



**Scott-Moncrieff**  
business advisers and accountants

# Lothian Pension Funds

External Audit Plan  
2016/17

**February 2017**

# Contents

- Introduction..... 1
- Responsibilities of Scott-Moncrieff ..... 3
- Audit strategy ..... 5
- Annual accounts..... 8
- Wider scope audit..... 13
- Audit outputs, timetable and fees ..... 17
- Appendix 1: Your audit management team ..... 20
- Appendix 2: Statement of understanding..... 21

1

# Introduction

# Introduction

1. This document summarises the work plan for our 2016/17 external audit of Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund (collectively referred to as the “Funds”).
2. The core elements of our work include:
  - an audit of the 2016/17 annual accounts and related matters;
  - an interim audit, taking into consideration the work of internal audit, on accounting systems;
  - a review of arrangements for governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland, for example, local performance audit work.

## Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission’s work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor of the Funds for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
  - the responsibilities of Scott-Moncrieff as external auditors;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs, timetable and fee; and
  - background to Scott-Moncrieff and the audit team.

## Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Funds through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Funds promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide would be greatly appreciated at any time. Full contact details for your audit team can be found in Appendix 1.
8. While this plan is addressed to the Funds, it will be published on Audit Scotland’s website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

2

# Responsibilities of Scott-Moncrieff

# Responsibilities of Scott-Moncrieff

## Code of Audit Practice

9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow the Code.
10. A new Code of Audit Practice was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.

## Auditor responsibilities

11. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
12. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

**Exhibit 1: Audit dimensions of wider scope public audit**

Audit area	Scope
<b>Financial sustainability</b>	Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner.
<b>Financial management</b>	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
<b>Governance and transparency</b>	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
<b>Value for money</b>	Value for money is concerned with using resources effectively and continually improving services.

**3**

# Audit strategy

# Audit strategy

## Risk-based audit approach

13. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Funds. This

ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



14. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

## Communications with those charged with governance

15. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the Funds that these communications will be through both the Pensions Committee and Pensions Audit Sub-Committee.

## Professional standards and guidance

16. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB).

## Partnership working

17. We will coordinate our work with Audit Scotland, internal audit and other external auditors, recognising the increasing integration of service delivery and partnership working within the public sector.

## Audit Scotland

18. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

19. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review the Funds' arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which the Funds use the national performance reports as a means to help improve performance at the local level.

20. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

## Internal audit

21. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the



Funds' total audit resource. The Funds' internal audit function is provided by the City of Edinburgh Council's internal audit team. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the Funds are used efficiently and effectively.

4

# Annual accounts

# Annual accounts

## Introduction

22. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the Funds' annual accounts.

## Approach to audit of annual accounts

23. Our opinion on the annual accounts will be based on:

### Risk-based audit planning

24. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

### An audit of key systems and internal controls

25. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.
26. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the Funds' own policies and procedures.
27. We will take cognisance of any relevant internal audit reviews of systems and controls.
28. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the annual accounts

29. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.
30. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the UK (the CIPFA Code).

## Independent auditor's report

31. Our opinion on whether the annual accounts give a true and fair view of the financial position and its income and expenditure will be set out in our independent auditor's report which will be included in the annual accounts.

## Materiality

32. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
33. Our initial assessment of materiality for each Fund is set out in the table below. The Funds hold significant investment assets, which form the largest part of the net asset statements for each pension fund. We consider that the net asset statements are of primary interest to the reader of the annual accounts and therefore consider that these should be used in the calculation of overall materiality. While the net asset statements are of primary interest to the reader of the annual accounts we consider that a misstatement at the level of materiality or even much less than this figure would be highly material to the fund accounts and therefore of greater interest to the reader of the annual accounts. Therefore we will apply a materiality level to the fund account transactions at a lower level, to reduce the risk of material misstatement.

	Overall materiality £million	Fund account materiality £million
Lothian Pension Fund (group) <sup>1</sup>	81.5	8.8
Lothian Pension Fund (single entity)	81.5	8.8
Lothian Buses Pension Fund	5.9	0.4
Scottish Homes Pension Fund	2.3	0.2

34. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

	Area risk assessment £million		
	High (45%)	Medium (55%)	Low (70%)
Lothian Pension Fund (group)	36.7	44.8	57.1
Lothian Pension Fund (single entity)	36.7	44.8	57.1
Lothian Buses Pension Fund	2.7	3.2	4.1
Scottish Homes Pension Fund	1.0	1.2	1.6

<sup>1</sup> Lothian Pension Fund group comprises Lothian Pension Fund, LPFE and LPFI

35. Where transactions, or groups of transactions, and balances impact on the fund account, performance materiality will be set at the lower fund account materiality figures as disclosed above.

36. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of £250,000, less than 1% of the overall materiality figure; and
- Other misstatements below the 1% threshold that we believe warrant reporting on qualitative grounds.

### Key audit risks in the annual accounts

37. Auditing standards require that we inform the Pensions Committee of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Pensions Committee if our assessment changes significantly during the audit.

## Exhibit 2 – Key audit risks in the annual accounts

### 1. Revenue recognition

Under ISA 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Funds could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.



38. Our work on income will include an evaluation of each type of revenue transaction and a review of the controls in place over revenue accounting. We will consider the Funds' key revenue transactions and streams and carry out testing to confirm that the Funds' revenue recognition policy is appropriate and has been applied consistently throughout the year.

### 2. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



39. In response to this risk we will review the Funds' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

### 3. Valuation of investments

The Funds held investments of £5.399 billion as at 31 March 2016, of which 25% (£1.350 billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error.



40. In response to this risk we will review the design and implementation of controls present at the scheme for ensuring the accurate valuation of investments. We will review the qualifications of the fund managers as experts to value the investments and gain an understanding of how the valuations have been reached. For a sample of investments we will confirm the prices quoted to fund manager reports and independent pricing sources. Where such prices are not available we will perform alternative procedures such as reviewing transactions around the year end.

### 4. Pension liability assumptions

An actuarial estimate of the pension fund liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.



41. We will review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will agree the disclosures in the financial statements to information provided by the actuary.

## Other risk factors

42. Further to the identification of significant audit risks, we have also identified risk factors which could potentially result in material misstatements. We do not propose, at this stage to undertake specific audit procedures in response to these perceived risks. We will continue to monitor these areas during the year and adapt our audit approach as necessary.

---

### Exhibit 3 – Other risk factors

#### 1. Group accounts

The Pensions Committee for the Funds approved the creation of two special purpose vehicles, LPFE Ltd and LPFI Ltd which are wholly owned and controlled by the City of Edinburgh Council. Group accounts were prepared for the Funds for the first time in 2015/16 incorporating LPFE Ltd. LPFI Ltd only became operational after the funds received Financial Conduct Authority authorisation. It is anticipated that LPFI Ltd will be incorporated into the group accounts in 2016/17.



43. We will review the consolidation working papers to ensure the group accounts accurately reflect the activities of the parent and both subsidiaries. We will review the financial statements to ensure the disclosure requirements of the CIPFA Code are met.

#### 2. Changes to the CIPFA Code

The main change for the 2016/17 pension fund accounts is the extension of the fair value disclosures required under the CIPFA Code. Other changes made to the pension fund accounts include the following:

- An analysis of investment management expenses in line with CIPFA's *Accounting for local government pension scheme management expenses* (2016).
- The net assets statement, along with certain notes have been amended to align with new investment classifications of the CIPFA Code.
- The classification of investment assets and liabilities into fair value hierarchies (levels 1 to 3) has been amended.
- An additional disclosure note covering remuneration of key management personnel has been included in related party transactions.



44. Our work will include discussions with the finance team to establish compliance with the CIPFA Code. We will review the disclosure checklist completed by the Funds' finance team. Where there are recommended disclosures we will discuss in advance the Funds' planned approach to reporting.

**5**

# Wider scope audit

# Wider scope audit

## Introduction

45. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money. At the outset we will consider the Funds’ self-evaluation arrangements as they relate to these four dimensions.

46. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability. We have not, at this stage, identified any significant risks in relation to the other three dimensions; financial management, governance and transparency or value for money. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report.

### Exhibit 3 - Wider scope audit

**Financial sustainability:** Financial sustainability looks forward to the medium and longer term to consider whether the Funds are planning effectively to continue to fulfill its functions in an affordable and sustainable manner.

Funds responsibilities	Our audit approach
<p>It is the Funds’ responsibility to put in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>Such financial monitoring and reporting arrangements as may be specified;</li> <li>Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>Balances and reserves, including strategies about levels and their future use;</li> <li>How the Funds plan to deal with uncertainty in the medium and long term; and</li> <li>The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>	<p>During our 2016/17 audit we will consider the Funds’ financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the Funds’ operations and use of resources.</p> <p><b>Key audit risk</b></p> <p>The Funds produce an annual service plan and budget which covers a two year period of activity. In addition to this the Funds prepare a Funding Strategy Statement and receive a triennial actuarial valuation which builds up a picture of the longer term financial pressures. The service plan focuses on the running costs of the scheme whereas the Funding Strategy and triennial valuation focuses on meeting the demands of pension liabilities. There is a risk that pressures on the running costs of the Funds will increase going forward, resulting in service levels diminishing.</p> <p>During our audit we will consider whether the Funds have adequate arrangements in place for managing its financial position and its use of resources. Our conclusion will be based on a review of the Funds’ financial performance, underlying financial position, financial plans and financial reporting.</p>



### Exhibit 3 - Wider scope audit

**Financial management:** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Funds responsibilities	Our audit approach
<p>It is the Funds' responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Funds are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the Funds' responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>	<p>During our 2016/17 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> <li>• Whether the Funds have arrangements in place to ensure systems of internal control are operating effectively;</li> <li>• Whether the Funds can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;</li> <li>• How the Funds have assured itself that its financial capacity and skills are appropriate; and</li> <li>• Whether the Funds have established appropriate and effective arrangements for the prevention and detection of fraud and corruption.</li> </ul>

**Governance and transparency:** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Funds responsibilities	Our audit approach
<p>It is the responsibility of the Funds to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Funds should involve those charged with governance in monitoring these arrangements.</p> <p>In May 2017 local government elections will take place. It is the Funds' responsibility to manage any impact this may have on the governance of the organisation and reflect this appropriately in the Annual Governance Statement.</p> <p>The Funds are also responsible for establishing effective and appropriate internal audit and risk management functions.</p>	<p>We will review the effectiveness of the Funds' governance framework and the extent to which board and committee roles, membership and terms of reference comply with current guidance.</p> <p>We will consider the appropriateness of the disclosures in the Annual Governance Statement.</p> <p>We will consider whether the information provided to the board and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>Our work will include consideration of how risk management has been addressed within the Funds. We will also consider the Funds' internal audit arrangements to determine their role in examining the control systems established by management.</p>

---

### Exhibit 3 - Wider scope audit

**Value for money:** Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

Funds responsibilities	Our audit approach
<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>	<p>We will work with the Funds to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.</p> <p>We will seek evidence from the Funds that outcomes are improving and there is sufficient focus on improvement and the pace of it.</p> <p>Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that the Funds may have a direct interest in.</p>

A large orange circle with a white border containing the white number 6.

# Audit outputs, timetable and fees

# Audit outputs, timetable and fees

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	February 2017
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts	September 2017
Annual Report to the Funds and the Controller of Audit	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	September 2017

## Audit outputs

47. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
48. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

## Audit fee

49. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
50. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

51. For 2016/17 the expected fee for the Funds is £40,800. We propose setting the fee above this level at £44,350; to take cognisance of the audit work we will carry out on the priorities and risks facing the Funds which are identified in this plan.
52. The total proposed fee for the Funds for 2016/17 is as follows:

	2016/17
Auditor remuneration	£39,130
Pooled costs	£3,100
Performance audit and Best Value	-
Audit support costs	£2,120
<b>Total expected fee</b>	<b>£44,350<sup>2</sup></b>

53. We will take account of the risk exposure of the Funds and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit

<sup>2</sup> The audit fee in 2015/16 was £47,660.

visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

## Audit timetable

54. The dates for our interim and final audits have been discussed with the Chief Financial Officer and the finance team. A summary timetable, including audit outputs, is set out as follows:



# 7

## Appendices

# Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Seple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

## Your audit management team

**Nick Bennett**  
Audit Partner

[nick.bennett@scott-moncrieff.com](mailto:nick.bennett@scott-moncrieff.com)

Nick has over 25 years’ experience of public sector auditing and has been heavily involved in developing public sector accounting standards. Nick’s experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector.

**Karen Jones**  
Audit Director

[karen.jones@scott-moncrieff.com](mailto:karen.jones@scott-moncrieff.com)

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.

**Claire Gardiner**  
Audit Manager

[claire.gardiner@scott-moncrieff.com](mailto:claire.gardiner@scott-moncrieff.com)

Claire has over 12 years’ public sector external audit experience. She has delivered external audit services to a range of public sector bodies, including pension funds, local authorities, health bodies and central government bodies. Claire will manage the onsite team and work alongside Karen and Nick to deliver the audit engagement.

## Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Funds, its Funds members and senior

management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 2: Statement of understanding

## Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Lothian Pension Funds (the "Funds") and Scott-Moncrieff.

## Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant Funds staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

## Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Funds responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Funds during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Chief Finance Officer.

## Internal audit

It is the responsibility of the Funds to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Nick Bennett. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.



We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

We shall be grateful if the Pensions Committee would consider and note this Statement of Understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



**Scott-Moncrieff**  
business advisers and accountants

© Scott-Moncrieff Chartered Accountants 2017. All rights reserved. "Scott-Moncrieff" refers to Scott-Moncrieff Chartered Accountants, a member of Moore Stephens International Limited, a worldwide network of independent firms. Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.