

Strathclyde Pension Fund

Provisional Annual Audit Plan
Year ended 31 March 2023



This report

This report has been prepared in accordance with Terms of Appointment Letter, through which the Auditor General has appointed us as external auditor of Strathclyde Pension Fund ("Pension Fund" or "the Fund") for financial years 2022/23 to 2026/27.

This report is for the benefit of the Pension Fund and is made available to the Auditor General and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Accessibility

Our Annual Audit Plan will be available on Audit Scotland's website and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018.

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1. Executive summary

Purpose of our plan

The Auditor General for Scotland appointed EY as the external auditor of Strathclyde Pension Fund (“Pension Fund” or “the Fund”) for the five year period to 2027/28.

This Annual Audit Plan, prepared for the benefit of senior management and the Strathclyde Pension Fund Committee (“Pension Fund Committee”), sets out our proposed audit approach for the audit of the financial statements for the year ending 31 March 2023. In preparing this plan, we have developed our understanding of the organisation through:

- ▶ introductory planning discussions with management;
- ▶ handover discussions and review of key documentation from your predecessor auditor, Audit Scotland;
- ▶ review of key documentation and committee reports; and
- ▶ our understanding of the environment in which the Fund is currently operating.

Our audit quality ambition is to consistently deliver high-quality audits that serve the public interest. A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, including observations around where the Fund employs best practice and where processes can be improved. We use data insights to form our audit recommendations to support the Pension Fund in improving its practices around financial management and control,

and in aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements audit.

After consideration by the Strathclyde Pension Committee, the finalised plan will be provided to Audit Scotland and published on their website.

Scope and Responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Pension Fund and the auditor, more details of which are provided in Appendix A.

Independence

We confirm that we have undertaken client and engagement acceptance procedures, including our assessment of our independence to act as your external auditor. Further information is available in Appendix B.

Our key contacts:

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Financial Statements audit

We are responsible for conducting an audit of the Pension Fund's financial statements. We provide an opinion as to:

- ▶ whether they give a true and fair view, in accordance with applicable law and the 2022/23 Code of the financial transactions of the Fund as at 31 March 2023 and;
- ▶ have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2022/23 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

We are required to plan our audit to determine with reasonable confidence 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. Our key considerations and materiality values are set out in Exhibit 1, below.

Wider Scope Dimensions

As public sector auditors, our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice (2021) requires auditors to consider the arrangements put in place by the Pension Fund and the Accountable Officer to meet their Best Value obligations as part of our proportionate and risk-based wider scope audit work.

Wider scope audit requires consideration of:

- ▶ the Pension Fund's arrangements to secure sound financial management;
- ▶ the regard shown to financial sustainability;
- ▶ clarity of plans to implement the vision, strategy and priorities of the Pension Fund, and the effectiveness of governance arrangements for delivery; and
- ▶ the use of resources to improve outcomes.

Exhibit 1: Materiality Assessment in 2022/23

Planning Materiality

- ▶ Overall materiality for the financial statements
- ▶ Initial assessment based on the prior year 1% Fund's net assets

£283.6
million

Performance Materiality

- ▶ We have assessed performance materiality at 50% of overall materiality for the financial statements.

£141.8
million

Reporting Threshold

- ▶ Level of error that we will report to the Pension Fund Committee.

£250,000

Based on our understanding of the expectations of financial statement users, we apply a lower materiality level to Key Management Personnel disclosure. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

Exhibit 2: Summary of significant risks identified for the audit in 2022/23

Five significant risks, impacting the audit of the financial statements, in Section 3:

1. Risk of fraud in revenue and expenditure recognition, including through management override of control	<p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have determined that the way management could be most likely to override controls is by manipulating the value of the year-end investment asset balances posted to the general ledger at year end.</p>
2. Valuation of complex investments	<p>Valuation of complex investments has been considered as part of our consideration of the fraud risk around management override. We also identified this as a significant risk reflecting the complexity of this area and the fact that around 30% of net financial assets in the 2021/22 financial statements were classified as Level 2 and Level 3 investments, meaning there are not publicly quoted prices in place for these types of investments in an active market.</p>
3. Valuation of property, plant and equipment	<p>The Fund has a significant portfolio of directly held property investments (2021/22: £2.6 billion). The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.</p>

Exhibit 3: Other areas of audit focus in 2022/23

Other areas impacting the audit of the financial statements are identified in Section 3:

1. Opening balances	<p>As 2022/23 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510.</p> <p>There is a possibility that we may identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.</p>
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Exhibit 4: Summary of areas of audit focus in relation to the wider scope dimensions

Under the Code of Audit Practice, auditors are required to identify significant audit risks in the areas defined in the Code as wider scope dimensions. We consider significant risks in this context to be areas where we expect to direct most of our audit effort, based on:

- ▶ our risk assessment at the planning stage; and
- ▶ the identification of any national areas of risk within Audit Scotland’s annual planning guidance.

Any changes in this assessment will be communicated to the Pension Fund Committee. We refer to these areas within Section 4 as “areas of audit focus”:

1. Vision, Leadership and Governance: Cybersecurity	There continues to be a significant risk of cyber attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23 Audit Scotland has asked us to consider risks related to cyber security at audited bodies.
2. Use of resources: Climate change reporting	Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The Pension Fund should therefore have a plan to reduce their direct and indirect emissions. Audit Scotland has asked for specific audit work to be conducted in 2022/23 on the arrangements to respond to climate change, as part of a developing programme of work.

| 2. Sector developments

Introduction

In accordance with the principles of the Code, our audit work considers key developments in the Local Government Pension Scheme (LGPS) sector. We obtain an understanding of the strategic environment in which the Pension Fund operates to inform our audit approach.

| Pensions Increase Order 2023

UK CPI for the year to 30th September 2022 was confirmed as +10.1%.

Government has confirmed that this will be the basis for April 2023's pension increase of pensions in payment, and revaluation of all career average benefits for active and deferred members.

| Triennial Valuation

The Pension Fund's most recent triennial valuation carried out by the Fund's actuary Hymans Robertson was at 31 March 2020. The Fund's valuation showed a funding position of 106.1%, compared with 105% at the 2017 valuation.

In 2021/22 the fund's assets have grown by £2 billion from the prior year. Whilst funding levels and performance have been improving, the important factor is for the Fund to have the ability to meet its obligations in the long term. The funding objective is to achieve the funding target over the target funding period. The funding target (amount of assets compared to liabilities expressed as a percentage) is at least 100% using appropriate actuarial assumptions.

In 2021/22, the Fund saw a strong performance, with the projected funding level being at 123.3% as at 31 March 2022. The next formal funding valuation will be carried out as at 31 March 2023 with results being available by 31 March 2024.

| Future Fund structures

A consultation on the review of the current structure of the Local Government Pension Schemes in Scotland was launched in summer 2018 by the Scheme Advisory Board (SAB) with consultees asked to consider four structural options: the status Quo for 11 funds, increased collaboration between the funds, pooling of assets and fund merger.

The Pension Fund responded to the consultation opting to maintain the status quo and stated, that it is not clear what would be gained by its members or participating employers from adoption of any of the proposed alternative models. It is certain, though, that there would be significant costs and risks associated with any change.

The SAB review is still ongoing, with a Strategic Programme Manager appointed in 2021 to undertake the required analysis. The SAB project group has researched and extensively analysed existing reports and information relating to options for the future. It then undertook a gap analysis of information which would be needed to develop detailed business cases for the various options.

| Future Fund structures (continued)

To take this through to completion in the specified level of detail would require additional time and resources, and therefore the SAB has decided to seek clarification from Scottish Ministers on the nature of the advice they want to receive from the SAB.

| Climate change risk and climate change reporting

In 2021/22 Strathclyde Pension Fund has continued to develop its climate change risk strategy. The Pension Fund believes that Climate Change is a systemic risk and thus a material long-term financial risk.

The Fund has expended considerable effort in supporting collaborative engagement initiatives that have a specific Climate Change remit. The Fund is a founding member of Climate Action 100+. This is a five-year initiative that uses carbon mapping data to target the worst corporate climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure.

According to SAB, there is a clear move to making climate risk reporting mandatory for Local Government Pension Scheme sector, in line with private sector pension funds. Strathclyde Pension Fund supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). TCFD provides a global framework to enable stakeholders to understand the financial system's

exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks.

| Cost Transparency Reporting Tool

Fees, charges and returns are a vital issue for the LGPS, and the SAB in Scotland has agreed to participate in the Online Cost transparency system run by Byhiras on behalf of the English and Welsh LGPS SAB. This provides LGPS funds with a range of reports on performance and charges indicators based on templates developed by the Cost Transparency Initiative (CTI)¹. It allows fund to benchmark themselves against similar LGPS funds in the UK. The specific data is commercially confidential, but recent analysis work indicates that investment fees may be rising, and 'hidden fees' are still a significant issue. Awareness raising sessions on the Code of Transparency and the specific reporting system are planned for groups of funds throughout England and Wales. These are aimed at both pension officers and elected members and board members.

3. Financial statements: Our approach and assessment of significant risks

Introduction

The publication of the annual financial statements allow the Pension Fund to demonstrate accountability for, and its performance in the use of its resources.

Our responsibilities

We are responsible for conducting an audit of the Pension Fund's financial statements. We provide an opinion as to:

- ▶ whether they give a true and fair view in accordance with applicable law and the 2022/23 Code of the financial transactions of the Fund as at 31 March 2023 and of its income and expenditure for the year then ended; and
- ▶ have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2022/23 Code
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

ISA (UK) 315: Identifying and Assessing the Risks of Material Misstatement

Our objective is to form an opinion on the financial statements under International Standards on Auditing (ISA) (UK). There have been significant changes to ISA (UK) 315 (ISA 315) that will impact our 2022/23 audit approach.

ISA 315 is effective from 2022/23 onwards and will drive our approach to:

- ▶ risk assessment;
- ▶ understanding the Pension Fund's internal control arrangements;
- ▶ the identification of significant risks; and
- ▶ how we address significant risks.

Key changes as a result of the implementation of ISA 315

The required audit approach signifies a material change in the approach that management has been used to over the last appointment. Key changes will include:

- ▶ a significant increase in audit work on the Pension Fund's use of IT in the system of internal control;
- ▶ increased importance of our understanding of the entity and environment, the applicable financial reporting framework, and system of internal control;
- ▶ a greater focus on professional scepticism including that audit approaches don't show bias to looking for corroborative evidence or excluding contradictory evidence.
- ▶ we will make enhanced inquiries of management, or others within the management of the Pension Fund, those charged with governance and those who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties.

Audit Approach

For 2022/23 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

We will adopt a “data first” approach across all stages of the audit. We integrate technology into our audits to improve the way we are able to analyse and interact with your data, driving both audit quality and the insight that we can offer your Finance Team and Pension Fund Committee.

During our planning procedures, we determine which accounts, disclosures and relevant assertions could contain risks of material misstatement.

Our audit involves:

- ▶ identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund’s internal control.
- ▶ evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by

management.

- ▶ concluding on the appropriateness of management’s use of the going concern basis of accounting.
- ▶ evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the Pension Fund financial statements.
- ▶ reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable.
- ▶ ensuring that reporting to the Pension Fund Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.

Confirmation of independence

Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We rigorously maintain auditor independence. Further information is available in Appendix B, where we confirm that our procedures are complete and that we are not aware of any such relationships relating to the audit of Strathclyde Pension Fund.

Materiality

For planning purposes, materiality for 2022/23 has been set at £283.6 million (2021/22: £264 million). This represents 1% of the Pension Fund`s prior year reported net assets. Our materiality level is influenced by the nature of a initial audit

Materiality will be reassessed throughout the audit process and will be communicated to the Pension Fund Committee within our Annual Audit Report.

Our assessment concluded that net assets is the most appropriate basis for determining planning materiality for the Pension Fund.

We consider misstatements greater than 1% of the net assets to be material. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. We have provided supplemental information about audit materiality in Appendix F.

Specific Materiality

We consider all accounts and disclosures.

within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- ▶ **Key management personal disclosure** (included within Transactions with Related Parties note) - given the sensitivity around the disclosure of senior staff remuneration we apply a lower materiality threshold to our audit consideration around the remuneration report and related disclosures.
- ▶ **Related party transactions** - which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.

Exhibit 5: Materiality

Element	Explanation	Value
Planning materiality	<p>The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.</p> <p>This represents 1% of the prior year Fund`s Net Assets.</p>	£283.6 million
Performance materiality	<p>Materiality at an individual account balance, which is set to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an acceptably low level.</p> <p>We have set it at 50% of planning materiality. This level reflects our risk assessment for an initial audit.</p>	£141.8 million
Reporting Level	<p>The amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements.</p>	£250,000

Our response to significant risks

Introduction

Auditing standards require us to make communications to those charged with governance throughout the audit. At the Pension Fund, we have agreed that these communications will be to the Pension Fund Committee. The financial statements and our Annual Audit Report will also be reported to the Pension Board.

One of the key purposes of our annual audit plan is to communicate our assessment of the risk of material misstatement in the financial statements.

| We are required to plan our audit to determine with reasonable confidence 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.

We set out in the following sections the significant risks (including fraud risks denoted by *) that we have identified for the

audit, along with the rationale and expected audit approach.

The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit. We will provide an update to the Pension Fund Committee if our assessment changes significantly during the audit process.

1. Risk of fraud in revenue and expenditure recognition, including through management override of control*

Financial Statement Impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the valuation of investment assets at the year end. These 2021/22 account balance in the audited financial statements was: £28.3 billion.

Other than the valuation of investments assets, we have not identified any specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit

| What is the risk?

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have determined that the way management could be most likely to override controls is by manipulating the value of the year-end investment asset balances posted to the general ledger at year end.

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| Our response: Key areas of challenge and professional judgement

Based on our current understanding we will take a fully substantive approach to testing the related accounts.

Specifically we will:

- ▶ Testing the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including investment assets balances posted to the general ledger at year end.
- ▶ Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates.
- ▶ Evaluating the business rationale for any significant unusual transactions.
- ▶ Obtaining third party confirmations of the Fund's externally held investment balances at the Pension Fund's year end 31 March 2023 from both custodians and investment managers. We will investigate any differences in valuation between these sources and agree the final agreed balance for investments in the accounts.
- ▶ Consideration of the impact of any geopolitical events on investments valuation and its accounting implication.

1. Risk of fraud in revenue and expenditure recognition, including through management override of control *

(continued)

| Our response: Key areas of challenge and professional judgement (continued)

In addition, we will :

- ▶ inquire of management about risks of fraud and the controls put in place to address those risks;
- ▶ understand the oversight given by those charged with governance of management's processes over fraud;
- ▶ consider the effectiveness of management's controls designed to address the risk of fraud; and
- ▶ perform mandatory procedures regardless of specifically identified fraud risks, including:

We will use our data analytics capabilities to assist with our work.

3. Valuation of complex investments

Financial Statement Impact

Within the 2021/22 financial statements, the Fund held £2.4 billion of Level 2 and £6.2 billion of Level 3 net financial assets.

| What is the risk?

Valuation of complex investments has been considered as part of our consideration of the fraud risk around management override. We also identified this as a significant risk reflecting the complexity of this area.

As of 31 March 2022, the Fund held net investments of £28.2 billion of which around 30.2% (£8.6 billion) were classified as Level 2 and Level 3 investments, meaning there are not publicly quoted prices in place for these types of investments in an active market. We have therefore assigned a significant risk to the valuation of Private Equity, Infrastructure Funds and Property Funds and Pooled Investments Vehicles.

The Fund's property assets of £2.6 billion are also classed as Level 3. We have assigned a separate significant risk to this class of assets as described at the next page.

| What work will we perform:

- ▶ Review relevant controls' reports for qualifications or exceptions that may affect the audit risk and scope, and obtain bridging letters for the period between report dates and financial statement dates where they differ.
- ▶ For each Fund manager we will obtain the most up to date Financial Statements for each investment/Fund, and the capital statement for the date of the Financial Statements along with the capital statement as of 31 March 2023. We will review the audit opinions for the fund to identify any possible issues with the valuation in the year and recalculate the Fund's share of the investment based on its percentage ownership.
- ▶ Review the basis of the valuation for unquoted investments to be satisfied that it is in line with the Fund's accounting policy and CIPFA requirements.
- ▶ Assess the impact of any differences arising from the timing of valuation reports for 31 March 2023 on the financial statements, including the turnaround impact from the prior year unadjusted difference

3. Valuation of Directly Held Properties

Financial Statement Impact

The fund holds £2.6 billion as directly held property, which is valued annually by an external valuer and classified as Level 3 assets.

| What is the risk?

The Fund has a significant portfolio of directly held property investments.

The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.

| What work will we perform:

- ▶ Assess the competence of management experts;
- ▶ Review the basis of valuation for properties and assessing the appropriateness of the valuation methods used;
- ▶ Engage our own internal valuation specialists (EY Real Estates) to review a sample of properties;
- ▶ Perform analytical procedures and checking the valuation output for reasonableness against our own expectations;
- ▶ Consider what impact, if any, the introduction of IFRS16 Lease Accounting may have on the Funds' accounting and disclosures for directly held properties.

Other Audit Matters

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters that we will include in our annual audit report.

Opening balances

Audit Requirements

As 2022/23 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510.

There is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.

We will:

As part of our work on valuation of investment balances confirmation, we will include a request the investment managers and Custodian of the Fund to provide a confirmation of opening balance position on 1 April 2022 (in addition to the value at the year end value at 31 March 2023) the investment managers and Custodian of the Fund.

Going concern

Audit requirements

In accordance with the CIPFA Code of Practice on Local Government Accounting, the Pension Fund prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

CIPFA bulletin 05 (issued at closure of the 2019/20 financial statements) stated that while there is likely to be a significant impact of Covid-19 on local authority financial sustainability, the rationale for the going concern basis of reporting has not changed .

The Fund is established under secondary legislation made under the terms of the Public Service Pensions Act 2013 and is therefore expected to be a going concern until notification is given that the body will be dissolved and its functions transferred.

However, under ISA (UK) 570, we are required to undertake challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Pension Fund and its financial sustainability.

Our work on going concern requires us to:

- ▶ challenge management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtain and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Pension Fund obtained through our audit, including considerations of future forecast and plans, cashflow projections from dealing with members and overall Fund's funding position;
- ▶ conduct a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

Due to the anticipated continuation of service provision, the going concern basis of accounting will continue to be appropriate for the Pension Fund.

| 4. Wider Scope Dimensions

Introduction

In June 2021, Audit Scotland and the Accounts Commission published a revised Code of Audit Practice. This establishes the expectations for public sector auditors in Scotland for the term of the current appointment.

| Risk assessment and approach

The Code sets out the four dimensions that comprise the wider scope audit for the public sector in Scotland:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Vision, Leadership and Governance; and
- ▶ The use of resources to improve outcomes.

While we undertake work across the dimensions of public audit on an annual basis, any areas highlighted as significant risks will represent the issues where we expect to direct most of our audit effort. Any changes in this assessment will be communicated to the Pension Fund Committee.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. This section sets out our areas of focus, along with any specific significant risks relating to each dimension.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

Financial Management

Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.

The 2021/22 Annual Audit Report concluded that the Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance. While prior review of systems did not identify any significant control weaknesses which could affect the Fund's ability to report financial and other relevant data in financial systems, it did flag two improvements areas which have been communicated to management:

1. SAP/Altair reconciliations: Detailed pension calculations are recorded in the Altair pension system and reflected through the SAP financial ledger. However, timing differences can arise between the information reflected in the two systems, with the volume of transactions making a detailed reconciliation resource intensive. Officers were developing a new reporting tool which would make use of current functionality in Altair, with a view to implementing improved arrangements during 2022/23.

2. Management assurances on the work of experts: in 2021/22 Fund's assets include over £6 billion of level 3 investments, where valuations are based on the application of valuation techniques by fund managers rather than quoted market prices. Management needs to assure themselves that the approach used by the experts,

including the assumptions and estimates used, are appropriate. There was therefore a scope to improve the formal documentation of the process and conclusions.

| Our response

As part of our year one assessment of the Pension Fund's financial management arrangements, we will consider:

- ▶ whether there are sufficient financial skills and capacity within the finance function;
- ▶ the Fund's participation and progress in the National Fraud Initiative and other counter fraud arrangements;
- ▶ arrangements to ensure systems of internal control are operating effectively, drawing upon our ISA (UK) 315 procedures;
- ▶ financial monitoring arrangements, including clarity about any changes to budgets and projections during the year, and will report on the Fund's arrangements in respect of financial monitoring, review and reporting through the year and controlling its income and expenditure;
- ▶ internal control environment resulting from the hybrid working arrangements;
- ▶ We will follow up on the progress made in the highlighted improvements areas in 2021/22 Annual Audit Report.

Financial Sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

The value of the Fund increased by 7.6% to £28.4 billion during 2021/22, with investment performance slightly below the benchmark return set for the year. The Fund's funding position is strong, although it faces significant uncertainty due to the current economic climate.

For 2021/22, the actuary highlighted in their report that the war in Ukraine resulted in volatile markets at the start of 2022 but the overall impact on the accounting position at the year-end was limited. However, significant uncertainty remains in the medium term over the impact of the conflict on market returns. Current slow economic growth and inflation rate pressures also present risks to the overall position of the Fund.

Annual Audit Report for 2021/22 concluded that given the actuary's interim valuation showed that the Fund is over 120% funded and the healthy net asset position at 31 March 2022, there were no concerns about the financial stability of the Fund. However, in the current economic climate the Fund will need to maintain focus on the viability of the funding strategy.

Our response

Our assessment of the Pension Fund's financial sustainability arrangements, will focus on:

- ▶ Review of financial reporting to Pension Board, including management accounts and budgets / medium term financial planning, financial strategy going forward;
- ▶ We will consider the Fund's progress in preparing for the triennial valuation and assess progress in delivering the Fund's investment strategy; and
- ▶ Review of investment strategy for Fund and investment performance reporting.

Vision, leadership and governance

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

Glasgow City Council is the administering authority for Strathclyde Pension Fund. The Council has delegated responsibility for governance to the Executive Director of Finance. The Strathclyde Pension Fund Committee is the main decision-making body of the Fund. It is supported by the Pension Board and is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

2021/22 Annual Audit Report concluded that the Fund has appropriate arrangements to support good governance and accountability. There is effective scrutiny, challenge and informed decision making by committee. The following observations have also been made in 2021/22 Annual Audit Report:

- ▶ the Fund relies on the arrangements of the administering authority, Glasgow City Council, for the prevention and detection of fraud and corruption. These include codes of conduct for members and officers, a whistleblowing policy and an anti-fraud strategy and response plan. It was concluded that the Fund has appropriate arrangements in place to prevent and detect fraud and corruption;
- ▶ as part of its climate change strategy, the Fund has committed to reporting on its approach to climate risk using a framework aligned to the

recommendations of the Financial Stability Board's task force on climate related financial disclosures (TCFD). For the second year, the Fund's annual report included a separate section on the climate change strategy, setting out its approach to climate risk against these four areas. Enhanced disclosures last year included a minimum standards framework for assessing energy companies within active equity portfolios, and baselined net-zero emissions information;

- ▶ in April 2021, the Fund applied to be a signatory to the Financial Reporting Council's UK Stewardship Code. The Code comprises a set of 'apply and explain' principles for asset managers and asset owners, supported by reporting expectations which indicate the information that organisations should publicly report to become a signatory. In September 2021, the Fund was confirmed as one of 23 new asset owner signatories to the Code.

Audit Scotland's 2022/23 planning guidance also notes the continuing significant risk of cyber attacks to public bodies, and will therefore require specific audit work to be undertaken to respond (see Exhibit 6).

| Our response

Our work in 2022/23 will consider:

- ▶ consideration of the disclosures within the Governance Statement;
- ▶ review of the coverage of internal audit arrangements during 2022/23, including any significant findings identified and the work done to address issues identified; and
- ▶ consideration of whether the Pension Fund demonstrates adequate progress against external and internal audit recommendations to ensure they are implemented in a timely manner;
- ▶ consideration of the quality of reporting and information provided to key decision makers, and evidence of effective challenge and scrutiny;
- ▶ whether arrangements are in place for ensuring compliance with regulatory requirements, addressing requests from the regulator and reporting as applicable.

We will also review the Pension Fund's arrangements for cybersecurity, drawing on our work in response to ISA (UK) 315.

Exhibit 6: Vision, Leadership and Governance Areas of Audit Focus

Cybersecurity

There continues to be a significant risk of cyber attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber attack can have on both the finances and operation of an organisation. In 2022/23 Audit Scotland has asked us to consider risks related to cyber security at audited bodies.

Use of resources

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

We recognise that the Pension Fund’s performance continues to be impacted by the pandemic and other world events (conflict in Ukraine) on financial markets and investments. While net assets position in 2021/22 increased by £2 billion, the Fund generated a return of 7.7% against a benchmark of 7.9%

Audit Scotland has also identified a national risk in relation to tackling climate change. There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. As a result, we will consider the Pension Fund’s strategy for climate change, alongside any narrative reporting in the financial statements.

- Our response**
- We have identified an area of audit focus in relation to climate change in Exhibit 7 below. Our work in this area will include consideration of:
- ▶ the Pension Fund’s climate change strategy and progress reporting arrangements; and
 - ▶ alongside any narrative reporting in the financial statements.
- Other work in 2022/23 will consider the Pension Fund’s arrangements to report performance, and the escalation process where performance continues to be challenging.

Exhibit 7: Use of Resources Area of Audit Focus

Climate change reporting

Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The Pension Fund should therefore have a plan to reduce their direct and indirect emissions. Audit Scotland has asked for specific audit work to be conducted in 2022/23 on the arrangements in place to respond to climate change, as part of a developing programme of work.

| Appendices

A - Code of Audit Practice Responsibilities

B - Independence report

C - Required communications with the Pension Fund Committee

D - Timing of communications and deliverables of the audit

E - Audit fees

F - Additional audit information

Audited Body Responsibilities

Audited bodies have 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 successfully deliver their objectives. The features of proper financial stewardship include the following:

Corporate governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements 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. Audited bodies should involve those charged with governance (including Pension Fund Committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures;
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in

accordance with the appropriate authority

- ▶ preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements
- ▶ ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies 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 their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

| Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified;
- ▶ compliance with any statutory financial requirements and achievement of financial targets;
- ▶ balances and reserves, including strategies about levels and their future use;
- ▶ how they plan to deal with uncertainty in the medium and longer term; and
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

| Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards and, other than local government, requirements set out in the Scottish Public Finance Manual.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

Appointed Auditors' Responsibilities

Appointed auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Appointed auditors' reports (i.e, the independent auditor's report in relation to the accounts) must set out the auditor's findings on:

- ▶ whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with:
 - ▶ any enactment by virtue of which the expenditure was incurred or the income received
 - ▶ the Budget Act(s) for the financial year, or any part of the financial year, to which the accounts relate
 - ▶ Sections 4-7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)
- ▶ where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998
- ▶ whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers
- ▶ whether the accounts comply with any applicable direction by virtue of any enactment.
- ▶ Appointed auditors must send the accounts, including the independent auditor's report, to the Auditor General who may prepare a statutory report on the accounts under Section 22 of the 2000 Act.

Appendix B: Independence Report

Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged to you for the provision of services during the period, analysed in appropriate categories, are disclosed.

Required Communications

Planning Stage

- ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us.
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review.
- ▶ The overall assessment of threats and safeguards.
- ▶ Information about the general policies and process within EY to maintain objectivity

and independence.

Final Stage

- ▶ To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed.
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto.
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us.
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence.
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy.
- ▶ An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our independence to act as your external auditor. We have identified no relationships that impact the audit of Strathclyde Pension Fund.

Appendix C: Required Communications

We have detailed below the communications that we must provide to the Pension Fund.

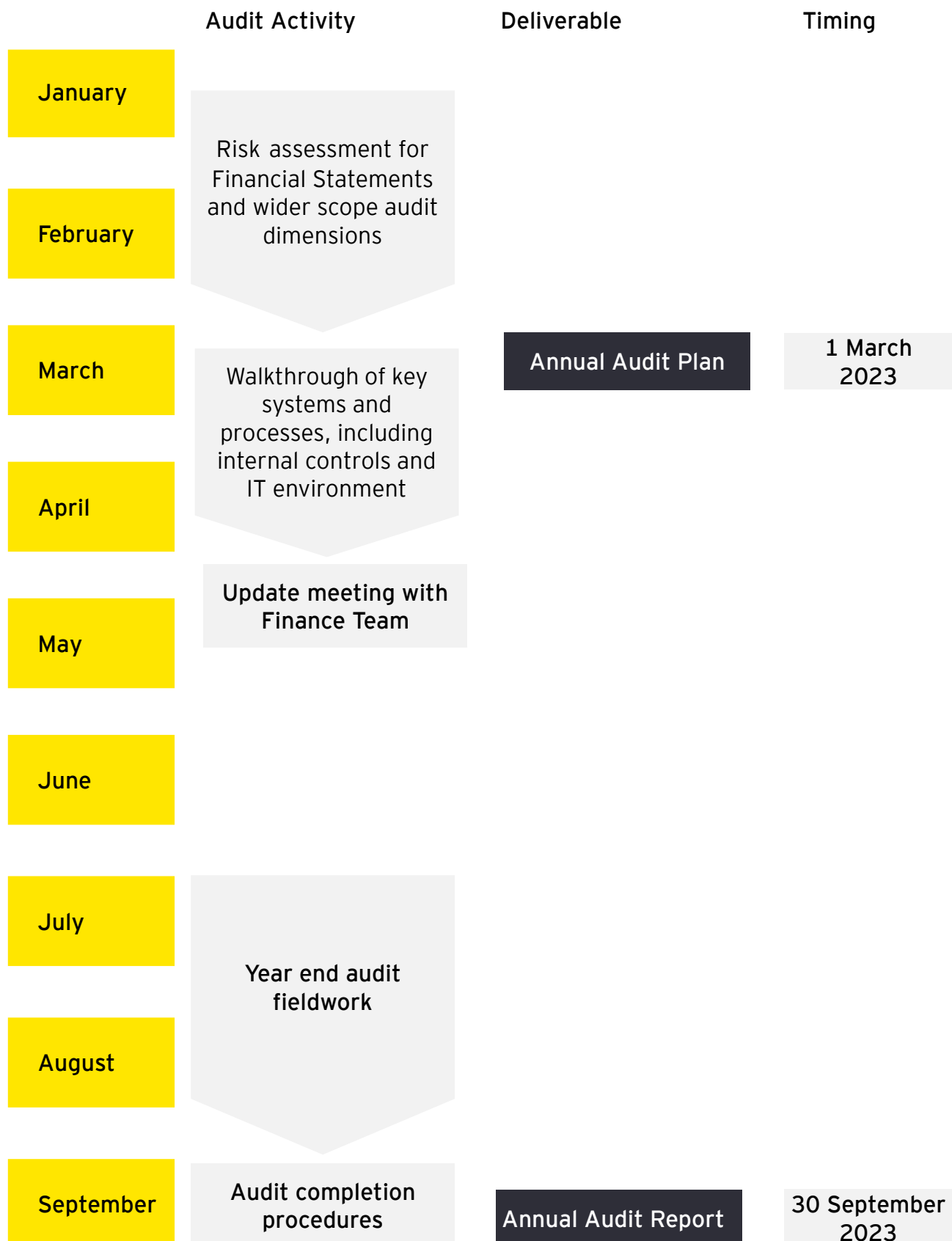
		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Pension Fund Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	This Annual Audit Plan
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	This Annual Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Annual Audit Report - September 2023

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and, ▶ The adequacy of related disclosures in the financial statements. 	Annual Audit Report - September 2023
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and, ▶ Material misstatements corrected by management. 	Annual Audit Report - September 2023
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Pension Fund Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and, ▶ A discussion of any other matters related to fraud. 	Annual Audit Report - September 2023
Internal controls	Significant deficiencies in internal controls identified during the audit.	Annual Audit Report - September 2023
Material inconsistencies/ misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Annual Audit Report - September 2023

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and, ▶ Difficulty in identifying the party that ultimately controls the entity. 	Annual Audit Report - September 2023
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards; and, ▶ Information about the general policies and process within the firm to maintain objectivity and independence. 	This Annual Audit Plan and Annual Audit Report (September 2023)
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations. ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Annual Audit Report - September 2023
Representations	Written representations we are requesting from management and/or those charged with governance.	Annual Audit Report - September 2023
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Annual Audit Report - September 2023

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. ▶ Enquiry of the Pension Fund Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Pension Fund Committee may be aware of. 	Annual Audit Report - September 2023
Best Value and Wider Scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider scope audit.	Annual Audit Report - September 2023
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	Annual Audit Report - September 2023

Appendix D: Timeline of communication and deliverables



2022/23 Fees

The Pension Fund's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2022/23	2021/22
Component of fee:		
Auditor remuneration - expected fee	£87,790	-
Additional audit procedures (note 1)	TBC	-
Audit Scotland fixed charges:		
Sector Adjustment	--£23,560	-
Audit support costs	£3,300	-
Total fee	TBC	£60,030

The expected fee for auditor remuneration, set by Audit Scotland, is based on a risk assessment of publicly available information from the 2021 tender exercise. It assumes that the Pension Fund has well-functioning controls, an effective internal audit service, and an average risk profile for its sector across a range of areas for consideration, including financial, operational and governance risks. This is the basis for the estimated level of time and skill mix involvement by auditors.

Throughout the course of their work, auditors may identify new, developing or otherwise enhanced areas of risk that are required to be addressed to deliver an audit to the quality standards expected, and in line the requirements of the Audit Scotland Code of Practice. In these cases where subsequent additional work is required because of local risks and circumstances in a body, auditor remuneration may be increased by up to 10% of auditor remuneration in agreement with the Pension Fund, or above 10% in agreement with Audit Scotland. In particular at this stage we would raise the possibility around potential additional financial statement audit work being required related to new audit requirements this year for ISA 315 and our initial audit procedures.

Should additional audit requirements arise we will raise these with management as early as practically possible through the course of the audit, and discuss variations to the expected fee as appropriate, based on the rates provided by Audit Scotland in its supplementary audit planning guidance, and report the final position to the Pension Fund Committee within our Annual Audit Report.

Appendix E: Additional Audit Information

Introduction

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities under auditing standards

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the going concern basis of accounting.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Read other information contained in the financial statements, the Pension Fund Committee reporting appropriately addresses matters communicated by us to

the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and

- ▶ Maintaining auditor independence.

Purpose and evaluation of materiality

- ▶ For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- ▶ Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.
- ▶ The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Audit Quality Framework / Annual Audit Quality Report

- ▶ Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.
- ▶ We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>
- ▶ EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: https://www.ey.com/en_uk/about-us/transparency-report

Complaints

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, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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