

# The Highland Council Pension Fund

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for The Highland Council Pension Fund  
May 2024

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit of The Highland Council Pension Fund (the fund). The main elements of the audit include:

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

## Respective responsibilities of the auditor and the fund

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

### Auditor responsibilities

3. Our responsibilities as appointed auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at the fund. In doing this, we aim to support improvement and accountability.

5. The Accounts Commission has appointed Michael Oliphant, Audit Director, as external auditor of The Highland Council Pension Fund for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second year of the five-year audit appointment.

## **The responsibilities of Highland Council Pension Fund**

**6.** The fund is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual accounts in accordance with statutory requirements.

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

## **Adding Value**

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

# Annual accounts

## Introduction

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

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

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

## Materiality

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

### Materiality levels for the 2023/24 audit

**13.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the fund are set out in [Exhibit 1](#).

## Exhibit 1

### 2023/24 Materiality levels for The Highland Council Pension Fund

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the fund's operations. For the year ended 31 March 2024, we have set our materiality at 2% of net investment assets based on the audited financial statements for 2022/23.	£48 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using	£31.2 million

our professional judgement, we have assessed performance materiality at 65% of planning materiality.

<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£2.4 million
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Source: Audit Scotland

## Lower specific materiality levels for the 2023/24 audit

**14.** In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

**15.** We recognise that transactions relating to Pension Fund members such as contributions receivable, payments to pensioners, benefits and transfers out of/into the fund account are likely to be of key interest to the users of the financial statements and we set specific materiality levels as shown in Exhibit 2.

### Exhibit 2

#### 2023/24 Lower specific materiality levels– transactions relating to members, employers and others

Materiality	Pension Fund
<b>Specific materiality</b> – It has been set at 10% of total benefits payable to members for the year ended 31 March 2024 based on the audited financial statements for 2022/23.	£7.6 million
<b>Specific performance materiality</b> – Using our professional judgement, we have calculated specific performance materiality at 65% of the specific materiality.	£4.9 million

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

**17.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes

available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

**18.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This risk has the greatest impact on our planned audit procedures. [Exhibit 3](#) summarises the nature of the risk, management's sources of assurance over the risk, and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 3

#### 2023/24 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, 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>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Detailed testing of accounting estimates, assessing any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Evaluation of significant transactions that are outside the normal course of business, identified through detailed testing of income and expenditure, accruals and cut off transactions.</li> </ul>

Source: Audit Scotland

**19.** As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the pension fund due to the value and nature of employee contribution income, and that these transactions can be readily predicted. Having considered this, and that there is limited incentive for fraudulent revenue recognition, we have concluded there is not a significant risk in this area.

**20.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to

expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

We have rebutted this risk for the fund for the following reasons:

- Investments are managed by external investment managers
- Pension benefits are the fund's main expenditure stream. There is little incentive or scope for the fund to manipulate these payments
- Other expenditure relates mostly to investment management fees. There is little scope for the fund to manipulate the amount of these fees.

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

### Other areas of audit focus

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

**23.** The areas of specific audit focus are:

- **Valuation of level 2 and level 3 investments:** There is a significant degree of subjectivity in the measurement of these investments. Level 3 investments have at least one input that could have a significant effect on the investment's valuation that is not based on observable market data. As a result, we will assess the fund's valuation process and how it obtains assurances over investment values. We will confirm the fund's valuations to appropriate supporting documentation, including observable market data and reports from the fund's investment managers, for significant investments which are subject to a high degree of estimation.
- **Actuarial valuation of future retirement benefits:** The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. We will review the work of the actuary in accordance with ISA 500, the reasonableness of the actuarial assumptions adopted, and assess the arrangements for ensuring the data provided to the actuary is complete and accurate.



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# Wider Scope

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## Introduction

**24.** The Code of Audit Practice sets out four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

**25.** In summary, the four areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the fund is planning effectively to continue to deliver services, and to achieve its longer-term objectives as set out in the funding strategy.
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the fund demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

## Wider scope risks

**26.** We have considered wider scope areas as part of our risk assessment work for the audit. We have not identified any further specific wider scope risks during the completion of this risk assessment work.

**27.** In addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

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

**29.** We will provide:

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

**30.** [Exhibit 4](#) outlines the target dates for our audit outputs set by the Accounts Commission. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

## Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Pension Committee
Annual Audit Plan	30 March 2024	By correspondence
Independent Auditor's Report	30 September 2024	9 October 2024
Annual Audit Report	30 September 2024	9 October 2024

Source: Audit Scotland

**31.** All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Timetable



**32.** To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

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

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### Exhibit 5

#### Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Agreement of audited and unsigned annual accounts	2 October 2024
Issue of Annual Audit Report to those charged with governance.	2 October 2024
Signed Independent Auditor's Report	9 October 2024

Source: Audit Scotland

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## Audit fee

**34.** In determining the audit fee, we have taken account of the risk exposure of the fund and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £38,260 as set out in [Exhibit 6](#).

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**Exhibit 6****Audit fees (including VAT)**

<b>Fee component</b>	<b>Fees (£)</b>
External Auditor Remuneration	52,690
Pooled costs	1,920
Sectoral Cap Adjustment	(16,350)
<b>Total 2023/24 fee</b>	<b>38,260</b>

Source: Audit Scotland

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

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# Other matters

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## Internal audit

**36.** It is the responsibility of the fund to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

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

## Independence and objectivity

**38.** The appointed auditor is 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.

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

**40.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the fund.

## Audit Quality

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

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

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

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

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

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

# The Highland Council Pension Fund

## Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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