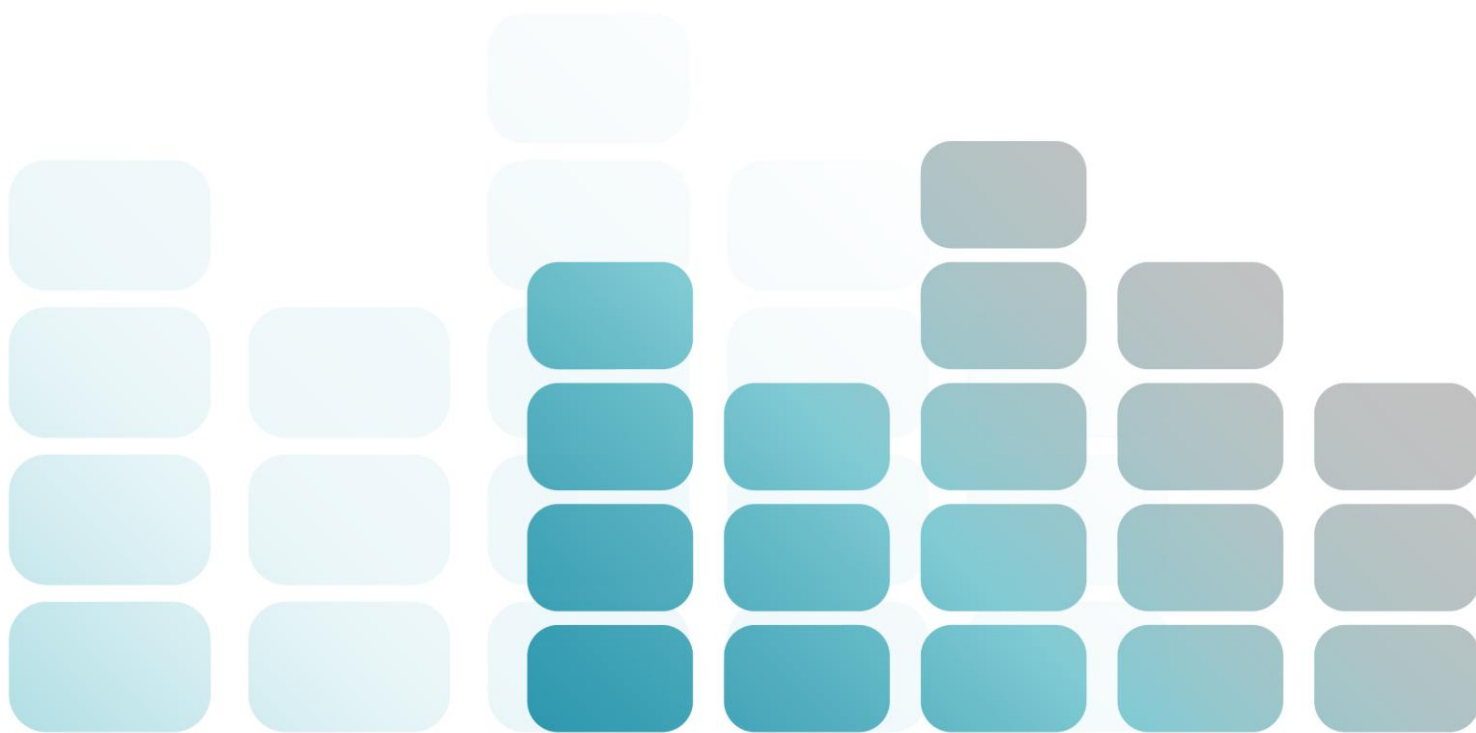


North East Scotland Pension Fund

Annual Audit Plan 2025/26



Prepared for North East Scotland Pension Fund
March 2026

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of North East Scotland Pension Fund's (the Fund's) annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. We have been appointed by the Accounts Commission as external auditors of the Fund for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

3. We are independent of the 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. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the Fund to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- 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 opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement.
- Conclusions on the body's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on the Fund's arrangements for securing Best Value.
- An Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the Fund and the auditor. A summary of the key responsibilities is outlined below.

Auditors' responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on the Fund's arrangements in place for the wider scope areas.

The Fund's responsibilities

8. The Fund has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and

regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements that give a true and fair view and other information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the annual report and accounts

Introduction

9. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

10. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

11. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

12. The materiality levels determined for the audit of the Fund are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for the Fund

Materiality

Materiality – based on an assessment of the needs of users of the financial statements and the nature of the Fund operations, the benchmark used to determine materiality is net assets based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark. £127 million

Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65% of planning materiality. £83 million

Materiality

Reporting threshold – all misstatements greater than the reporting threshold will be reported. £3.8 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. The risk assessment process draws on the audit team's cumulative knowledge of the Fund, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

14. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2, page 8](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

15. The risk assessment process is an iterative process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where significant changes occur, these will be reported to the Fund and those charged with governance, where relevant.

Key audit matters

16. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

17. In determining such matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

18. Key audit matters will be communicated in the Annual Audit Report.

Exhibit 2**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate 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. • Test journal entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.
<p>Valuation of direct property investment</p> <p>The Fund held £383 million of direct property investments at 31 March 2025 valued at Fair Value.</p> <p>In arriving at their opinion of Fair Value, the valuer has regard to individual property fundamentals and applies the most appropriate approach and methodology. The principal approach adopted has been the Income Approach using the Investment Method. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation process. • Evaluate the competence, capabilities, and objectivity of the valuer. • Review the information provided to the valuer and assess this for completeness and accuracy. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Agree the year-end valuation reported by the Fund Manager with the property valuer's report. • For a sample of revaluations, review the appropriateness of the: <ul style="list-style-type: none"> – accounting treatment – categorisation, measurement basis and valuation methodology – key data and assumptions used in the valuation process, and challenge these where required.

Risk of material misstatement	Planned audit response
<p>Estimation of unquoted investments</p> <p>The Fund held £1,270 million of private equity/debt and infrastructure assets as at 31 March 2025.</p> <p>Known as level three investments, there are no observable inputs available for these investments and therefore their valuation involves a significant degree of subjectivity, and valuations are estimated using specialist assumptions. Changes in the assumptions can result in material changes to the valuation of investments.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review the values reported in the accounts against the capital statements provided by Fund Managers to ensure these are not materially misstated. • Agree the year end valuation and movements during the year to Investment Custodian's records. • Evaluate the design and implementation of controls over the valuation of level three investments. • Evaluate the competence, capabilities, and objectivity of the investment manager. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • For a sample of Fund Manager portfolios with material Level 3 investments, select a sample of fund of fund investments, and: <ul style="list-style-type: none"> – obtain a copy of the audited fund accounts and reconcile the audited valuations with North East Scotland Pension Fund's accounts using a roll forward analysis where appropriate. – review the audit opinions for any modification and assess impact on our audit – review their valuation policies for reasonableness. • Review fund managers' controls reports to identify if there are any issues that impact on our planned audit procedures.

Source: Audit Scotland

Wider scope and Best Value

Introduction

19. The Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on the Fund being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the Fund's medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the Fund's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

20. A conclusion on the effectiveness and appropriateness of arrangements the Fund has in place for each area will be reported in the Annual Audit Report.

Best Value

21. North East Scotland Pension Fund is administered by Aberdeen City Council. As pension funds are not local authorities or separate bodies that fall within section 106 of the Local Government (Scotland) Act 1973, the

statutory responsibility for securing Best Value for pension funds lies with the administering local authority, Aberdeen City Council. Consideration of Best Value arrangements will therefore be carried out as part of the council's audit.

Significant wider scope risks

22. The risk assessment process has identified significant risks in the wider scope areas as outlined in Exhibit 3, and this includes the planned audit procedures in response to the risks.

Exhibit 3

Significant wider scope

Description of risk	Planned audit response
<p>Governance</p> <p>Two long standing vacancies on the Pensions Committee continue to exist with no immediate resolution expected as a result of political differences.</p> <p>Members of the committee effectively act as trustees for the benefit of members of the pension fund. There is a risk the vacancies on the committee place significant pressure on its ability to operate effectively and ensure there is appropriate scrutiny of complex activities.</p>	<p>Review the operation of the Pensions Committee, assess the level of scrutiny and challenge undertaken and consider any implications for the governance statements.</p>

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

23. The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to Aberdeen City Council as administering authority for North East Scotland Pension Fund and the Accounts Commission setting out opinions on the annual report and accounts.
- An Annual Audit Report to the Fund and the Controller of Audit setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope audit, any good practice identified and recommendations, where required.

24. The matters to be reported in the outputs will be discussed with the Pension Fund Manager for factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

25. Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates, consideration is given to the statutory date for approving the annual report and accounts, which is 30 September 2026 for local government bodies.

Audit fee

26. The audit fee is determined in line with Audit Scotland's fee setting arrangements. The agreed audit fee for the 2025/26 audit is £54,520 (2024/25: £55,650; being an initial fee of £52,250 and an additional fee of £3,400).

27. In setting the audit fee, it is assumed that the Fund has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Audit timetable

28. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses. Any changes required, and their potential impact, will be discussed with the Pension Fund Manager and where appropriate, reported to those charged with governance.

Exhibit 4 2025/26 audit timetable

Audit activity	Pension Fund target date	Audit team target date	Pensions Committee date
Issue of Annual Audit Plan	11 March 2026		20 March 2026
Annual report and accounts:			
• Consideration of unaudited annual report and accounts by those charged with governance	12 June 2026	-	19 June 2026
• Submission of unaudited annual report and accounts and all working papers to audit team	By 30 June 2026	-	-
• Latest date for audit clearance meeting	19 August 2026		-
• Issue of draft Annual Audit Report to officers for comment	24 August 2026		-
• Agreement of audited unsigned annual report and accounts	2 September 2026		-
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report to Pensions Committee	-	4 September 2026	11 September 2026
• Approval by those charged with governance and signing of audited Annual Report and Accounts	-	-	11 September 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report	-	By 30 September 2026	-

Source: Audit Scotland

Other matters

Internal audit

29. The Fund is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

30. While internal audit and external audit have differing roles and responsibilities, external auditors may use the work of internal audit where it is considered appropriate. Following a review of internal audit's 2025/26 audit plan, the audit team is not currently planning to use the work of internal audit to provide assurance. The chief internal auditor's reports will however be considered and their impact on the audit will be assessed on an ongoing basis.

Audit quality

31. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

32. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 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. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

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

34. Audit Scotland may periodically seek the views of the Fund on the quality of audit services provided. The audit team would also welcome feedback at any time.

North East Scotland Pension Fund

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