

North East Scotland Pension Funds  
Pensions Committee

5 September 2018

## North East Scotland Pension Fund Audit of 2017/18 annual accounts

### Independent auditor's report

1. Our audit work on the 2017/18 annual accounts is now substantially complete. We anticipate being able to issue unqualified audit opinions in the independent auditor's report on 14 September 2018 (the proposed report is attached at [Appendix A](#)).

### Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pension Fund Sub Committee consideration our draft annual report on the 2017/18 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

### Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.
6. There is one unadjusted misstatement:
  - A termination fee of £0.212 million was registered with the company liquidator of an employer who left the fund but the final payment, received after the year end, was only £0.086 million. The fund therefore incurred a loss of £0.126 million. The current assets in the NESPF Net Assets Statement are overstated by £0.126 million and the impairment of this debt is understated by the same amount in the NESPF Fund Account.
7. Management have taken the decision not to adjust for this misstatement as it is not considered to be material.

### Fraud, subsequent events and compliance with laws and regulations

8. In presenting this report to the Pensions Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent

events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

### **Representations from Section 95 Officer**

9. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.
10. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

## **APPENDIX A: Proposed Independent Auditor's Report**

### **Independent auditor's report to the members of Aberdeen City Council as administering authority for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund and to the Accounts Commission**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Report on the audit of the financial statements**

##### **Opinion on financial statements**

I certify that I have audited the financial statements in the annual report of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and Notes to the Pension Fund Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the funds during the year ended 31 March 2018 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- 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.

##### **Basis for opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### **Conclusions relating to going concern basis of accounting**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Officer – Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the funds' ability to continue to

adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Responsibilities of the Chief Officer – Finance and Aberdeen City Council Pensions Committee for the financial statements**

As explained more fully in the Statement of Responsibilities, the Chief Officer – Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer – Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer – Finance is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Aberdeen City Council Pensions Committee is responsible for overseeing the financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## **Other information in the annual report**

The Chief Officer – Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **Report on other requirements**

### **Opinions on matters prescribed by the Accounts Commission**

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report

has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

### **Matters on which I am required to report by exception**

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA  
Audit Director  
Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
EH3 9DN

14 September 2018

## APPENDIX B: Letter of Representation (ISA 580)

Gillian Woolman  
Audit Director  
Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
EH3 9DN

Dear Gillian

### **North East Scotland Pension Funds Annual Accounts 2017/18**

1. This representation letter is provided about your audit of the annual accounts of North East Scotland Pension Funds for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the management commentary, annual governance statement and governance compliance statement.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of relevant officers, the following representations given to you in connection with your audit of North East Scotland Pension Funds annual accounts for the year ended 31 March 2018.

### **General**

3. North East Scotland Pension Funds and I have fulfilled our statutory responsibilities for the preparation of the 2017/18 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by North East Scotland Pension Funds have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

### **Financial Reporting Framework**

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (2017/18 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the North East Scotland Pension Funds at 31 March 2018 and the transactions for 2017/18.

## **Accounting Policies & Estimates**

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2017/18 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to North East Scotland Pension Fund circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

## **Going Concern Basis of Accounting**

9. I have assessed North East Scotland Pension Funds ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on North East Scotland Pension Funds ability to continue as a going concern.

## **Assets**

### **Investments**

10. For the year ended 31 March 2018, the amounts included in the net assets statements reflect investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the funds. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2018. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

## **Banking and Cash Flow Arrangements**

11. The pension funds maintain separate bank accounts and while these accounts form part of Aberdeen City Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

## **Other Current Assets**

12. On realisation in the ordinary course of the funds' business, the other current assets in the Net Assets Statements are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

## **Liabilities**

13. All liabilities at 31 March 2018 of which I am aware have been recognised in the annual accounts.

14. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2018 of which I am aware where the conditions specified in the 2017/18 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2018. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.
15. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2018 or to reflect material changes in the assumptions underlying the calculations of the cash flows.
16. The pension assumptions made by the actuary in the IAS 19 report for North East Scotland Pension Funds have been considered and I confirm that they are consistent with management's own view.
17. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

### **Contingent liabilities**

18. There are no significant contingent liabilities, other than those disclosed in Note 29 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and IAS 37

### **Fraud**

19. I have provided you with all information in relation to:
  - my assessment of the risk that the financial statements may be materially misstated because of fraud
  - any allegations of fraud or suspected fraud affecting the financial statements
  - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

### **Laws and Regulations**

20. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

### **Related Party Transactions**

21. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2017/18 accounting code. I have made available to you the identity of all the North East Scotland Pension Funds' related parties and all the related party relationships and transactions of which I am aware.

### **Management commentary**

22. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.



## **Corporate Governance**

23. I confirm that the North East Scotland Pension Funds has undertaken a review of the system of internal control during 2017/18 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
24. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2018, which require to be reflected.

## **Events Subsequent to the Date of the Balance Sheet**

25. All events subsequent to 31 March 2018 for which the 2017/18 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jonathon Belford, CPFA  
Chief Officer - Finance