Appendix 1

Lothian Pension Fund

External Audit Annual Plan

Year ended 31 March 2024

March 2024

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Introduction

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Lothian Pension Fund and Scottish Homes Pension Fund ("the Funds") for the year ended 31 March 2024 for those charged with governance.

Our audit work will cover:

- the financial statements within the 2023/24 annual report and accounts;
- the wider scope of public audit;
- any other work requested by Audit Scotland.

Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Funds through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Funds promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

If there are any elements of this audit plan to which you do not agree or you would like to discuss, please let us know as soon as possible.

Any comments you may have on the service we provide, the quality of our work, and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

This plan has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Openness and transparency

This report will be published on Audit Scotland's website http://www.audit-scotland.gov.uk/

Audit scope and general approach

Responsibilities of the auditor and the Funds

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission for Scotland and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

The Funds have primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with proper accounting practices. The Funds are also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

Appendix 3 provides further details of our respective responsibilities.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the Funds. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	**Our understanding of the public pension funds sector, its key priorities and risks**	**Attending & observing the Pensions Committee**
Guidance from Audit Scotland	**Discussions with Audit Scotland and public sector auditors**	**Discussions with internal audit and review of plans and reports**
Review of the Funds' corporate strategies and plans	**Review of the Funds' corporate risk registers**	**Consideration of the work of other inspection bodies**

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

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Pensions Committee.

Partnership working

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

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

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

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

Delivering the audit

Hybrid audit approach

We adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts, which can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high-quality PDF version of the accounts.

Approach to audit of the financial statements

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an independent auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- perform risk assessment procedures including updating our understanding of the Funds, including their environment, the financial reporting framework and their system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Materiality

“Reasonable assurance” is a high level of assurance, but is not a guarantee that an audit 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 the financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor’s report of the extent to which the audit was capable of detecting irregularities, including fraud, and respective responsibilities for prevention and detection of fraud.

We apply the concept of materiality in planning and performing the audit, and in evaluating the effect of misstatements within the financial statements identified during the audit.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The basis for our assessment of materiality for the year is set out in Appendix 1.

Any identified errors greater than £7.35 million in relation to investments and £0.66 million in relation to dealings with members will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the annual accounts such that we are able to design appropriate audit procedures. However, this work will not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If we identify significant deficiencies in controls, we will report these to you in writing.

Specialised skill or knowledge required to complete the audit

Our audit team will consult internally with our Technology Risk team in assessing the information technology general controls (ITGC).

Going Concern

In most public sector entities (including pension funds), the financial reporting framework envisages that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest than the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the Funds.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular, we require to be notified of all frauds which:

- involve the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control and;
- are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

We require to be notified on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Under the Code of Audit Practice, the audit of Best Value in Lothian Pension Fund is fully integrated within the annual audit work performed by appointed auditors. We are required to evaluate and report on the performance of Lothian Pension Fund in meeting the Best Value duties.

Reporting our findings

At the conclusion of the audit we will issue:

- an independent auditor's report setting out our formal audit opinions within the annual report and accounts, and
- an annual audit report describing our audit findings, conclusions on key audit risks, judgements on the pace and depth of improvement on the wider scope areas, and any recommendations.

Definitions

We will use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.

- There is a fundamental absence or failure of arrangements
- There is no evidence to support necessary improvement
- Substantial unmitigated risks affect achievement of corporate objectives.

- Arrangements are inadequate or ineffective
- Pace and depth of improvement is slow
- Significant unmitigated risks affect the achievement of corporate objectives

- No major weaknesses in arrangements but scope for improvement exists
- Pace and depth of improvement are adequate
- Risks exist to the achievement of operational objectives

- Effective and appropriate arrangements are in place
- Pace and depth of improvement are effective
- Risks to the achievement of objectives are managed

Financial statements - significant audit risks

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Management override of controls	Audit approach
Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. Specific areas of potential risk include manual journals, management estimates and judgements and one-off	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals. • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been

Management override of controls	Audit approach
transactions outside the ordinary course of the business. **Risk of material misstatement: Very High**	undertaken in line with the Funds' journals policy. • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Fraud in revenue recognition	Audit approach
Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements). The presumption is that the Funds could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. In respect of the contributions received from the Funds' funding partners, we do not consider the risk of revenue recognition to be significant due to a lack of incentive and opportunity to manipulate transactions of this nature. The risk of fraud in relation to revenue recognition is however present in all other income streams. **Inherent risk of material misstatement:** **Revenue (occurrence/completeness): High**	We will perform the procedures below based on their value within the financial statements: • Documenting our understanding of the Funds' systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively testing material income streams using analytical procedures and sample testing of transactions recognised for the year.

<table>
<tr><th>Investments valuations (key accounting estimate)</th><th>Audit approach</th></tr>
<tr><td>The Funds held investments of £9.64 billion as at 31 March 2023, of which 39% (£3.75 billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets.

Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error.

Inherent risk of material misstatement:

• Investments (valuation/existence): High</td><td>Procedures performed to mitigate risks of material misstatement in this area will include:

• Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the investment managers and the scope of their work.

• Evaluating the competence, capabilities and objectivity of the investment managers.

• Considering the basis on which the valuation is carried out and the challenge in the key assumptions applied.

• Testing the information used by the investment managers to ensure it is complete and consistent with our understanding.

• Ensuring that the year end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct.</td></tr>
</table>

Investment property valuations (key accounting estimate)	Audit approach
LPF hold a portfolio of investment properties which, as at the 31 March 2023, was valued at £366 million. The management of the properties is undertaken by JLL, along with the Fund accounting for the portfolio. Investment properties are valued annually at fair value, in line with the Code. There is a significant degree of subjectivity in the measurement and valuation of investment properties. This subjectivity and the material nature of the Funds' investment property portfolio represents an increased risk of misstatement in the annual accounts. **Inherent risk of material misstatement:** **Investment property (valuation/ existence): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Ensuring that investment properties are recorded in the annual accounts in accordance with the Code and the Funds' accounting policies, and have been accounted for appropriately. We will review investment property valuations. • Considering the competence, capability and objectiveness of the valuer in line with ISA (UK) 500 Audit Evidence. We will review the valuation report and consider the assumptions used by the valuer against external sources of evidence. • Considering the scope of the valuer's work and the information provided to the valuer for completeness.

Disclosure of present Value of retirement obligations (key accounting estimate)	Audit approach
An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the Funds and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate, which may result in material misstatement of this disclosure note. **Inherent risk of material misstatement:** **Retirement obligations (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Reviewing the controls in place to ensure that the data provided to the actuary is complete and accurate. • Considering the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreeing the disclosures in the financial statements to information provided by the actuary.

The wider scope of public audit

Introduction

The Code of Audit Practice frames a significant part of our responsibilities in terms of four wider scope audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our audit approach to the wider scope audit areas

Appointed auditors are required to consider the wider scope areas when:

- identifying significant audit risks at the planning stage of the audit;
- reaching conclusions on those risks;
- making recommendations for improvement;
- where appropriate, setting out conclusions on the audited body's performance.

When reporting on such arrangements, the Code of Audit Practice requires us to structure our commentary under the four areas identified above. Appendix 3 provides further detail on the definition, scope and audit considerations under each wider scope area.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the Funds' key priorities and risks along with discussions with management and review of Funds and committee minutes and key strategy documents.

Wider scope significant risks

At this stage, we have not identified any significant risks in relation to the wider scope areas. Audit planning is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report.

In formulating our audit plan, we identified areas of possible significant risk in relation to vision, leadership and governance and use of resources to improve outcomes. Our audit approach will include reviewing and concluding on the following considerations to substantiate whether significant risks exist:

Financial management

- Whether the quality of the financial performance information presented to the Pensions Committee allows appropriate scrutiny of Lothian Pension Fund's performance and supports effective decision making.

Vision, leadership and governance

- Based on expected favourable funding levels resulting from the latest triennial valuation the Fund has reduced employer contribution rates to 17.6% which is below the contribution stability mechanism ("the CSM") low bracket of 18%. We will review the governance around the decision to suspend the CSM for that purpose.
- Whether the decisions on Project Forth have been clearly communicated to key stakeholders.

Use of resources to improve outcomes

- Whether the Funds can evidence the achievement of value for money in the use of resources.
- How the Funds demonstrate a focus for improvement in the context of continuing financial challenge.
- How the Funds provide a clear link between investment decisions and actual performance achieved.

Audit team and timetable

Audit Team

Our audit team will be as follows:

Role	Name	Email
Key Audit Partner	Chris Brown	Chris.Brown@azets.co.uk
Engagement Manager	Adrian Kolodziej	Adrian.Kolodziej@azets.co.uk
Auditor in Charge	Thomas McCormick	Thomas.McCormick@azets.co.uk

Timetable

Please find below confirmation of our proposed timetable for the audit as previously discussed with management:

Audit work/output	Target month/s
Audit planning meeting	30 January 2024
Pension Committee to consider audit plan	20 March 2024
Interim audit	February-March 2024
Pension Committee to consider accounts	June 2024
Receipt of draft accounts and commencement audit fieldwork	June - July 2024
Independent auditor’s report	September 2024
Annual Audit Report to the Pension Committee and the Controller of Audit	September 2024

Our Requirements

The audit process is underpinned by effective project management to co-ordinate and apply our resources efficiently to meet your deadlines. It is essential that the audit team and the Funds’ finance team work closely together to achieve the above timetable.

In order for us to be able to complete our work in line with the agreed fee and timetable, we require the following:

- draft financial statements of a good quality by the deadlines you have agreed with us. These should be complete including all notes, the performance report and the accountability report;
- good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- relevant staff to be available and on site (as agreed) during the period of the audit;
- prompt and adequate responses to audit queries.

Audit Fee

Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate unaudited accounts and meets the agreed timetable for audit.

The expected fee is reviewed by Audit Scotland each year, based on Audit Scotland’s overall budget proposals. The budget proposal and fee levels (for the 2023/24 audits) have been developed in the context of a challenging economic environment, increased expectations on the audit profession and the ongoing process of recovery following the Covid-19 pandemic.

As auditors we negotiate a fee with the Funds during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

The expected fee set by Audit Scotland for the 2023/24 audit of the Funds is £54,680. Which represents a 6% increase on the 2022/23 fee. This increase is applied on a sector basis and reflects the conditions of the public sector market.

The breakdown of the fee for 2023/24 is shown in the table below.

Fee element	**2023/24**	**2022/23**
Auditor remuneration	£88,450	£64,360
Pooled costs	£3,220	-
Contribution to PABV costs	-	-
Audit support costs	-	£2,440
Sectoral cap adjustment	-£36,990	-£15,210
Total fee	**54,680**	**£51,590**

We will take account of the risk exposure of the Funds and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant work not within our planned audit activity.

Audit independence and objectivity

Auditor Independence

We are required to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence.

Azets provides accounts preparation, corporation tax services and ad hoc VAT advice to LPFE Ltd and LPFI Ltd which are subsidiaries of Lothian Pension Fund. In 2023/24 non-audit fees are estimated to be c.£6,500.

All tax services are provided by an independent tax partner and staff who have no involvement in the audit of the financial statements. The accounts are prepared from trial balances provided by LPFE Ltd and LPFI Ltd and no significant policies, disclosures, adjustments or estimates are decided by Azets. In addition to this, Azets also iXBRL tag the financial statements for submission to HMRC along with the corporation tax return. This tagging exercise is performed by an individual who is not involved in the audit of the financial statements.

We have considered our integrity, independence and objectivity in respect of non-audit services provided and we do not believe there are any significant threats or matters which should be brought to your attention.

Appendices

Appendix 1: Materiality

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Funds and Group and the needs of the users.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2024 was calculated as follows.

Group and Funds Materiality

	Group £million	Lothian Pension Fund £million	Scottish Homes Pension Fund £million
Overall materiality for the financial statements	149	147	1.9
Performance materiality (75% of materiality)	111.75	110.25	1.43
Trivial threshold	7.45	7.35	0.01

Materiality	Our initial assessment is based on approximately 1.5% of the group and Funds' estimated net assets as at 2023/24. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Funds' and the group.

Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In accordance with Azets methodology we have set a trivial threshold at 5% of the overall materiality level. We will consider appropriateness of this level during the audit. Individual errors above this threshold are communicated to those charged with governance.

Special materiality for dealings with members

	Group £million	Lothian Pension Fund £million	Scottish Homes Pension Fund £million
Dealings with members materiality	13.64	13.3	0.34
Performance materiality (75% of materiality)	10.23	9.95	0.25
Trivial threshold	0.68	0.66	0.02

Materiality	We apply lower materiality for dealings with members, based on the fact these transactions are significant to the Funds' activities and it would not be appropriate to use the assets-based materiality to audit them. Our initial assessment is based on approximately 5% of the group and Funds' 2022/23 gross expenditure as disclosed in the

	2022/23 audited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Funds and its group. We have set our trivial threshold at 5% of overall materiality as explained above.

The Remuneration Report and Related Parties disclosures are material by nature.

In performing our audit, we will consider any errors which result in a movement between the relevant bandings on the disclosure table to be material.

For related party transactions, in line with the standards we will consider the significance of the transaction with regard to both Funds and their counter parties, the smaller of which will drive materiality considerations on a transaction by transaction basis.

Appendix 2: Group audit scope and risk assessment

As Group auditor, under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Group audit scope

The Group consists of the following entities:

Component	Significant	Level of response required
LPFE Ltd	No	Analytical
LPFI Ltd	No	Analytical

Analytical - the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

Appendix 3: Responsibilities of the Auditor and the Funds

The Accounts Commission and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Code of Audit Practice

The Code of Audit Practice (the 2021 Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Pensions Committee and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

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.

Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

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.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Funds’ best value arrangements is integrated into our audit approach, including our work on the wider scope areas as set out in this plan.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at Quality of public audit in Scotland: Annual report 2022/23 | Audit Scotland (audit-scotland.gov.uk)

Funds' responsibilities

The Funds have 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 enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Funds responsibilities
Corporate governance	The Funds are 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. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Funds have responsibility for: • preparing financial statements which give a true and fair view of the financial position and its 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 support the balances and transactions in its financial statements and related 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; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating 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.

Area	Funds responsibilities
	The Funds are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Funds 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	The Funds are responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	The Funds are responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to: • such financial monitoring and reporting arrangements as may be specified; • compliance with statutory financial requirements and achievement of financial targets; • balances and reserves, including strategies about levels and their future use; • plans to deal with uncertainty in the medium and long term; and • the impact of planned future policies and foreseeable developments on the financial position.
Best value	The Funds have a specific responsibility to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among: • The quality of its performance of its functions. • The cost to the body of that performance.

Area	Funds responsibilities
	• The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis. In maintaining that balance, the Funds shall have regard to: • Efficiency • Effectiveness • Economy • The need to meet the equal opportunity requirements. The Funds should discharge its duties in a way which contributes to the achievement of sustainable development. In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved. The Scottish Government's Statutory Guidance on Best Value (2020) requires bodies to demonstrate that they are delivering Best Value in respect of seven themes: 1. Vision and leadership 2. Governance and accountability 3. Effective use of resources 4. Partnerships and collaborative working 5. Working with communities 6. Sustainability 7. Fairness and equality. Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.