

Scottish Borders Council Pension Fund

Annual Audit Plan 2023/24 – DRAFT



 AUDIT SCOTLAND

Prepared for Scottish Borders Council Pension Fund
March 2024

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Introduction

Summary of planned audit work

1. John Boyd has been appointed by the Accounts Commission as external auditor of Scottish Borders Council Pension Fund (the Pension Fund) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of the five-year audit appointment.

2. This document summarises the work plan for the 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Performance Report, the Annual Governance Statement, and the Governance Compliance Statement
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and the Pension Fund

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the Pension Fund. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor 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.

5. 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 wider scope arrangements in place at the Pension Fund. In doing this, we aim to support improvement and accountability.

The Pension Fund's responsibilities

6. The Pension Fund is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true

and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. The Pension Fund has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. We aim to add value by: tailoring audit work to the circumstances of the Pension Fund and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Pension Fund Committee & Pension Board; and by recommending and encouraging good practice. In so doing, we will help the Pension Fund promote improved standards of governance, better management and decision-making, and more effective use of resources.

Annual accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating the Pension Fund's stewardship of resources and its performance in the use of those resources.

10. The appointed auditor is required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. The team will focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

13. We assess materiality at different levels. The materiality values for the Pension Fund are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for the Pension Fund

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Pension Fund's operations. For the year ended 31 March 2024, we have set our materiality at 1.5% of gross expenditure investment assets based on the audited financial statements for 2022/23.	£13 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance	£9.1 million

materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount.	£650 thousand
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of the Pension Fund, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. Significant risks of material misstatement are those which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management’s sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management’s sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management’s ability to</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>override controls that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.
<p>2. Estimation applied to level 3 investments</p> <p>The Pension Fund has a significant portfolio of level 3 investments (£344.4 million as at 31 March 2023) where valuations involve the application of a variety of estimates in determining appropriate valuations. This subjectivity gives rise to a significant risk of material misstatement in the financial statements.</p>	<p>Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed professional, accounting and industry codes and guidelines.</p>	<ul style="list-style-type: none"> • Critically assess the Pension Fund's arrangements for arriving at the valuation of level 3 investments, including the use of experts in undertaking the valuation. • Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Review the relevant investment managers' controls reports for qualifications or exceptions that may affect the audit risk. • Review the arrangements in place at the Pension Fund to assess investment managers' governance arrangements. • Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.

Source: Audit Scotland

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

18. We have rebutted this risk for the Pension Fund because:

- The split of responsibilities amongst the Pension Fund, its fund managers, its custodian, and the bank provide a clear separation of duties reducing the risks relating to investment income.
- We have considered opportunity and incentive for fraud in income recognition, including understanding of entity level controls, and consider the risk of fraud to be low.
- Having considered the value and the nature of contribution income, which is paid over from employers, we have concluded there is not a significant risk in this area.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

20. We have rebutted this risk for the Pension Fund because:

- Management fees are reported transparently.
- We have considered opportunity and incentive for fraud in expenditure recognition, including understanding of entity level controls, and consider the risk of fraud to be low.
- There is no incentive for the Pension Fund to manipulate the amount of pension benefits paid (which is the Pension Fund's main expenditure stream) and we have concluded there is not a significant risk in this area.

21. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

23. The area of specific audit focus is the disclosure of the actuarial valuation of the Pension Fund liabilities. This involves a complex actuarial estimate. The Pension Fund engage an independent actuary to support the estimation. The valuation is based on a range of financial and demographic estimations about the future, based on a well-established methodology. The subjectivity around these estimates gives rise to a presentational risk of material misstatement.

Wider Scope and Best Value

Introduction

24. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

25. In summary, the four wider scope areas are:

- **Financial management** – This means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – We will look ahead to consider whether the body is planning effectively to continue to deliver services. We will also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – We conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Pension Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – We will consider how the Pension Fund demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

26. We have not identified any significant risks in the wider scope areas.

27. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of any challenges identified in prior years.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

29. We will provide:

- an Independent Auditor's Report to the Pension Fund and the Accounts Commission setting out our opinions on the annual accounts
- the Pension Fund and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

30. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

31. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Pension Fund Committee & Pension Fund Board Date
Annual Audit Plan	31 March 2024	4 March 2024
Independent Auditor's Report	30 September 2024	19 September 2024
Annual Audit Report	30 September 2024	19 September 2024

Source: Audit Scotland



32. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

33. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

34. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 2023/24 Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Section 95 Officer	9 September 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	12 September 2024
Agreement of audited and unsigned annual accounts	12 September 2024
Issue of Annual Audit Report to those charged with governance.	12 September 2024
Signed Independent Auditor's Report	19 September 2024

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of the Pension Fund and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £26,370 as set out in [Exhibit 5](#).

Exhibit 5**2023/24 Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	45,630
Pooled costs	1,660
Sectoral Cap Adjustment	-20,920
Total 2023/24 fee	26,370

Source: Audit Scotland

36. In setting the fee for 2023/24, we have assumed that the Pension Fund has effective governance arrangements and will prepare a comprehensive and accurate annual report and set of accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

37. It is the responsibility of the Pension Fund to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

38. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

39. As the appointed auditor of the Pension Fund, I am independent of the Pension Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

40. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

41. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of the Pension Fund.

Audit Quality

42. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

43. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual

evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

44. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

45. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

46. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk