

Highland Council Pension Fund Financial year ending 31 March 2021

External Audit Plan

30 April 2021



**Your key Grant Thornton
team members are:**

John Boyd

Audit Director

T 0141 223 0899

E john.p.boyd@uk.gt.com

Lewis White

Audit Associate

T: 0141 223 0761

E lewis.d.white@uk.gt.com

Fraser Hogan

Audit Associate

T: 0141 223 0746

E fraser.w.hoggan@uk.gt.com

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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 organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Plan overview

The audit plan for the financial year ended 31 March 2021 sets out our risk based audit approach. This plan is reported to those charged with governance (Pensions Committee). Planning is a continuous process and we will continue to review our risk assessment and planned approach.

03

Wider Scope Audit – smaller body arrangements

In accordance with Audit Scotland's Code of Practice, we feel it is appropriate to continue to treat you as a smaller body under the Code. In 2020/21 we will consider the Pension Fund's 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.

01

Materiality

We have calculated planning materiality using your prior year gross investment assets as our benchmark (consistent across our PSA Scotland Pension Funds):

- £19.007 million planning materiality (1% of gross investments)
- Performance materiality of £14.255 million (75% of planning materiality)
- Trivial is capped at £250,000
- Lower materiality (£890,000) on contributions receivable, benefits payable, and transfers (in and out) of the fund

04

Other audit matters

We summarise other audit matters for the Pension Sub-Committee awareness. This includes:

- The revised ISA 540 standard relating to material Accounting estimates and the additional considerations required at planning. For the Pension Fund we anticipate this to relate to: investments (level 2 and level 3) and defined benefit pension scheme liability disclosures
- In accordance with the Code and planning guidance we also complete and submit a number of deliverables in year including sharing intelligence with Audit Scotland.
- Consideration of going concern in accordance with Practice Note 10.

02

Financial statement audit risks

At planning, in accordance with the ISAs (UK) we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Valuation of Investments (level 3)

05

Our Audit Fee

Audit fees were shared by Audit Scotland with Highland Council Pension Fund in December 2020. Our fee is:

- £32,500 which is set £1,300 over the baseline fee reflecting the additional audit work over accounting estimates and judgements including level 3 investments.
- This fee includes £1,490 related to Audit Scotland central costs and £2,580 related to Audit Scotland pooled costs.
- Audit fees are paid to Audit Scotland who pay us.
- We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of the Pension Fund for the year ended 31 March 2021. This plan is reported to those charged with governance and issued to Audit Scotland by 30 April 2021.

We are appointed by the Accounts Commission as the external auditors of the Pension Fund for the 6 year period (2016/17 until 2021/22).

Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice ('the Code') dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Pension Fund are summarised in Appendix 1 of this plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on:

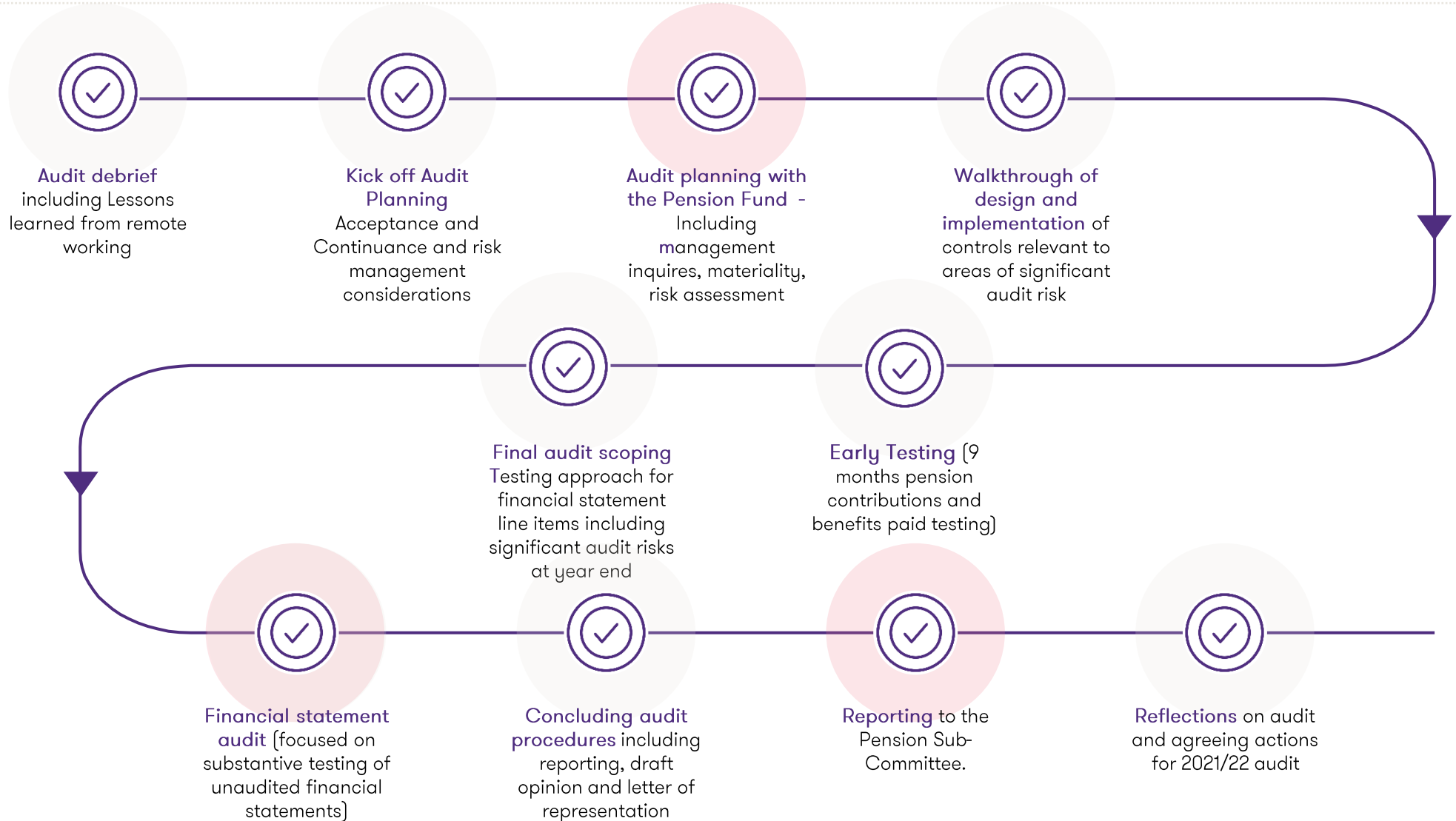
- the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Pensions Committee)

The audit of the financial statements does not relieve management and those charged with governance of your responsibilities. It is the responsibility of the the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will considered how the the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund and is risk based.

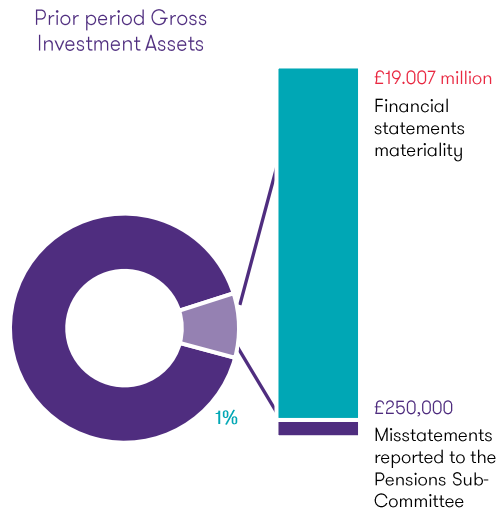


Audit approach



Materiality

Financial statement materiality is determined based on a proportion of the total operating expenditure. We have determined **planning materiality** to be £19.007 million, which equates to approximately 1% of your prior year gross investment assets.



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. We use this to determine our testing approach to the financial statements. We have set this at 75% of planning materiality (£14.255 million). This is based on our understanding of the Pension Fund including no material or unadjusted errors in the prior year.

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.

On this basis we apply a separate **lower materiality level** to Contributions receivable, Benefits payable, and Transfers (in and out). This is set at 1.5% of total contributions (£890,000).

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 5% the maximum threshold set by Audit Scotland.

We will update our materiality based on the unaudited 2020/21 financial statements. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks

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.

Valuation of Level 3 investments (valuation)

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 2020 the Pension Fund held £334 million of Level 3 investments. Of the level 3 investments, the Pension Fund held investments which given there nature and market conditions, contain increased levels of volatility in valuation. As a result we consider these assets to be of more significant risk of material misstatement. In 2020, due to the impact of the global pandemic on price information and other market data, the Pension Fund reported a material uncertainty in relation to the valuation of property investments, totalling £180 million. Given the ongoing uncertainty due to the impact of Covid-19, there continues to be increased risk around the valuation of these investments. In addition, as at 31 March 2020, the Pension Fund held £17.9 million in equity options (derivatives), including exotic derivatives. Given the judgement and complexity around the valuation of these investments we attach a significant risk of material misstatement. We therefore have significant risk of misstatement over:

- Pooled property valuations (valuation)
- Complex derivative investments (valuation)

Our response: We will gain an understanding of the Fund's process for valuing investments and evaluate the design of the associated controls. We will review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. In addition, 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. In particular we will consider property investment where the valuer reported a material valuation uncertainty in the valuation in the prior year. For a sample of investments, we will test to appropriate supporting information including observable market data, quoted prices and/or information to support carrying values.

Management Override of Controls (as required within Auditing Standards – ISA 240)

Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the Pension Fund internal controls, related to individual transactions.

Our response: We will test the design of controls in place over journal entry processing and risk assess journals and select items for detailed follow up testing. Journals will entries will be selected using computer-assisted profiling based on areas which we consider to be of increased risk. For the Pension Fund, these would predominantly be material journals and those around the year end, particularly associated with pension asset valuations.

Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider valuations (investments) and the use of manual journals during the year, and in creating the financial statements where controls may be overridden by management. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements. We will obtain an understanding of the business rationale of significant transactions that we become aware of that, based on our audit knowledge and understanding, are outside the normal course of business for the entity, or that otherwise appear to be unusual.

In accordance with International Standards on Auditing (ISA) 240, through our audit planning we have considered the presumed risk around **revenue recognition** at the Pension Fund. The Pension Fund's income is through contributions to the scheme and investment returns / income. Contributions receivable are well forecast and agreed to third party contributions. Therefore there is limited opportunity for material manipulation or misstatement of this revenue stream. Investment returns / income correlate to the overall movement in investments and agreed to Fund Manager confirmations. We therefore consider these to be of lower opportunity of material misstatement. We therefore rebut the assumed risk around revenue recognition

In accordance with the Financial Reporting Council's Practice Note 10 (PN10), through our audit planning we have considered the presumed risk around **expenditure recognition** at the Pension Fund. The Pension Fund's material revenue streams are benefits payable and management expenses. Benefits payable predominantly relate to pension payments made and are therefore well forecast, regular payments. Consequently, there is limited opportunity for material manipulation of these payments. Similarly, management expenses predominantly relates to amounts paid to third party Fund Managers and therefore agreed to correspondence with these bodies with reduced opportunity for misstatement. We therefore rebut the presumed significant risk around expenditure recognition.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Report to the Pensions Committee and the Controller of Audit.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We review the information given in the Management Commentary to ensure this is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- We carry out work to satisfy ourselves that the information given in the Annual Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- We review the information given in the Governance Compliance Statement to ensure this is consistent with the financial statements that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.
- We consider our other duties under the Code and planning guidance (2020/21), as and when required, including:
 - Providing regular updates to Audit Scotland to share awareness of current issues
 - Notifying Audit Scotland of any cases of money laundering or fraud
 - Review of Local Government (Including Pension Funds) Technical guidance prior to issue by Audit Scotland

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.
- Perform walkthrough procedures on key controls around identified risk areas including: Contributions receivable; benefits payable; transfers (in and out); investment returns/income; journal entries; and, material areas of management estimate and judgement including investment valuations and defined benefit pension scheme liabilities disclosures.
- Our focus is design and implementation of controls only. We do place reliance on controls when it comes to our year end financial statement audit work.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020).

Within our wider scope work we will conclude on the Pension Fund's arrangements to ensure financial sustainability.

Wider Scope Audit – 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 income and expenditure streams, 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.

Accounting estimates

Under ISA (UK) 540 auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management (senior officers) identifies the need for and applies specialised skills or knowledge;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

To ensure compliance with this revised auditing standard, we will be requesting further information from management (officers) and those charged with governance during our audit. Based on our knowledge of the Pension Fund we have identified limited material accounting estimates for which this is likely to apply:

- defined benefit pension scheme liabilities (disclosures)
- Valuation of investments (level 2 and level 3)

Further detail is set out in Appendix 4

Audit timeline



Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available (or as otherwise agreed) over the planned period of the audit
- respond promptly and adequately to audit queries.

Quality and adding value through the audit

Our overall approach for the audit is clear and upfront communication, founded on our public sector credentials and a methodology to ensure delivery of a quality audit.

The diagram opposite summarises our key approach to adding value to you throughout our audit.

Our methodology is risk based. We comply with Auditing standards and as a Firm we are regulated by the FRC. We taking findings on audit quality seriously and continue to invest as a Firm through our audit investment plan. The audit investment plan is supported by a specific national Public Sector audit plan.

We comply with Audit Scotland's quality arrangements including submitting an annual quality report over our Audit Scotland portfolio. As part of Audit Scotland's quality arrangements, ICAS review our work on a rotational basis. Audit Scotland's quality report can be found at www.audit-scotland.co.uk

Our wider quality arrangements are set out in our annual transparency reports which are available on our website (www.granthornton.co.uk).

Project management

- Use of Inflo to track progress and deliverables throughout the audit
- Clear roles and ownership of responsibilities within our team
- Clarity over expectations and timetable
- Track record delivering public sector audits on behalf of Audit Scotland

Clear reporting

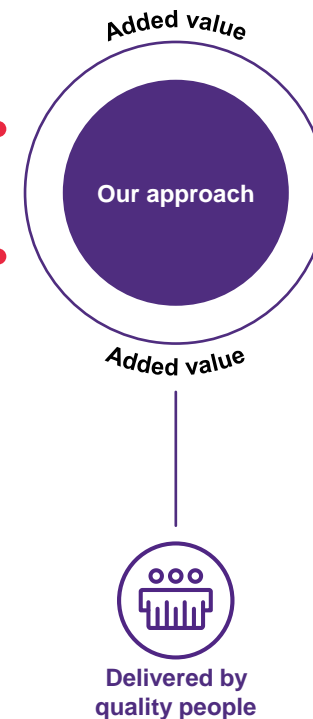
- Clear audit outputs at planning and within our final Annual Report
- Practical, risk based, recommendations for you to take forward
- Our judgements and conclusions set out transparently and in clear language
- Senior presence at Pension Committees to present our findings and support wider dialogue

Pragmatism and early attention of issues

- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the workplan, recognising Covid-19
- Audit director takes ultimate decision on technical matters, consulting with our technical experts

Public sector understanding

- Using our public sector insight to inform our audit and identify improvements you could make
- Regular meetings throughout the year sharing our observations and wider sector knowledge
- Engagement Team who specialise in Public Sector Audit including specific training and experience on LGPS audits.



Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This includes the revised ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC over audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the ICAS quality framework.

In undertaking our risk assessment of the Pension Fund, we have incorporated the revised ISA 540 requirements around estimates and associated disclosures. For the Highland Council Pension Fund, a key area of estimation and judgement relates to level 3 investments for which the Pension Fund hold over £330 million of assets. The nature of these investments means that there is a significant degree of estimation and judgement in their valuation which increases the risk of material misstatement and the level of audit procedures required over these to gain assurance over the accuracy of the valuation in the accounts. As a result of our additional expected audit costs in the current year, we have agreed uplift of £1,300 (4.8%) in auditor remuneration from the baseline fee set by audit Scotland. Our fee assumes that any assurance requests from auditors of admitted / scheduled bodies will be in accordance with the Audit Scotland: Protocol for auditor assurances for retirement benefits 2020/21 and that any additional audit work for assurances required beyond this protocol will be agreed with the Pension Fund in advance.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified. We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees for 2020/21

Service	Fees £
External Auditor Remuneration	28,430
Pooled Costs	2,580
Contribution to Audit Scotland costs	1,490
Contribution to Performance Audit and Best Value	-
2020/21 Fee	32,500

Additional Fees (Non-Audit Services)

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

Fee assumptions

In setting the fee for 2020/21 we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.



Appendices

Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

The Pension Fund

Responsibilities include:

- Preparing financial statements that give a true and fair view
- Maintaining accounting records
- Establishing and maintaining systems of internal control
- Effective internal controls including controls to achieve objectives and secure value for money
- Establish arrangements for proper conduct of affairs including legality of transactions
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance

External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues
- Notify Audit Scotland of any known or suspected frauds greater than £5,000
- Contribute to relevant performance studies (as set out in the planning guidance for the year)



Communication

ISA (UK) 260 as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (we assume this to be the Pensions Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management (Senior Officers) and/or the Pensions Committee.

	Audit Plan	Annual Report (considered our ISA 260 Report)
Respective responsibilities of auditor and management (senior officers)/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' 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 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		•

Fraud responsibilities

The term fraud refers to intentional acts of one or more individuals amongst management (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 Pensions Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management 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 assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management (officers) regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We also make inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year.

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 he 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 management 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.

Auditing Accounting Estimates and Related Disclosures (ISA 540 revised)

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's (senior officers) financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically does the Pension Committee:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee officers' process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how officers made the accounting estimates?

Alongside our audit plan we will communicate a summary of our planning inquiries with those charged with governance.

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021. Based on our knowledge of the Pension Fund we have identified limited material accounting estimates for which this is likely to apply:

- Defined benefit pension scheme liabilities
- Investment Valuations

The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management (senior officers) identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how senior officers selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand officers' rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management (senior officers) understands the degree of estimation uncertainty related to each accounting estimate; and
- How management (senior officers) address this estimation uncertainty when selecting their point estimate.

For example, how senior officers identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures have made formal inquiries of management. We would appreciate a prompt response to these enquiries in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

