Council. The fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at key committee meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.
39. In determining the agreed 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. We have assumed receipt of unaudited financial statements and working papers by 30 June 2011.
40. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the draft financial statements, lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee will also be required in relation to any work or other significant exercises not within our planned audit activity.
41. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For Falkirk Council the Assistant Director is Mark Taylor.
42. The local audit team will be led by Bruce Crosbie who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix B. The core audit team will call on other specialist and support staff, as necessary.

Independence and objectivity

43. 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 within the audit team.

- 
44. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix D.



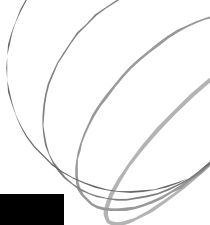
April 2011

Appendix A

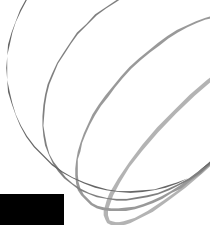
Summary assurance plan

In this section we identify a range of operational risks facing Falkirk Council Pension Fund, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Falkirk Council Pension Fund and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
Governance Issues		
Committee structure Given the complexities involved including the arrangements and reporting framework to support a separate audit, there is a risk that the council has not given due consideration to its required governance arrangements. Members may not have the required level of knowledge and skill to scrutinise issues relating to the fund.	<ul style="list-style-type: none"> ▪ The council is to review the role and function of the appropriate committees (taking account of SPPA guidance). ▪ Training needs analysis undertaken. ▪ Monitoring and provision of training of committee members. ▪ Annual Pensions and Investment Conference attended by members. 	<ul style="list-style-type: none"> ▪ Ongoing review of minutes. ▪ Attendance at committees. ▪ Monitor the review of the role and function of committees.
Governance Compliance Statement/ Annual Governance Statement There is a risk that arrangements are not in place to demonstrate compliance with the standards required by the SPPA.	<ul style="list-style-type: none"> ▪ Quarterly review of Investment Manager performance by the Investment Committee. ▪ Head of Internal Audit to consider his role in the completion of the Governance Compliance Statement/Annual Governance Statement. 	<ul style="list-style-type: none"> ▪ Review of the statement and supporting evidence.
Investment performance and sustainability		
Funding Level There is a risk that a funding shortfall continues due to external pressures and the scheme is unable to meet its long term liabilities as they fall due.	<ul style="list-style-type: none"> ▪ Actuarial valuation carried out every 3 years. ▪ Revised Funding Strategy Statement every 3 years. ▪ Regular inter-valuation monitoring reports produced by the actuary between formal valuations. 	<ul style="list-style-type: none"> ▪ Monitor funding levels.



Risk	Source of assurance	Planned audit action
Investment performance There is a risk that the fund's investments do not perform sufficiently well to achieve the funding objectives.	<ul style="list-style-type: none"> Regular performance reporting. Investment Advisor monitors performance and provides advice to the committee. Regular presentations by investment managers. Customised benchmarks are monitored and scrutinised. Agreements exist with fund managers and custodians which set out expectations from each party and are regularly updated. 	<ul style="list-style-type: none"> Monitor performance reporting.
Contributions and administration		
Contributions There is a risk that employer contributions will continue to increase affecting the affordability of the fund for some employers. As a result of the economic downturn, FCPF and its actuaries took a decision in 2008/09 to cap some employers' contributions over the period to 2011/12 (a 'stabilisation strategy'). This resulted in lower contribution rates for some employing bodies than would otherwise have been the case, resulting in lower future funding levels.	<ul style="list-style-type: none"> The Council continues to work closely with its Actuary to ensure continued stabilisation within an acceptable funding level/ employer contribution rates. Contribution rates will be reviewed following the actuarial valuation in 2011. The actuary will review the appropriateness of the stabilisation strategy. 	<ul style="list-style-type: none"> Monitor position.
Contributions accuracy There is a risk that employing bodies may not correctly deduct contributions.	<ul style="list-style-type: none"> Monthly reconciliation of contributions with expected rates and year end reconciliation of employer contributions statements with financial ledger. Post year end reconciliations carried out by pension administration section. 	<ul style="list-style-type: none"> Review of in year and year end reconciliation of contributions. Review of post year end reconciliation arrangements. Seek independent assurance in relation to employing organisations.
Administration Performance There is a risk that quality and service standards are adversely affected as a result of increased workloads for pension officers as a result of increased retirements or redundancies at admitted and scheduled bodies within the scheme.	<ul style="list-style-type: none"> Workload of pensions section is monitored Ongoing dialogue between Chief Finance Officer and Pensions Manager 	<ul style="list-style-type: none"> Monitor performance position



Risk	Source of assurance	Planned audit action
Member data There is a risk that the data held on the FCPF system does not accurately reflect the fund's membership resulting in the fund's liabilities being inaccurately calculated.	<ul style="list-style-type: none"> Annual reconciliation process for contributions 	<ul style="list-style-type: none"> Review year of reconciliation processes Comment in annual report.
Future of Local Government Pension Schemes		
Hutton Committee/ Pathfinder Project There is a general risk around the uncertainties surrounding the future of public sector pensions and their sustainability in their current form. This is evidenced in the studies undertaken by Lord Hutton and the COSLA Pathfinder project.	<ul style="list-style-type: none"> The council has provided feedback on the Hutton report both independently and through COSLA.. Participation in Pathfinder pension Administration Steering Group through the pensions Manager. 	<ul style="list-style-type: none"> Monitor position.
Other Issues		
IFRS There is a risk that the fund's financial statements are not prepared in accordance with the IFRS-based local authority accounting Code.	<ul style="list-style-type: none"> Officers have contacted the actuary for the relevant liability figures. 	<ul style="list-style-type: none"> Discuss progress with officers.



Appendix B

Audit team

A summarised curriculum vitae for each core team member is set out below.

Mark Taylor BCOM(Hons) CPFA

Assistant Director

Mark took up his current post as Assistant Director in early 2005, having previously undertaken a number of audit roles with Audit Scotland and before that the Accounts Commission, transferring from the Scottish Office Audit Unit in 1995. During this time he has gained extensive experience in public audit, led the introduction of our modernised audit approach in local government and was part of the team that developed the revised approach to the audit of Best Value (BV2) for the Accounts Commission. He currently has a portfolio of audits in both the central and local government sectors.

Bruce Crosbie FCCA

Senior Audit Manager

Bruce joined the Accounts Commission as a trainee auditor in December 1978, where he remained until 1986 when he took up the position of Chief Internal Auditor at Glenrothes Development Corporation. Bruce subsequently returned to the Accounts Commission as a Senior Auditor, later progressing to Senior Audit Manager. In his time with the Accounts Commission and subsequently, Audit Scotland, Bruce has been involved in the audit of many clients in the local government, central government, health and further education sectors.

Gillian McCreadie CPFA

Senior Auditor

Gillian has 16 years public sector audit experience with Audit Scotland. Gillian has worked on a range of local government, central government and NHS audits.

Edward Stansfeld FCA, CISA

ICT Senior Auditor

Edward trained as an auditor in private practice in the early 90s, and then worked in industry for five years. He joined Audit Scotland in 2001 as an IT audit specialist. Edward contributes to the international ISM3 information security standard which provides a process-based view of ISO27001/BS7799.



Appendix C

Reliance on Internal Audit

Auditing standards require internal and external auditors to work closely together to make optimal 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 early assessment of the internal audit function. This review has concluded that internal audit operates in accordance with the CIPFA code of practice for internal audit in local government.

Internal Audit has not planned any specific coverage of the pension fund in 2010/11. However Internal Audit undertook a high level review of the internal control framework in relation to the operation and management of pension fund investments as part of a Treasury Management audit in 2009/10 and concluded that comprehensive assurance could be provided in relation to the controls established to manage the risk relating to the Fund's borrowing and investment activities. We plan to place reliance on this assurance as part of our 2010/11 audit, however further work will be required to confirm continued assurance for 2010/11.



Appendix D

Independence and Objectivity

Auditors appointed by the Accounts Commission for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Fund (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

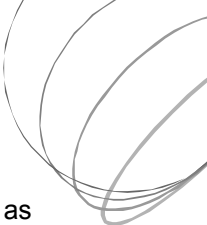
- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the addressee of communications from the auditor to those charged with governance of the Falkirk Council Pension Fund is through the council's Chief Finance Officer. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity

- 
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.