

North East Scotland Pension Fund

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for North East Scotland Pension Fund
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of North East Scotland Pension Fund (the Fund). The main elements of our audit work include:

- evaluation of the key controls within the main financial systems
- an audit of the annual accounts and the provision of an Independent Auditor's Report
- an opinion on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement
- consideration of arrangements in relation to wider scope areas including an Annual Audit Report setting out our conclusions on these areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Audit appointment

2. We have been appointed as external auditors of the Fund and Aberdeen City Council for the 5-year period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of our five-year audit appointment. Details of the audit team are included at [Appendix 1](#).

Adding Value

3. 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 Pensions Committee 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.

Respective responsibilities of the auditor and the Fund

4. 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

5. 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.

6. 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.

The Fund's responsibilities

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

8. 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.

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. 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 key financial systems relevant to the production of the financial statements.

Materiality

11. 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 our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

12. 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 Fund

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Fund's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£116.0 million
Performance materiality – 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 our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£87.0 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. The threshold has been set at 3% of planning materiality.	£3.5 million

Significant risks of material misstatement to the financial statements

13. 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.

14. 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.

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

Exhibit 2

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

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to 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"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing the nature of related party relationships in the financial statements, transactions during the year and outstanding balances at the year-end. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

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

17. We have rebutted this risk for the pension fund because:

- the split of responsibilities between the Fund and its fund managers, the global custodian and the bank provide a clear separation of duties independent of management which reduce the risks relating to investment income and unrealised gains on investments
- having considered the value and the nature of contribution income, which is paid over from employers, we have concluded that contributions follow a predictable pattern and consist of a high volume of low value items. Consequently, we have concluded there are no significant risks in this area.

18. 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.

19. We have also rebutted this risk because:

- pension benefits paid are the Fund's main expenditure stream. There is no incentive for the Fund to manipulate the amount of benefits paid, satisfactory controls are in place and operating appropriately
- management expenses largely relate to fund managers' fees, and these can be agreed to fund managers reports.

20. The risk of material manipulation of the financial statements due to fraudulent expenditure recognition is therefore low.

Other areas of audit focus

21. As part of our assessment of audit risks, we have identified other areas where we consider there to be 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 however keep these areas under review as our audit progresses.

22. The areas of specific audit focus are:

- **Actuarial present value of promised retirement benefits** - valuation depends on a number of assumptions about the future. These include investment returns, rates of pay and pension increase, CPI inflation and demographic assumptions. In accordance with ISA 500, we will undertake a review of the work of the actuary as a management expert.

We will confirm that the actuarial valuation disclosures in the accounts agree with the triennial valuation at 31 March 2023 and the IAS26

report at 31 March 2024. In addition, Audit Scotland engages a consulting actuary to review actuarial work across Scottish local government pension funds. We will consider the consulting actuary's report, review the assumptions on which the triennial valuation was based and follow up any local variations.

- **Valuation of unquoted investments** - There is a significant degree of subjectivity in the measurement and classification of this type of investments. For material unquoted investments, we will undertake a review of relevant Fund Managers as management experts in accordance with ISA 500 and confirm valuations to valuation reports and/or other supporting documentation.

Other matters

23. Audit Scotland operates an agreed framework for local government pension scheme (LGPS) auditors within which the following assurances will be requested and provided for 2023/24:

- requests from LGPS pension fund auditors for assurances from employer body auditors in respect of pension contributions payable by the employer body to the pension fund
- requests from employer body auditors for assurances from pension fund auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies.

Wider Scope

Introduction

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

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

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the Fund is planning effectively to continue to deliver pension benefits, we will also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the 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 identified wider scope audit risks in the areas, set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3**2023/24 Wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>Markets continue to be volatile due to uncertainties around inflation and interest rates. These have resulted in investment performance in the short to medium term, i.e., for the quarter, year and 3-year period being lower than benchmark as at 30 September 2023. Longer term performance, i.e., five years and since inception, is still ahead of benchmark but margins are dwindling.</p> <p>The Fund is finalising a new Funding Strategy Statement based on the results of the triennial valuation at 31 March 2023. The valuation resulted in an increased funding level of 125% compared with 103% previously. The new strategy will set employer rates for the next three years and prompt a review of investment strategy as appropriate to ensure that the Fund has sufficient assets to meet its liabilities.</p>	<p>Management will continue to work with fund managers to identify investments which help support income generating assets.</p> <p>Management has been working with the actuary regarding appropriate contribution rates.</p>	<ul style="list-style-type: none"> • Review the performance of the Fund through the year through quarterly performance reports. • Review investment performance against the benchmark returns set for the year. • Evaluate the Fund's arrangements for monitoring performance against its financial plans, including funding strategy. • Review the triennial valuation's underlying assumptions and the factors considered by the Fund in setting new contribution rates from 1 April 2024.
<p>2. Governance</p> <p>There have been instances of political disagreement between members of the Pension Committee over the last 12-18 months. As a result, there were three resignations from the committee with ongoing vacancies at March 2024 and a related hearing by the Standards Commission resulted in a temporary suspension for a</p>	<p>The committee is supported by officers at meetings and through ongoing training.</p>	<ul style="list-style-type: none"> • Review the operation of the Pensions Committee, assess the level of scrutiny and challenge undertaken and consider any implications for the governance statements.

Description of risk	Management's sources of assurance	Planned audit response
<p>former member of the committee.</p> <p>Members of the committee effectively act as trustees for the benefit of members of the pension fund. There is a risk the disagreements between members and the vacancies on the committee have weakened the level of scrutiny undertaken by the committee.</p>		

Reporting arrangements, timetable, and audit fee

Reporting arrangements

27. We will aim to report matters arising from our audit on a timely basis with agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

28. 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 Controller of Audit with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

29. [Exhibit 4](#) outlines the target dates set by the Accounts Commission for our audit outputs. In determining the target reporting date, due regard has been paid to the statutory deadline of 30 September for approving the annual accounts. For the 2023/24 financial year, we are planning to deliver the audit in line with the statutory deadline and the Accounts Commission's expectations.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Pensions Committee Date
Annual Audit Plan	31/03/2024	22/03/2024
Independent Auditor's Report	30/09/2024	13/09/2024
Annual Audit Report	30/09/2024	13/09/2024

Source: Audit Scotland



30. 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.

Timetable

31. 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](#). This timetable may be subject to change if we experience delays with the audits of other bodies scheduled earlier in the audit programme.

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

Exhibit 5 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	21 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Chief Officer Finance	23 August 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	30 August 2024
Agreement of audited and unsigned annual accounts	30 August 2024
Issue of Annual Audit Report to those charged with governance.	3 September 2024
Signed Independent Auditor's Report	By 30 September 2024

Source: Audit Scotland

Audit fee

33. 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 £51,270 (2022/23 £48,370).

34. 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.

Other matters

Internal audit

35. It is the responsibility of the Fund to establish adequate internal audit arrangements. Services are currently provided by the chief internal auditor of Aberdeenshire Council. We will review the internal audit plan and consider the impact of internal audit's findings on our audit work.

36. We will use the work of internal audit when considering our wider scope work and when assessing the Fund's governance arrangements. We are not however planning to place formal reliance on the work of internal audit to provide assurance for our audit procedures on the financial statements.

Independence and objectivity

37. We are independent of the Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

38. 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.

39. 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

40. 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](#).

41. 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.

42. 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.

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

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.

Appendix 1: Your audit team

The audit team involved in the audit of the Fund have significant experience in public sector audit.

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Auditor

The local audit team is supported by a specialist technical accounting team who have significant experience of public bodies and work with accounting regulatory bodies.

North East Scotland Pension Fund

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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

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