



# Highland Council Pension Fund

**External Audit Plan for the financial year ending 31 March 2020**

Final External Audit Plan to the Pensions Committee

31 March 2020

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# Our audit at a glance



Performance materiality is set at **75%** of overall materiality. This is consistent with the prior year reflecting our audit knowledge and understanding with no material adjustments in the prior year.



Significant audit risks are: management override of controls and the risk of fraud in revenue recognition as set out in International Standards on Auditing (ISAs UK) and the valuation of level 3 investments as at 31 March 2020.



Our planning materiality is set at **£19.9 million** being approximately 1% of net assets based on 2018/19 financial statements. This is based on our assessment of what misstatement either individually or in aggregate could be significant as to be misleading to the users of financial statements. Our materiality benchmark is net assets, that we consider a suitable benchmark for pension funds. We will revisit our materiality throughout our audit including updating to reflect the unaudited financial statements.

An audit  
underpinned by  
quality and adding  
value to you



We adopt a lower materiality threshold for specific classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality as a whole could reasonably be expected to influence the economic decisions of users of the accounts. We apply a lower materiality of **£900,000**, being 1.5% of total contributions paid to cover specific transactions and balances including: contributions to the scheme; transfers in to the scheme; benefits paid or payable including payments to leavers; management expenses; short term debtors, creditors and bank accounts where we have recognised an increased risk of misstatement.



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and reflects the wider scope nature of public audit. In accordance with Audit Scotland guidance, we consider Highland Council Pension Fund ('the Pension Fund') to be a smaller body for the purposes of wider scope responsibilities. Therefore the focus of our audit work will be on **financial sustainability** and **governance statement disclosures**.

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# Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code'). Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of management judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

## External Audit plan

The External Audit Plan summarises our responsibilities in accordance with ISAs and the Code:

- Respective responsibilities;
- Our audit process and timeline;
- Materiality;
- Our risk based audit approach to the audit of the financial statement; and
- Our wider scope responsibilities including those in relation financial sustainability and governance statement disclosures.

## Continuous improvement and adding value

Our aim is to add value to the Highland Council Pension Fund ("the Pension Fund") through our external audit work. This will be delivered through delivering a high-quality audit. Specifically for the Pension Fund we will also undertake the following arrangements:

**Continuous learning and development:** We have discussed with senior officers opportunities to develop our audit approach to ensure we deliver an efficient and effective audit approach.

**Leveraging our understanding of the administering authority:** Highland Council administer the Pension Fund. As appointed auditors of Highland Council we will look to leverage our audit and understanding of key financial processes undertaken by Highland Council on behalf of the Pension Fund.

## Audit appointment

The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, and reporting on their financial health and performance.

The Accounts Commission is an independent public body appointed by Scottish Ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.

The Accounts Commission has appointed Grant Thornton UK LLP as external auditor of the Pension Fund for the five year period 2016/17 to 2020/21.

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The audit will be supported by a team of qualified and part qualified accountants from our public sector audit team. Where required we will use other audit experts, including Public Sector technical accounting team to support our audit.

# Respective responsibilities

As set out in the Code of Audit Practice there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	The Pension Fund's Responsibilities
Corporate governance	<ul style="list-style-type: none"> <li>Establishing arrangements for proper conduct of its affairs</li> <li>Legality of activities and transactions</li> <li>Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>
Financial statements	<ul style="list-style-type: none"> <li>Preparing financial statements which give a true and fair view of their financial position</li> <li>Maintaining accounting records and working papers</li> <li>Putting in place systems of Internal Control and maintaining proper accounting records</li> <li>Preparing and publishing an annual governance statement, governance compliance statement and management commentary</li> <li>Effective systems of internal control as well as financial, operational and compliance controls</li> </ul>
Financial position	<ul style="list-style-type: none"> <li>Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure Best Value</li> </ul>
Fraud and error	<ul style="list-style-type: none"> <li>Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>

## Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an ISA compliant opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information e.g. the Management Commentary, the Annual Governance statements and Governance Compliance Statement
- Notify the Controller of Audit when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope as applicable to smaller bodies in accordance with Audit Scotland's Code of Audit Practice and applicable guidance
- Providing regular updates to Audit Scotland to share awareness of current issues across our audit clients
- Notify Audit Scotland of any cases of money laundering or fraud
- Contribute to Audit Scotland technical guidance

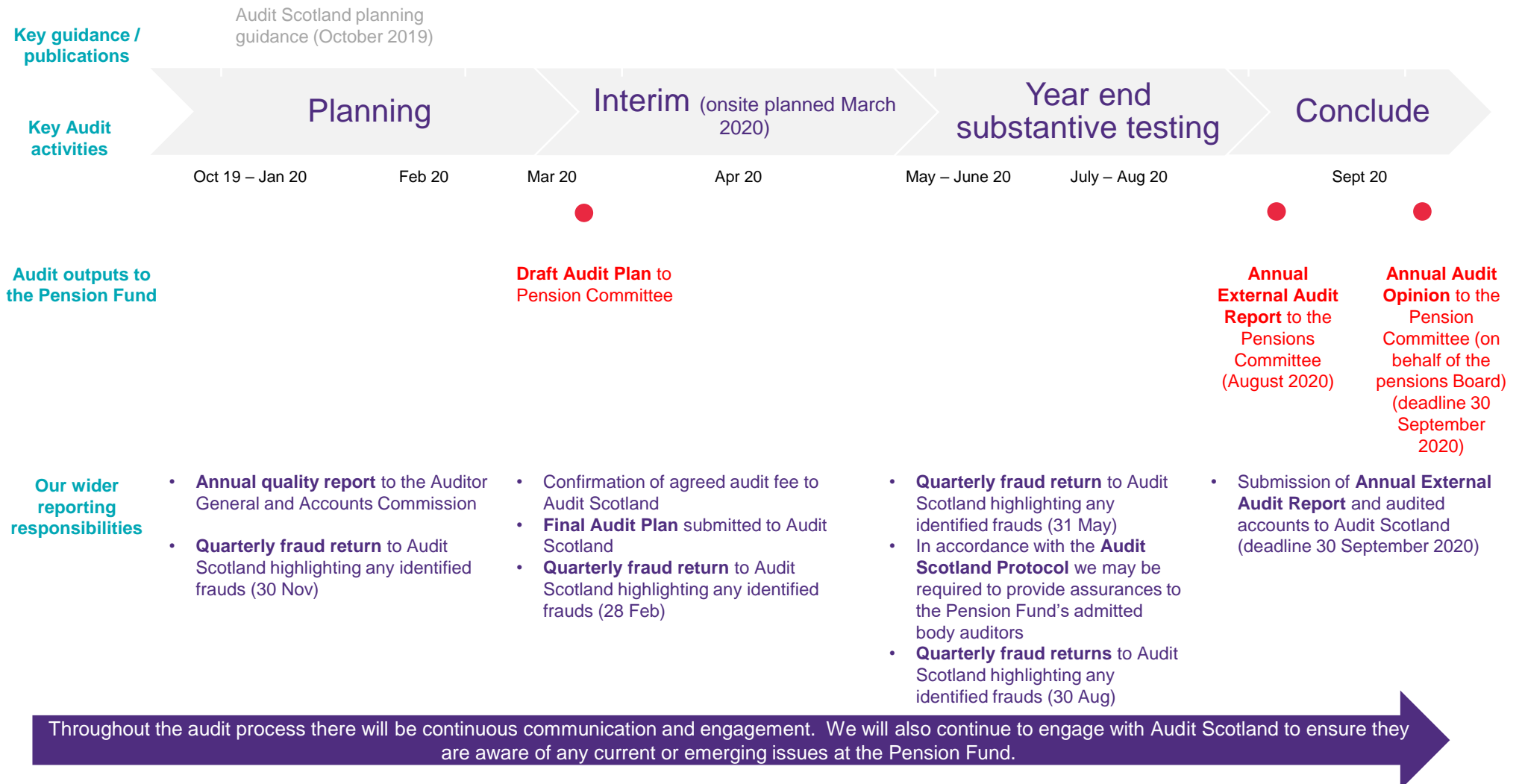
## How do we do this in practice



- By reviewing the financial statements to ensure disclosures made in accordance with applicable legislation and guidance
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of the Pension Fund
- Ongoing dialogue and engagement with Audit Scotland during the year
- Providing quarterly fraud updates to Audit Scotland and information on any money laundering
- Support Audit Scotland through engaging in technical guidance publications

# Audit process and timeline

Our planned audit timeline is detailed below. In accordance with the Code of Audit Practice and Audit Scotland Planning Guidance, we are required to undertake and report on a range of areas. The diagram below summarises our planned audit timetable for 2019/20, and output both to the Highland Council Pension Fund and Audit Scotland.



# Materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code);
- have been properly prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003;
- have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- the wider information contained in the financial statements e.g. the Management Commentary, Annual Governance statement, and Governance Compliance Statement have been prepared in accordance with applicable guidance and regulations and is consistent with the financial statements.

## Basis for materiality

We determine financial statement materiality based on a proportion of the total investment assets. This approach is consistent with our prior year materiality determination. We have determined materiality to be **£19.9 million**, which equates to approximately **1%** of your scheme assets as at 31 March 2019.

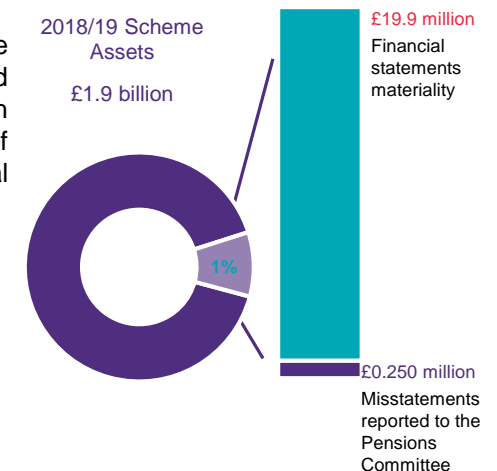
## Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience we have retained this for 2019/20 at **75%**, for the Pension Fund being **£14.9 million**. Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable. Performance materiality is set at 75% of overall materiality. This is consistent with the prior year reflecting our audit knowledge and understanding with no material adjustments in the prior year.

Our materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. We adopt a lower materiality threshold for specific classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality as a whole could reasonably be expected to influence the economic decisions of users of the accounts. We apply a lower materiality of **£900,000**, being 1.5% of total contributions paid to cover specific transactions and balances including: contributions to the scheme; transfers in to the scheme; benefits paid or payable including payments to leavers; management expenses; short term debtors, creditors and bank accounts where we have recognised an increased risk of misstatement. We will update our materiality based on the unaudited 2019/20 financial statements including determination of materiality. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

## Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pension Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be **£250,000**, being the maximum reporting threshold prescribed by Audit Scotland.



# A risk based audit methodology

A core part of audit planning is understanding the Pension Fund and the wider local government pension scheme sector. This is our fourth year as the external auditors of the Pension Fund appointed under the Audit Scotland framework. Through our audit planning procedures we consider a range of factors to assess the risk of material misstatement to the financial statements. Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Our risk assessment includes the following;

Consideration of critical accounting estimates including Level 3 investment valuations as well as actuarial calculation of scheme liabilities (disclosure only)	Assessment of inherent risk factors including changes in the organisation's activities and environment. In particular, the impact of the latest triennial valuation of the pension fund within the financial statements.	Understanding of entity level controls and the control environment, including IT controls including consideration of controls administered by Highland Council.	Financial and operational performance during the year, including investment fund performance.
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## Identified Significant risks

- Risk of fraud in revenue recognition
- Management override of controls
- Valuation of Level 3 Investments

We continue to assess the risk of material misstatement and our response to these risks throughout our audit. Within our Annual Audit Report we will report to you the conclusions from our audit procedures over these risks, including any further risks identified or changes to our planned audit response.



# Significant financial statement risks

Risk area	Areas of focus	Description of risk
<b>Risk of fraud in revenue recognition</b>	<b>Contributions receivable</b> (Occurrence) <b>Receivables</b> (Existence, Valuation)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Investment income, we agree movements in the year to external third party verification through our testing of underlying investments and Fund Manager confirmations. Therefore, we do not consider risk of fraud in revenue recognition to represent a significant risk. Likewise for expenditure, operating expenses are not material in value and therefore do not represent a material risk of misstatement. Benefits paid to pensioners from the scheme are well forecast based on pensioner numbers and consistent year on year. Other benefits paid are not material and therefore limited opportunity for manipulation.</p> <p>For contributions receivable from employees and employers. While contributions are well forecast there is an inherent risk around material misstatement through improper revenue recognition. We therefore attach the significant risk over revenue recognition to <b>contributions receivable</b>.</p>

## Audit Response

- We will develop our understanding of the design of controls in place at the Pension Fund for the recognition and recording of contributions received.
- We will agree monthly normal contribution totals to payroll reports and checked to the Pension Fund bank statements, to test they have been received by the Pension Fund.
- We will test a sample of defined contribution section members' normal contributions agreed to evidence that monies have been received by the investment manager in a timely manner and correctly allocated. Where material admitted/ scheduled bodies contributions agreed to third party confirmations.
- Monthly contributions were compared to expectations based upon the prior year taking into account any amendments to the contributions agreed, average pay rises and the impact of membership movements using analytical review procedures
- We reviewed the outstanding contributions receivable as at the balance sheet date and test the recoverability of amounts receivable post year end. Our testing will be performed at a significant risk level.

# Significant financial statement risks

Risk area	Areas of focus	Description of risk
<b>Management override of controls</b>	<b>Journals</b> <b>Accounting Estimates</b>	As set out in ISA 240 there is a presumed risk that management (senior officers) override of controls is present in all entities. This risk area includes the potential for senior officers to use their judgement to influence the financial statements as well as the potential to override the Pension Fund's controls for specific transactions.
<b>Audit Response</b>		

## **Accounting estimates:**

In assessing the risk of management override, consider those key accounting estimates and judgements that could impact on the organisations financial results and where there is an inherently increased risk of fraudulent misstatement or where senior officer bias could result in a material misstatement. In response to the significant audit risk we will:

- consider the design of controls in place over key accounting estimates and judgements
- Review accounting estimates for senior officer bias / indication of fraud that could result in material misstatement. This will include review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.

## **Journals testing:**

We will use our data analytics tool *Inflo* to support our evaluation of journal transactions during the year. In response to the significant risk we will:

- Assess the design of controls in place over journal entries, including how these are prepared, authorised and processed onto the financial ledger;
- Will risk assess the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We will test these journals to ensure they are appropriate and that they are suitably recorded in the financial ledger;
- We will perform targeted testing of transactions around the financial year end reviewing those journals that are large or otherwise appear unusual to understand the rationale for the transaction.

# Significant financial statement risks

Risk area	Areas of focus	Description of risk
<b>Valuation of Level 3 Investments</b>	<b>Level 3 Investments</b>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Investments held by the Fund are subject to market price fluctuations and a degree of estimation. Investments are valued on a fair value hierarchy. Level 1 investments are those for which quoted market price information is available to validate fair value. Level 2 investment are these where there is no quoted market value but for which observable inputs are available based on information to support the valuation of investments. Subsequently, there is limited estimation or judgement in the valuation of these assets. Level 3 investments are those assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. As at 31 March 2019 the Pension Fund held £342 million of Level 3 investments. Given the level of estimation and judgement around the valuation of these investments there is a significant risk of material misstatement.</p>
<b>Audit Response</b>		

- We will gain an understanding of the Fund's process for valuing Level 3 investments and evaluate the design of the associated controls
- we will review the nature and basis of estimated values and consider what assurance senior officers have over the year end valuations provided for Level 3 investments.
- we will consider the competence and expertise of the fund managers as experts to value investments at year end and basis of the valuations at the year end.
- for a sample of investments, we will test to appropriate supporting information including any inputs into the valuation including published financial statements of level 3 investments.

# Other audit areas

## Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of senior officers’ use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

We will review officer’s assessment of the going concern assumption and evaluate the disclosures in the financial statements, alongside our assessment based on substantive testing and audit procedures.

## Working with internal audit

The Auditing Standards Board’s version of ISA (UK) 610 “Using the work of internal auditors” prohibits use of internal audit to provide “direct assistance” to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

During 2019/20, while we engage with Internal Audit to confirm any awareness of fraud or suspected fraud, we do not place any direct reliance on the work of Internal Audit. Where Internal Audit have identified specific material deficiencies in the Council’s (as administrators of the scheme) control environment we will consider adjusting our testing so that the audit risk is covered by our work.

## Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls, being those in place at the administering authority.
- Perform procedures around IT general controls.
- Perform walkthrough procedures on key controls around identified risk areas as well as those where there is a significant class of transaction being contributions payable, benefits payable and the recognition and valuation of investments
- Interim testing around the design of key controls in place over the pension fund.

Highland Council are the administering authority of the Pension Fund. We will consider our audit knowledge and understanding of the Council’s controls over key financial processes to inform our audit work. Where required, our audit work will include correspondence with scheme participants including Highland Council, as a material admitted bodies.

## Coronavirus

The full extent and impact of the outbreak of novel coronavirus (COVID-19) remains uncertain. As a firm we are actively monitoring the outbreak and taking proactive steps to protect the health and wellbeing of our clients, employees and communities. We are following the latest guidance from Public Health England and Scotland and have taken precautionary measures including restricting non-essential travel and steps to limit potential exposure.

We have reached out to our audit clients, including the Pension Fund to understand arrangements in place to enable us to deliver the audit in the event that travel restrictions remain in place over the planned period of the audit. Currently we are assuming that the audit will need to be delivered remotely. We have established arrangements including remote working of our staff and testing approaches, taking into account regulatory guidance, in order to deliver our audit work. We will continue to liaise with health authorities, Audit Scotland and our clients about the situation.

For the Pension Fund, the impact of the Coronavirus on the primary financial statements remains uncertain. External markets are likely to see a reduction in the market value of pension fund investments. The Pension Fund have appointed fund managers to manage scheme assets and provide a valuation of investments held at 31 March 2020. As part of our planned audit procedures we will agree the investment balances held within the draft financial statements to the Fund Manager's investment statement's as at 31 March and verify the carrying value of a sample of investments to market price data.



## Wider scope approach – Smaller body arrangements



For smaller bodies the Audit Scotland Code of Practice permits auditors to not apply the full wider scope audit. In our judgement, taking into account the nature of the Pension Fund's operating activity and financial transactions, we feel it is appropriate to continue to treat you as a smaller body under the Code. However, in accordance with Audit Scotland planning guidance, we will update our understanding of your arrangements for ensuring financial sustainability as well as your governance arrangements in place to support disclosures contained within the annual governance statement included within your financial statements.

## Pension fund protocol

Under Audit Scotland's Protocol for auditor assurances for retirement benefits, we may be required to provide assurances from employer body auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies. In previous years we have been required to undertake additional audit procedures over the administration and transfer of pension fund information to the actuary, independently assessing the adequacy of the design of controls in place. In accordance with the Protocol we may also seek assurances from auditors of scheduled or admitted bodies to the scheme.



# Audit deliverables

As set out in the Code of Audit Practice, as appointed auditors we have a number of wider reporting responsibilities beyond the audit of the financial statements. Below we summarise the key areas of work during our 2019/20 audit, including expected reporting under Audit Scotland's Code of Audit Practice and audit planning guidance.

Requirement	How we will report our findings
<p><b>Annual accounts</b> Perform an audit of the annual accounts and express specified audit opinion on them.</p>	<ul style="list-style-type: none"> <li>External audit plan</li> <li>External auditor's opinion on the financial statements</li> <li>Annual external audit report findings from our audit work of the financial statements</li> </ul>
<p><b>Pension fund protocol</b> Under Audit Scotland's Protocol for auditor assurances for retirement benefits, we may be required to provide assurances from employer body auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies. In previous years we have been required to undertake additional audit procedures over the administration and transfer of pension fund information to the actuary, independently assessing the adequacy of the design of controls in place.</p>	<ul style="list-style-type: none"> <li>Audit Scotland Pension Fund Protocol Assurance letter to Employer bodies (where applicable). At our audit planning stage, we do not anticipate a significant amount of additional audit testing will be required to support any assurances we are required to provide under the protocol. Should that position change, we may need to reevaluate the cost and fee implications on the audit.</li> </ul>
<p><b>Wider scope audit dimensions</b> Conclude and report on our assessment of the wider scope audit dimensions</p>	<ul style="list-style-type: none"> <li>Annual external audit report (audit findings report) (Note for the Pension Fund this is restricted to financial sustainability and governance statement disclosures).</li> </ul>
<p><b>Emerging issues</b> Communication of emerging issues to Audit Scotland and highlight any issues for potential statutory reports</p>	<ul style="list-style-type: none"> <li>Communicating throughout our audit emerging issues throughout the year</li> </ul>
<p><b>Correspondence queries</b> Carry out preliminary enquiries into any correspondence relevant to the Pension Fund that is referred to Audit Scotland.</p>	<ul style="list-style-type: none"> <li>Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland</li> </ul>
<p><b>Money laundering and fraud</b> Provide information on cases of money laundering or fraud</p>	<ul style="list-style-type: none"> <li>Reporting cases to the National Crime Agency of an instances of money laundering at the Pension Fund and identified frauds</li> </ul>
<p><b>Technical guidance</b> Contribute to Technical Guidance Notes</p>	<ul style="list-style-type: none"> <li>Providing responses to Audit Scotland consultations on draft Technical Guidance notes for Auditors.</li> </ul>

# Appendices

## Appendices:

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# Appendix 1: Fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	26,340
Pooled Costs	2,560
Contribution to Audit Scotland costs	-
Contribution to Performance Audit and Best Value	1,580
<b>2019-20 Fee</b>	<b>30,480</b>

## Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standards.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

Audit Scotland sets an expected fee for each audit carried out under appointment which assumes that the body has well-functioning controls, an effective internal audit service, and an average risk profile.

Audit Scotland reviews the expected fee each year and adjusts it if necessary based on auditors' experience, new requirements, or significant changes to audited bodies.

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. For 2019/20 we have proposed to set the audit fee at £30,480, being the base fee. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the Pension Fund's activities will not change significantly from planned. In particular, the Pension Fund's investment portfolio has not deviated significant to have material increases in level 3 investments from 2018/19.
- The Pension Fund will make available senior officers and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- No significant additional audit testing will be required under the Audit Scotland Pension Fund assurances protocol. Should significant additional work be required through requests from employing body auditors, in accordance with Audit Scotland's protocol we reserve the right to request additional fee for this service.

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.



# Appendix 2: Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst senior officers, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at the Pension Fund.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for the Pension Fund this is assumed to be the Pension Fund Sub-Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management (senior officers) and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from officers regarding officers assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at the Pension Fund we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the Pension Fund's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with the Pension Fund to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

# Appendix 3: Communication with those charged with governance

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to Officers and the Pension Sub-Committee.

<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Audit Findings</b>
Respective responsibilities of auditor and senior officers (management)/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the Pension Fund's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management (senior officers) and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls.

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