



North East Scotland Pension Funds

**Annual Audit Plan
2015/16**

**Prepared for Aberdeen City Council as
Administering Authority for North East Scotland
Pension Funds**

March 2016



Key contacts

Stephen Boyle, Assistant Director
sboyle@audit-scotland.gov.uk

Anne MacDonald, Senior Audit Manager
amacdonald@audit-scotland.gov.uk

Deirdre Sim, Auditor
dsim@audit-scotland.gov.uk

Audit Scotland
Business Hub 15, 3rd Floor South
Marischal College
Broad Street
ABERDEEN, AB10 1AB
Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Stephen Boyle as the external auditor of North East Scotland Pension Funds North East Scotland Pension Funds for the period 2012/13 to 2015/16.

This report has been prepared for the use of North East Scotland Pension Funds and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Contents

Summary.....	3
Responsibilities.....	4
Audit Approach	5
Audit issues and risks	9
Fees and resources	13
Appendix 1: Planned audit outputs.....	16
Appendix 2: Significant audit risks	17

Summary

Introduction

1. This report summarises the key challenges and risks facing North East Scotland Pension Funds and sets out the audit work that we propose to undertake in respect of the 2015/16 audit. This is the final year of our five year audit appointment. The Assistant Auditor General is currently concluding a procurement process for the appointment of public sector auditors for the next five year cycle. Details of the new external auditor for the pension funds will be advised in the spring.
2. Our audit is focused on the identification and assessment of the risks of material misstatement in North East Scotland Pension Funds' financial statements.
3. Our plan reflects:
 - the risks and priorities facing North East Scotland Pension Funds
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Accounts Commission for Scotland
 - Issues brought forward from previous audit reports.

Summary of planned audit activity

4. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of North East Scotland Pension Funds as at 31 March 2016 and their income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - a review and assessment of North East Scotland Pension Funds' governance and performance arrangements in a number of key areas including a review of adequacy of internal audit and arrangements to support the annual governance and governance compliance statements.

Responsibilities

5. The audit of the financial statements does not relieve management or the Pensions Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

6. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
7. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Head of Finance

8. It is the responsibility of the Head of Finance, as the appointed 'proper officer', to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - maintaining proper accounting records
 - preparing financial statements which give a true and fair view of the state of affairs of North East Scotland Pension Funds as at

31 March 2016 and their expenditure and income for the year then ended.

Format of the accounts

9. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.

Audit Approach

Our approach

10. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of North East Scotland Pension Funds. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of North East Scotland Pension Funds and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how North East Scotland Pension Funds will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
11. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable setting out clear responsibilities for the accounts and working papers
 - delivery of unaudited financial statements and a comprehensive working papers package in accordance with agreed timescales
 - completion of the internal audit programme for 2015/16
 - a letter of management representation for key areas of the financial statements.
12. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. From 1 April 2015, the council entered into an agreement with Aberdeenshire Council's Internal Audit section for the provision of internal audit services. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and generally complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

13. Having confirmed that we can place formal reliance on Aberdeenshire Council's Internal Audit Section, we plan to take assurance from internal audit's review of the pensions administration system to support our audit opinion on the financial statements:

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.
16. Based on our knowledge and understanding of North East Scotland Pension Funds we have set two levels of planning materiality in respect of each fund. The levels are 1% of gross expenditure for the fund account (FA) and 1% of net assets for the net assets statement (NAS). This is due to the extent of disparity of values between the two statements.
17. For 2015/16, planning materiality equates to:
- For the Main Fund, £1.355 million for the Fund Account and £31.713 million for the Net Assets Statement
 - For the Transport Fund, £34,000 for the Fund Account and £896,000 for the Net Assets Statement.
18. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:
- extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
19. For 2015/16 performance materiality has been set at:
- For the Main Fund, £678,000 for the Fund Account and £15.857 million for the Net Assets Statement
 - For the Transport Fund, £17,000 for the Fund Account and £448,000 for the Net Assets Statement.

20. We will report, to those charged with governance, all misstatements identified which are greater than £34,000 and £1,000 for the Main and Transport Funds respectively. In line with auditing standards, amounts below these error thresholds need not be reported.
21. The levels of materiality, performance materiality and error thresholds are included in Exhibit 1.

Exhibit 1: Materiality Levels

	Materiality £'000	Performance Materiality £'000	Error Threshold £'000
Main Fund	1,355 (FA) 31,713 (NAS)	678 (FA) 15,857 (NAS)	34 (FA) 100 (NAS)
Transport Fund	34 (FA) 896 (NAS)	17 (FA) 448 (NAS)	1 (FA) 22 (NAS)

Reporting arrangements

22. The Local Authority Accounts (Scotland) Regulations 2014 (2014 Regulations) require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or the pensions committee as the committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
23. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.
24. The 2014 Regulations require the local authority (or the pensions committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
25. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.
26. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the head of finance and the pensions manager to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Interim Director of Corporate Governance, Head of Finance, Pensions Manager, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.

27. Exhibit 2 takes account of submission requirements and planned Pensions Committee dates.

Exhibit 2: Financial statements audit timetable

Key stage	Date
Submission of unaudited Pension Funds financial statements with working papers package	10 June 2016
Planned approval of unaudited financial statements by Pensions Committee	24 June 2016
Agreement of unsigned financial statements for Pensions Committee agenda, and issue of Annual Audit Report	2 September 2016
Planned approval of audited financial statements for signature by Pensions Committee	16 September 2016
Independent auditor's report signed	By 30 September 2016

28. We will provide an independent auditor's report to North East Scotland Pension Funds and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The Annual Audit Report will be issued by 30 September.
29. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
30. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

31. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established as part of financial audit procedures. This is to provide reasonable assurance that those professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).
32. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Stephen Boyle.

Independence and objectivity

33. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council (FRC) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual 'fit and proper' declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.
34. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise the senior finance officer of the circumstances and of the steps we have taken to manage this. We have advised the Head of Finance accordingly, in respect of any relationships impacting on the audit of North East Scotland Pension Funds.

Audit issues and risks

Audit issues and risks

35. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for North East Scotland Pension Funds. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#).

Financial statement issues and risks

36. **Fraud Risk:** We have identified that some areas of financial controls have an element of fraud risk attached, for example:
 - **Income Recognition:** Auditing standards (ISA 240 The auditor's responsibility to consider fraud in an audit of financial statements) require auditors to presume a risk of fraud where income streams are significant. North East Scotland Pension Funds receive the majority of their income from investments and contributions from member bodies. The extent and complex nature of this income means there is an inherent risk that income could be materially misstated. For example, while investment income is recorded via a global custodian, the funds should seek assurance from the custodian that data is both complete and accurate for reporting purposes. We will design

and perform audit procedures to address these risks within North East Scotland Pension Funds.

- **Management override of controls:** ISA 240 requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively. We will therefore design and perform audit procedures to address these risks within North East Scotland Pension Funds.
37. **Private Equity:** Private equity investments are more complex to value than quoted investments and are initially included in the net assets statement on the basis of the latest valuation which is usually the valuation at 31 December. In order to confirm there is no material misstatement at 31 March 2016, we will consider the reasonableness of the estimate used. In addition, ISA 620 covering using the work of an expert enables us to take assurance by placing reliance on the fund managers' approach to the valuation of private equity investments.
38. **Fund Management Costs:** In 2014, CIPFA issued new guidance, Accounting for local pension schemes management costs, concerning the recording and presentation of fund management costs. This expands on the requirements of the Code by recommending further analysis into three elements, the most significant was investment management costs. In light of the experiences of the 2014/15 accounts, CIPFA is re-issuing updated guidance which should be considered as part of the 2015/16 accounts. While the guidance is not mandatory, it is considered best practice.
39. There have historically been difficulties with separate identification of management fees relating to private equity investments due to their inclusion in the overall valuation of an investment. On conclusion of the 2014/15 audit, we were satisfied that management expenses disclosures were in accordance with CIPFA guidance and the revised accounts had been amended to include the additional fees identified during the period of the audit. In view of the revised guidance, there are ongoing risks that management costs are not fully disclosed. We will therefore continue to review the steps taken by officers to identify and disclose management costs in accordance with guidance.
40. **Provision for non-collection:** At 31 March 2015, the accounts continued to include a provision for the potential non-collection of £2.6 million from a former admitted body of the pension fund. The debt has been the subject of a longstanding dispute between the pension fund and the admitted body. The delay has been caused by the time taken to put arrangements in place for the ongoing enhancement element of payments to pensioners who were employees of the former school.
41. In the early part of 2015/16, plans were put in place to secure annuities to fund the enhancements, however these arrangements have not yet been concluded. As a consequence, the trust is not in a position to clear its debt with the pension fund and be wound up. This matter has been ongoing for many years and while it impacts

on the financial statements, we also regard it as a matter of public interest which should be concluded with some urgency.

42. Local Government Pension Scheme (Scotland) (2015): The Local Government Pension Scheme (Scotland) Regulations 2014 applied from 1 April 2015. These introduced a new pension scheme which replaces the 2009 scheme (as constituted by the Local Government Pension Scheme (Scotland) Regulations 2008)). The changes include

- a move from a final salary scheme to a scheme where pension is based on career average revalued earnings (CARE)
- a change in the rate at which retirement benefit accrues from 1/60th to 1/49th
- the option employees can elect to pay 50% of normal contributions, and accrue only 50% of their benefits for that period
- alignment of the normal retirement age in the scheme with the state pension age.

43. Due to the extent of the changes, there is a risk that pensions or contributions may be calculated incorrectly. We will therefore review samples of relevant transactions to ensure they have been calculated in accordance with regulations.

Wider dimension issues and risks

44. Changes in Fund Expert: Continued underperformance in the Main Fund Global Ex and Frontier Funds and the Transport Fund led to the Pensions Committee decision in December 2015 to terminate the agreement with the fund manager responsible for those portfolios. The change of manager, particularly in respect of the Transport Fund, will involve significant work for pensions staff to ensure that appropriate controls are in place for the smooth transfer of data and assets. There is a risk that the fund cannot mitigate further losses on these portfolios until the handover to the new manager/s is completed. We will review the funds' preparedness in planning for the appointment and handover of these portfolios to new fund manager/s.

45. Funding Position: The funding position for the Main Fund has fallen from 94% at the time of the 2014 actuarial valuation to 79% at September 2014, while there has been a similar drop for the Transport Fund from 93% to 85% (see Exhibit 3). The decreases are reflective of current financial markets. However, if the percentages continue to fall, there is a risk that, unless appropriate action is taken, the funds' assets will not meet long term liabilities. We will continue to monitor the funding position and comment in our Annual Audit Report.

Exhibit 3: Funding Levels

	Actuarial Valuation (March 2014)	March 2015	September 2015
Main Fund	94%	84%	79%
Transport Fund	93%	91%	85%

Source: Quarterly Funding Update Reports (from the Actuary)

46. Local Authority Accounts (Scotland) Regulations 2014 (2014 Regulations): Regulation 7 of the 2014 Regulations requires an authority to have a 'professional and objective internal auditing service in accordance with recognised standards', and 'assess its efficiency and effectiveness' from time to time. While internal audit findings have been routinely reported to the pensions committee, there is a risk that the 2014 Regulations are not yet being fully complied with. For example, no separate internal audit plan is prepared for the pension funds and arrangements for an external assessment of the internal audit service need to be put in place. We will report progress in this area in our Annual Audit Report.

47. Scrutiny: As the administering authority, Aberdeen City Council has statutory responsibility for the administration of the funds. Following changes to the committee structure during 2014/15 which saw the Pensions Panel replaced with a Pensions Committee and the decision by the Committee to disband the Joint Investment Advisory committee, a further change took place from 1 April 2015 with the statutory introduction of a Pensions Board.

48. The Pensions Board forms part of the governance arrangements outlined in the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 (2015 Regulations) and are responsible for assisting the administering authority in complying with scheme regulations and the requirements of the Pensions Regulator but is not eligible to make decisions.

49. While there have been 3 joint meetings of the Pensions Committee and the Pensions Board, this is a new and developing arrangement which will take time to bed in and become effective. Through ongoing observations from attending these joint meetings, we will monitor the operation of the board against the requirements set out in the regulations and comment accordingly in our Annual Audit Report.

50. Following the recent implementation of a pensions committee with a wider membership and remit to have regular oversight of all the funds' activities, an opportunity was provided to strengthen scrutiny and accountability roles. In addition, officers have recently reviewed the frequency and content of reports submitted to members as part of the process of streamlining the business of the committee. This was intended to ensure that there was coverage of service performance across all the activities within the funds. We will review committee reports to consider and comment if there are potential areas where additional information could be included to strengthen overall scrutiny of the funds.

51. **Pensions Regulator:** The Public Sector Pensions Act 2013, which introduced a framework for the governance and administration of public sector schemes, provides for extended regulatory oversight by the Pensions Regulator. Resulting from this, Pension Funds are required to comply with the Regulator's *Code of Practice No. 14: Governance and Administration Pensions Schemes*, and should report any legal and materially significant breaches of Code of Practice No 14 to the regulator. As a consequence of the new requirements there is a risk that adequate processes are not in place to identify any breaches and consequently, the Pensions Regulator is notified as required. We will review the funds' response to the new requirement as part of our consideration of the Annual Governance Statement.
52. **Cyber Security:** Over the past year several Scottish public organisations have been victims of cyber-attacks. All public sector bodies should be aware of a cyber-attack and take actions to reduce the risk of a successful attack. We will review the funds' cyber security arrangements through the use of a self-assessment questionnaire and report our findings in our Annual Audit Report.

Fees and resources

Audit fee

53. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain indicative audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
54. In determining the audit fee we have taken account of the risk exposure of North East Scotland Pension Funds, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 10 June 2016.
55. The proposed audit fee for the 2015/16 audit of North East Scotland Pension Funds is £46,130 (2014/15 £39,000). Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - an allocation of the cost of national performance studies and statutory reports by the Controller of Audit
 - a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

56. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

57. Stephen Boyle, Assistant Director, Audit Services is the appointed auditor. The local audit team will be led by Anne MacDonald who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 4. The core team will call on other specialist and support staff as necessary.

Exhibit 4: Audit team

Name	Experience
Stephen Boyle Assistant Director (and certifying auditor)	Stephen has 18 years' experience of public sector finance. He trained as an accountant with a Big 4 firm, before joining Audit Scotland in 2002. He later worked as Head of Finance and Corporate Services for Cube Housing Association, before spending three years with Glasgow Housing Association as Assistant Director of Finance. He re-joined Audit Scotland in June 2013.
Anne MacDonald Senior Audit Manager	Anne has many years of public sector experience mainly in local government financial audit. During this time she has been responsible for delivering the following pension fund audits: Lothian Pension Funds, North East Scotland Pension Funds and Orkney Islands Council Pension Funds.
Deirdre Sim Auditor	Deirdre has a large number of years public sector audit experience in a wide range of clients in the local government and health sectors.
Adebayo Ladejobi Professional Trainee	Adebayo joined Audit Scotland's graduate training programme in October 2015 and is currently working towards his ICAS qualification.

Appendix 1: Planned audit outputs

Planned Outputs	Target Date for Consideration by Pensions Committee
Interim management report on the 2015/16 Audit	24 June 2016
Report to Pensions Committee – Communication of audit matters to those charged with governance (Annual Report to elected members and the controller of audit on the 2015/16 audit)	16 September 2016

Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

Audit Risk		Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	<p>Income</p> <p>North East Scotland Pension Funds receive a significant amount of income from employer and employee contributions and investment income. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA 240.</p> <p>There is a risk that fund income per the annual accounts is materially misstated.</p>	<p>Contributions</p> <ul style="list-style-type: none"> Monthly reasonableness checks of employers' contributions and timeliness of payments Reconciliations of contributions received with yearend returns from employers and pension administration system Annual assurance requested from key employers. <p>Investment Income</p> <ul style="list-style-type: none"> Monthly cash reconciliations Segregation of duties between fund staff for any income transactions keyed into the custodian system, Workbench Reconciliations between custodian and fund manager records. 	<p>Contributions</p> <ul style="list-style-type: none"> Focused year end testing of contribution reconciliations Verification that contributions have been properly deducted on employer payrolls and transferred to the funds. <p>Investment Income</p> <ul style="list-style-type: none"> Review of controls in place Focused year end substantive testing of investment income.

	Audit Risk	Source of assurance	Audit assurance procedure
2	<p>Management override of controls</p> <p>As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • There are a range of policies and procedures in place to prevent and detect fraud including standing orders and financial regulations. 	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business.
3	<p>Private Equity</p> <p>Private equity investments are included in the net assets statement on the basis of the best estimate (i.e. valuations at 31 December). There is a risk that investments per the accounts are materially misstated.</p>	<ul style="list-style-type: none"> • Client working papers supporting private equity investments figures per the accounts • Due to the nature of private equity there will always be a delay in receiving valuations. With the time limits and reporting deadline for the draft accounts, the pension fund will use the most recent valuation information available to them and that will usually be the December valuations. Once March valuations have been received a review will take place to assess the movement between valuations and the draft accounts will be amended accordingly. 	<ul style="list-style-type: none"> • Review of client working papers • Reliance on an expert in accordance with ISA 620 – review of investment approach.

	Audit Risk	Source of assurance	Audit assurance procedure
4	<p>Fund Management Costs</p> <p>CIPFA introduced best practice guidance on Accounting for local government pension scheme management costs in 2014 which has been revised for 2015/16 accounts. There have been historic difficulties in identifying all the costs in prior years and some investments in new fund managers have been approved in-year. There is a risk the fund does not comply with best practice.</p>	<ul style="list-style-type: none"> • Management response to revised CIPFA guidance 	<ul style="list-style-type: none"> • Review of management action to identify additional management costs • Focused year end substantive testing of management costs • Comparison of disclosures with other local government pension funds.
5	<p>Provision for non-collection</p> <p>A significant debt in respect of a termination agreement due from an admitted body has been the centre of dispute for some time. There is a risk that debt collection is not being effectively managed.</p>	<ul style="list-style-type: none"> • Legal correspondence reflecting action taken. 	<ul style="list-style-type: none"> • Review of management action.

	Audit Risk	Source of assurance	Audit assurance procedure
6	<p>Local Government Pension Scheme (Scotland) (2015)</p> <p>A new local government pension scheme was implemented from 1 April 2015. This has resulted in a number of changes for members including pensions being based on care average revalued earnings, as opposed to final salary and the rate at which pension accrues reducing from 1/60 to 1/49.</p> <p>There is a risk pensions or contributions may be calculated incorrectly.</p>	<ul style="list-style-type: none"> • Project Plan for implementing the new scheme and progress reports to committee • Dedicated section for the 2015 scheme included on the pension fund website • Separate training and briefings provided for employers and staff • Testing of pension administration system prior to implementation of the new scheme • Management controls in place. 	<ul style="list-style-type: none"> • Review of management controls and substantive testing of samples of transactions under the new scheme.
Wider dimension issues and risks			
7	<p>Changes in Fund Experts</p> <p>In December 2015, the agreements with the fund manager for the Main Fund Global Ex and Frontier Fund and the Transport Fund were terminated.</p> <p>There is a risk that that the funds cannot mitigate further significant losses during the period until the transfers are concluded.</p>	<ul style="list-style-type: none"> • Instructions provided to the existing fund manager in respect of 'care taking' responsibilities and arrangements for transfer • Appointment of new fund manager and arrangements for handover • Ongoing monitoring by custodian • Reports to Pensions Committee. 	<ul style="list-style-type: none"> • Review of management actions.

	Audit Risk	Source of assurance	Audit assurance procedure
8	<p>Funding Position</p> <p>The funding position for the Main Fund has fallen from 94% at the time of the 2014 actuarial valuation to 79% at September 2015, while there has been a similar drop for the Transport Fund from 93% to 85%.</p> <p>There is a risk the funds' assets will not meet long term liabilities.</p>	<ul style="list-style-type: none"> Interim actuarial valuations to be undertaken by the funds as at March 2016. 	<ul style="list-style-type: none"> Monitor ongoing position and comment in our Annual Audit Report.
9	<p>Local Authority Accounts (Scotland) Regulations 2014</p> <p>Schedule 7 of the Local Authority Accounts (Scotland) Regulations 2014 require that the pension committee should consider an annual internal audit plan and that arrangements should be put in place for a regular external review of the effectiveness of internal audit.</p> <p>There is a risk the funds are not fully complying with the 2014 regulations.</p>	<ul style="list-style-type: none"> Discussions with officers including internal audit. 	<ul style="list-style-type: none"> Comment on progress in implementing the new arrangements in our Annual Audit Report.

	Audit Risk	Source of assurance	Audit assurance procedure
10	<p>Scrutiny</p> <p>The Local Government Pension Scheme (Governance) Scotland Regulations 2015 required the Pension Fund to establish a Pension Board to assist it in complying with the scheme regulations and requirements of the pensions' regulator. It will take time for these new arrangements to bed in and become effective, and training and support will be necessary for board members to enable them to effectively fulfil their role</p> <p>The pensions committee has recently reviewed the frequency and content of reports it receives with a view to ensuring wider coverage of service performance across all fund activities.</p> <p>There is a risk that, as a result of the level of change, scrutiny and challenge processes are less effective.</p>	<ul style="list-style-type: none"> • Training and support provided to the Pensions Board and Pensions Committee • Reports provided to the Pension Committee/Pensions Board. 	<ul style="list-style-type: none"> • Monitor governance arrangements through ongoing attendance at Pension Committee/Pensions Board meetings • Review the operation of the Pensions Board against the requirements set out in the 2015 Regulations • Review the adequacy of training and support provided to committee and board members • Review the adequacy of performance information considered by the Pensions Committee/Pensions Board.

	Audit Risk	Source of assurance	Audit assurance procedure
11	<p>Pensions Regulator</p> <p>The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. Funds are therefore required to comply with the Regulator's <i>Code of Practice no. 14: Governance and Administration of Pension Schemes</i> and develop a formal policy on reporting significant failures of pension fund administration / breaches of the law.</p> <p>While the funds have undertaken work in this area, there remains a risk that adequate processes are not in place for identifying breaches and that they are not reported to the Pension Regulator.</p>	<ul style="list-style-type: none"> Assessment of compliance with the Pensions Regulator Code of Practice (reported to Pensions Committee in September 2015) Fund administration strategy and policy on reporting breaches. 	<ul style="list-style-type: none"> Reports to the Pensions committee Review of performance reporting against the requirements of the Fund Administration Strategy Progress in developing a policy for reporting of breaches.
12	<p>Cyber Security: Over the past year several Scottish public organisations have been victims of cyber-attacks. All public sector bodies should be aware of a cyber-attack and take actions to reduce the risk of a successful attack.</p>	<ul style="list-style-type: none"> Overall IT environment operated by Aberdeen City Council as administering authority Discussions with officers about security around pension specific systems. 	<ul style="list-style-type: none"> We will review the funds' cyber security arrangements through the use of a self-assessment questionnaire and report our findings in our Annual Audit Report.