



Shetland Islands Council Pension Fund

Planning report to the Audit Committee on the 2020 audit

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Planning report

A tailored, insightful and efficient audit delivered by a team of pension audit specialists

Executive introduction

The key messages in this report:

We have pleasure in presenting our Planning Report to the Audit Committee for the 2020 audit of Shetland Islands Council Pension Fund (the 'Fund'). We would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority.

We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

A **robust** challenge of the key judgements taken in the preparation of the financial statements.

A strong **understanding** of your internal control environment.

A **well planned** and delivered audit that raises findings early with those charged with governance.

Fund Changes

Following discussions with the Fund's finance team, we have not identified any significant changes to the Fund itself during the year. We will continue to liaise with the finance team to identify any changes between the date of this report and the Fund's year end, and will update our audit plan accordingly should any occur.

There have been no significant regulatory changes to the accounting of the Fund in the current year. The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the 2019/20 Code") applies in the current year.

Significant audit risks

As in the prior year, we have identified management override of controls as our significant audit risk. Auditing standards require us to assume that management override of controls is an audit risk for all of our audits.

Further details of this significant risk, including our proposed testing can be found on page 15.

Whilst the accuracy and timeliness of contributions and completeness of investments have not been assessed as significant risks, they have been assessed as audit focus areas as outlined on pages 17 and 18.

Audit Quality

Our audit approach is tailored to providing the Audit Committee with an audit which is designed to provide assurance and insight over the Fund control environment.

We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management and the Audit Committee.

Executive introduction (continued)

The key messages in this report:

Our response to the audit quality objectives in respect of the Fund are detailed below:

Our audit quality is managed by using dedicated pension scheme audit specialists. This structure allows us to challenge key judgements taken in the preparation of the financial statements.

We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management.

Audit dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how the Fund is addressing these and report our conclusions in our annual report to the Members and Controller of Audit in September 2020. In particular, our work will focus on:

- **Financial sustainability** – we will monitor the Fund’s actions in respect of its medium and longer term financial plan to assess whether short term financial balance can be achieved, whether there is a long-term financial strategy and if the investment strategy is effective.
- **Financial management** – we will review the budget and monitoring reports of the Fund during the year to assess whether financial management and budget setting is effective.
- **Governance and transparency** – from our review of the Fund’s Audit Committee papers and attendance at Audit Committee meetings, we will assess the effectiveness and scrutiny of governance arrangements. We will also share best practice examples, where it is deemed appropriate.
- **Value for money** – we will gain an understanding of the Fund’s self-evaluation arrangements to assess how it demonstrated value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.

Pat Kenny
Audit Director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit Committee:



As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps those charged with governance in fulfilling their remit.

- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the Fund advisors where activities have been delegated by the Audit Committee.
- Assess the completeness of disclosures, including consistency with disclosures required under the Code of Practice on local authority accounting in the UK.

Oversight of external audit

Integrity of reporting

Internal controls and risk

Oversight of internal audit

Whistle-blowing and fraud

- At the start of each annual audit cycle, ensure the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

- Review the internal control reports and risk management systems for Fund advisors.
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

- Consider annually whether there is a need for an internal audit function and any testing to be performed over pension activities.

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

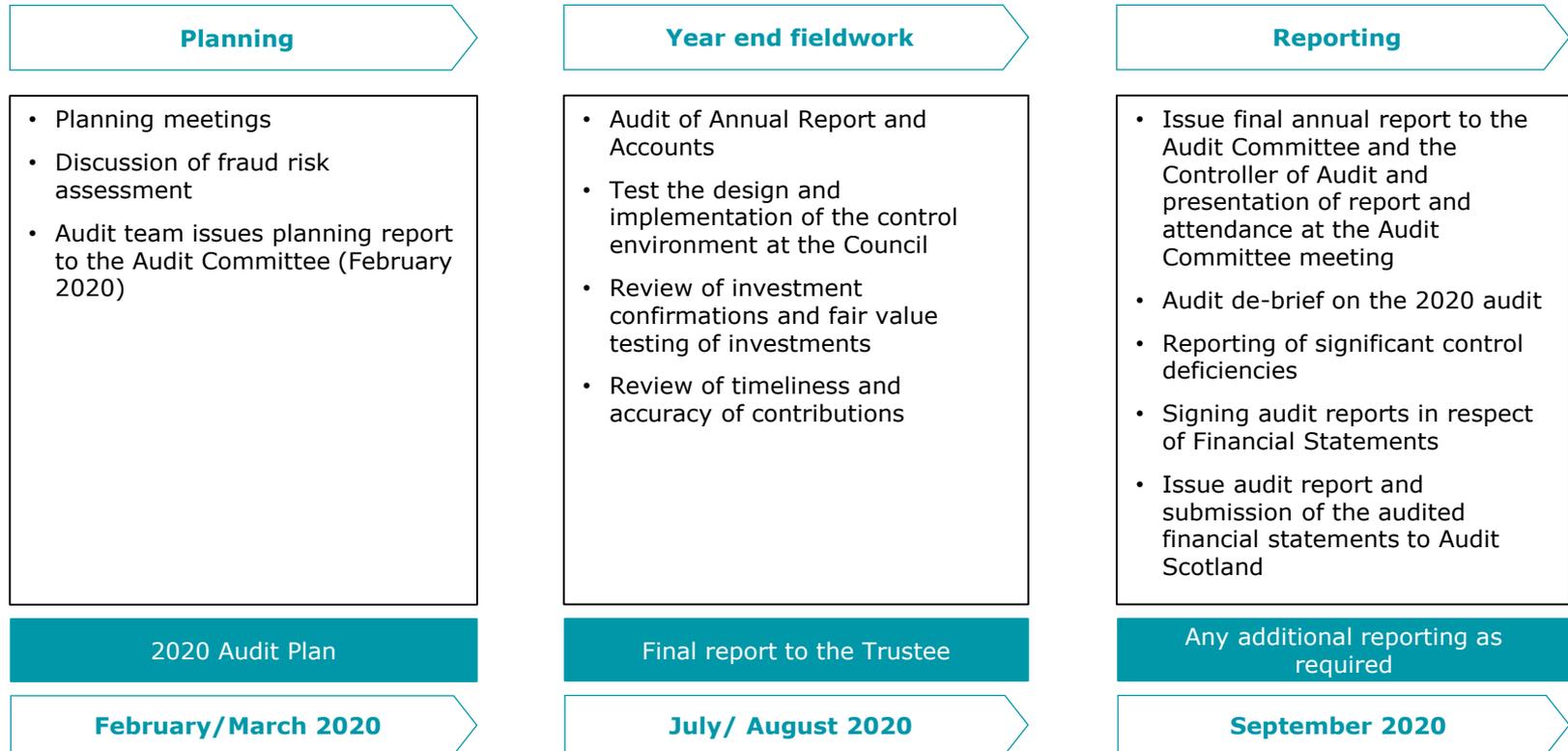
We use this symbol throughout this document to highlight areas of our audit where the Audit Committee needs to focus their attentions.



Timing of the audit

Continuous communication and reporting

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn and initial comments from the final visits will be shared with management as required. The following sets out the expected timing of our reporting to and communication with you.



Ongoing communication and weekly calls during the year end fieldwork phase

Scoping



Financial statement and audit scope coverage

Our audit work will be performed in accordance with our framework agreement, signed on 31 May 2016. In addition to forming these opinions, we will also report to the Audit Committee on:

- a summary of control weaknesses that we identify; and
- significant audit findings, including commentary on key accounting judgments and disclosures.

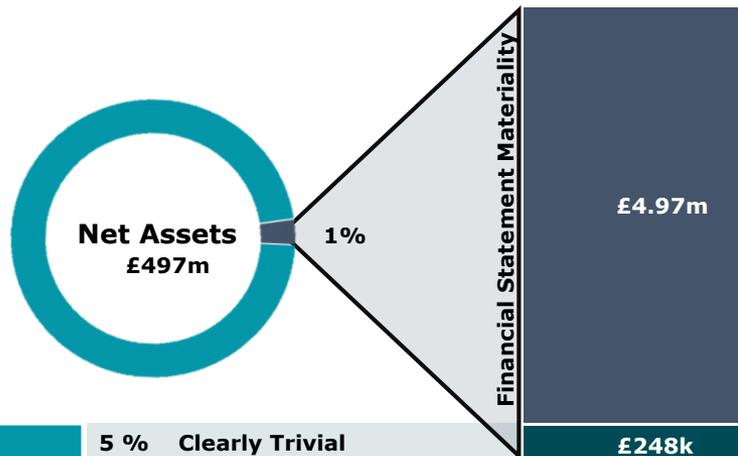
In reaching our opinions, it is necessary to determine whether the financial statements comply with applicable accounting standards and legislation. We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB") and Practice Note 15 'the audit of occupational pension schemes in the United Kingdom'.

We consider a number of factors when deciding on the significant audit risks. The factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the critical accounting estimates previously reported in the annual report and financial statements;
- the disclosures made by the Audit Committee in their previous Management Commentary and Annual Governance Statement;
- our assessment of materiality; and
- the changes that have occurred in the Fund year and the environment it operates in since the last annual report and financial statements.

The financial statement materiality for the Fund is based on 1% of the Net Assets of the Fund as at 31 March 2020.

The below materiality level is an estimate based on the 2019 financial statements, and will be updated on receipt of the draft financial statements. We report to you on any misstatements above our clearly trivial threshold ("CTT") which is 5% of the materiality level below.



Although materiality is the judgement of the audit lead, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice



Core audit

Our core audit work as defined by Audit Scotland comprises:

- Providing the **Independent Auditor's Report** on the annual accounts;
- Providing the **annual report** on the audit addressed to the Pension Fund Audit Committee;
- Communicating **audit plans** to the Audit Committee;
- Providing **reports to management**, as appropriate, in respect of the auditor's responsibilities in the Code;
- Identifying **significant matters arising from the audit**, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required; and
- Undertaking work requested by Audit Scotland or local performance audit work.

Wider scope requirements

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland:

- **Financial sustainability** – looking forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.
- **Financial management** – financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** – the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for money** – using resources effectively and continually improving services.

Wider Scope Requirements

Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how the Fund addresses these areas, including any risks to their achievement, as part of our audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2019/20 Audit
<p>Financial sustainability looks forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<ul style="list-style-type: none"> • The financial planning systems in place across the shorter and longer terms. • The arrangements to address any identified funding gaps. • The affordability and effectiveness of funding and investment decisions made. 	<p>We will review arrangements and financial planning systems in place by the Fund to ensure that its services can continue to be delivered. This will include a review of the latest actuarial valuation of the Fund and the plans in place to reduce the deficit over the shorter and medium term. In addition, we will review the funding policy as set out in the Shetland Islands Council Pension Fund Investment Strategy, which aims to secure the long term solvency of the Fund, so that there are sufficient funds available to meet all benefits as they fall due.</p> <p>Audit Risk: The Fund’s investment strategy is inconsistent with the long term solvency of the Fund.</p>
<p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<ul style="list-style-type: none"> • Systems of internal control. • Budgetary control system. • Financial capacity and skills. • Arrangements for the prevention and detection of fraud. 	<p>We will review the budget and monitoring reporting by the Fund during the year to assess whether financial management and budget setting is effective.</p> <p>In addition, we will also ensure that there is a proper officer and fund manager who have sufficient status to be able to deliver good financial management, that monitoring reports contain information linked to performance as well as financial data, and that members have the opportunity to provide a sufficient level of challenge around variances and under-performance.</p> <p>Audit Risk: The underlying financial performance of the Fund is not transparently reported.</p> <p>Our fraud responsibilities and representations are detailed in Appendix 1 of this report.</p>

Wider Scope Requirements (continued)

Audit Dimensions (continued)

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how the Fund addresses these areas, including any risks to their achievement, as part of our audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2019/20 Audit
<p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<ul style="list-style-type: none"> • Governance arrangements. • Scrutiny, challenge and transparency on decision making and financial and performance reports. • Quality and timeliness of financial and performance reporting. 	<p>We will review the Fund's papers and use our attendance at Audit Committee meetings to assess the effectiveness and scrutiny of governance arrangements.</p> <p>We will also review other aspects of governance around the Fund including Codes of Conduct for officers and members, fraud and corruption arrangements for reporting regulatory breaches to the Pensions Regulator.</p> <p>In addition, we will review the Annual Governance Statement and Governance Compliance Statement to confirm the governance arrangements observe the guidance issues by Scottish Ministers.</p> <p>Audit Risk: The Fund's approach is not keeping pace with good practice.</p>
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none"> • Value for money in the use of resources. • Link between money spent and outputs and the outcomes delivered. • Improvement of outcomes. • Focus and pace of improvement. 	<p>We will gain an understanding of the Fund's self-evaluation arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.</p> <p>We will also review the scrutiny that is in place to challenge the Fund's investment managers on fees and performance.</p> <p>Audit Risk: The Fund does not have sufficient scrutiny over the expenditure of the Fund.</p>

Scoping

Risk dashboard



Risk Area	Risk Type	Fraud Risk	Judgement	Controls approach?	Approach to testing
Management override of controls				D&I	See page 15.
Accuracy and timeliness of contributions				D&I	See page 17.
Completeness of investments				D&I + OE	See page 18.

Significant risk: risk which require a tailored, elevated audit response in terms of the nature, timing and extent of audit testing. Significant risks are based on professional judgment and the results of the risk assessment procedures we have performed.

Audit focus areas: risks which require additional audit consideration beyond that of normal risks, but where the potential for material misstatement or the likelihood is lower than that of a significant risk.

D&I: Design and implementation of controls

OE: Operating effectiveness



Low levels of management judgement/involvement



Medium levels of management judgement/involvement



High degree of management judgement/involvement



Significant risk



Audit focus area

Scoping

Summary of Account Balances

Scoping Key Account Balances

We have considered each of the Fund's significant account balances (based on 31 March 2019 signed financial statements).

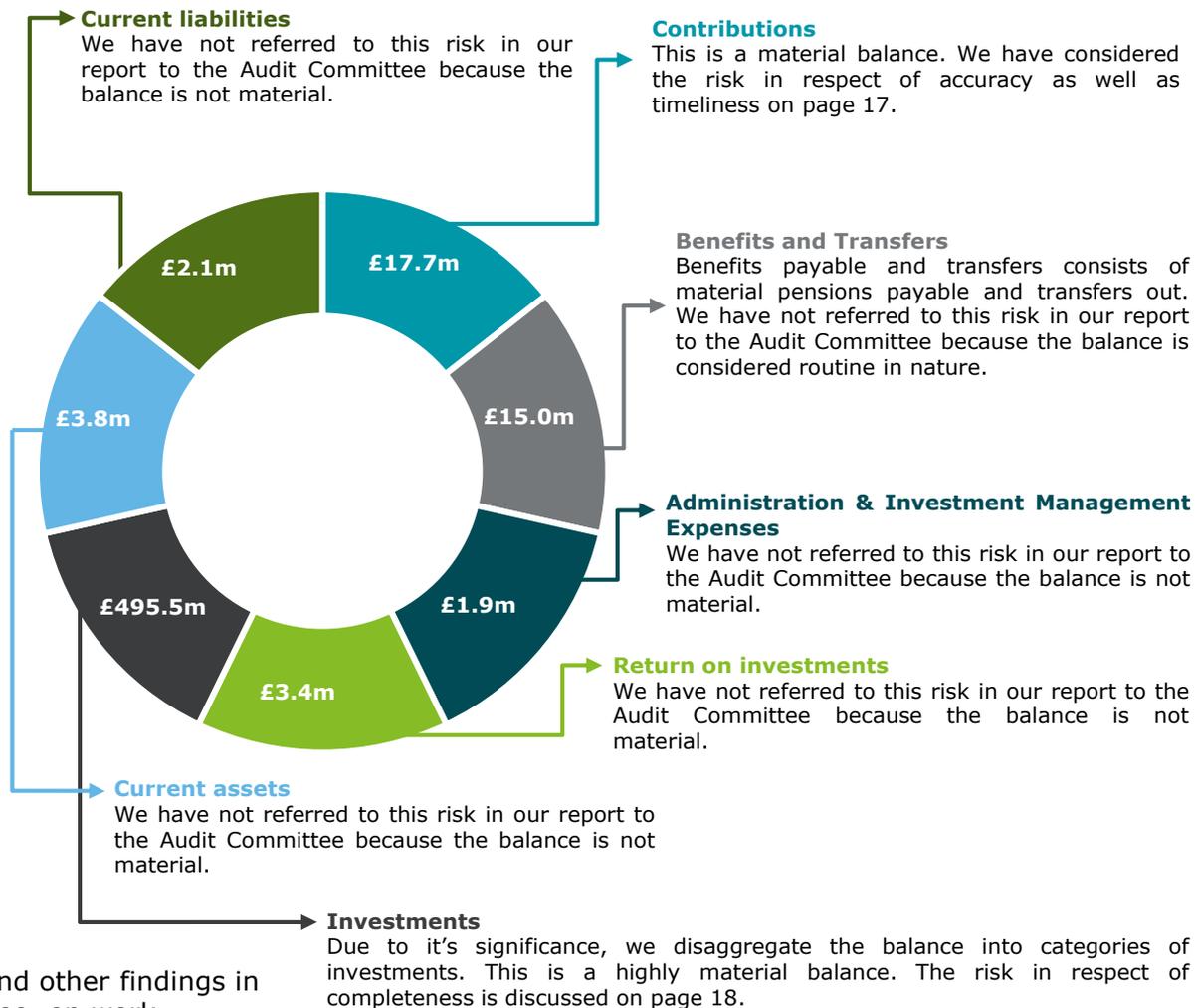
For each balance, we explain the basis on which we have determined whether or not it will be a key audit matter and provide commentary.

We will report factually on the key audit matters that have the biggest impact on the audit.

We will explain why the matter is relevant within the specific circumstances of the Fund and clearly document the specific procedures we will perform to address the key audit matter.

These areas are considered in more detail on pages 17 to 18. The estimated account balances below are based on the prior year signed accounts.

We will report control observations and other findings in our final report to the Audit Committee on work performed on other account balances.





**Significant
audit risk**

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance

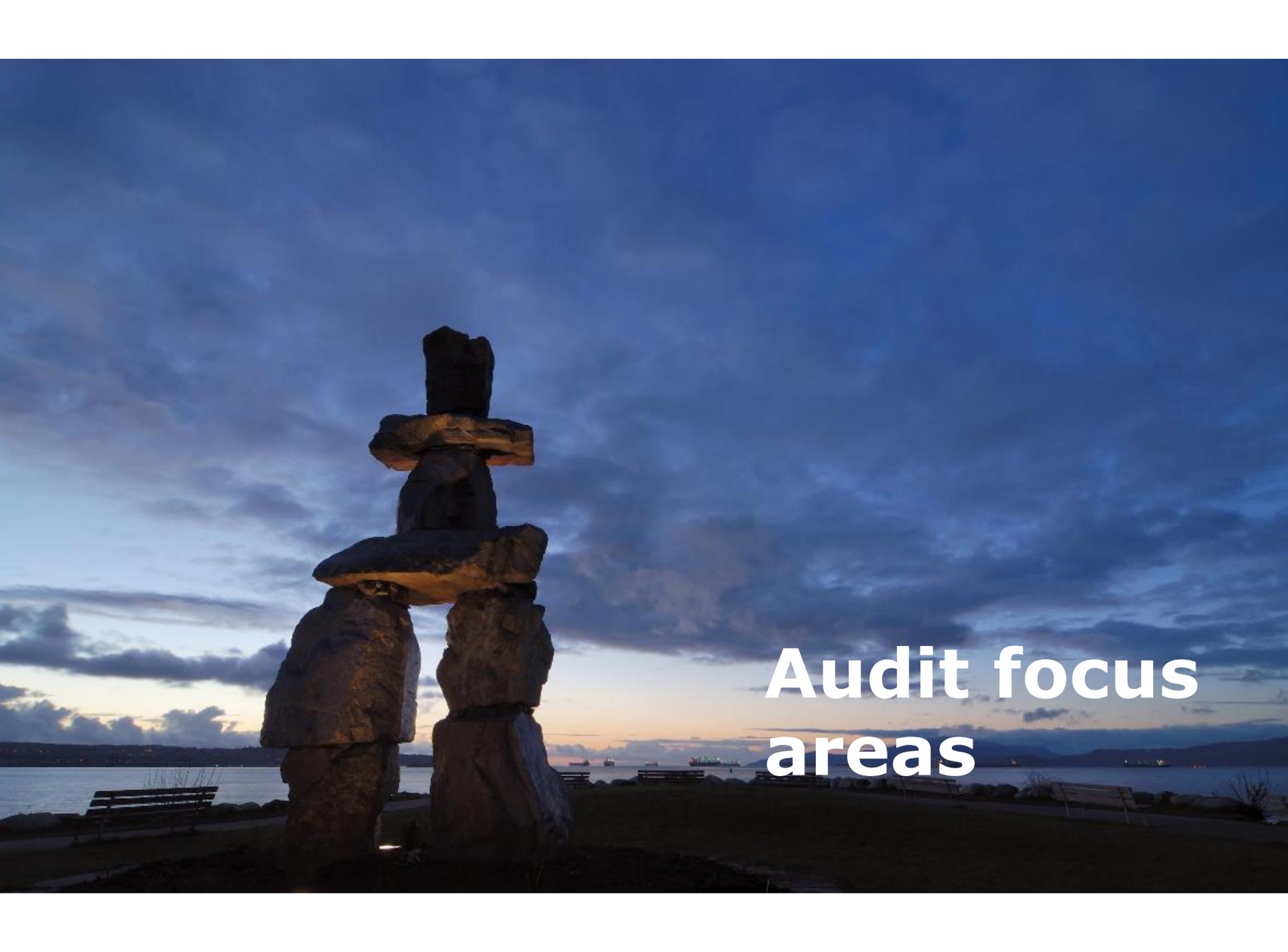
The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

The financial reporting process in place has an adequate level of segregation of duties.

Deloitte response to significant risk identified

In order to address the significant risk our audit procedures will consist of the following:

- using data analytics in our journals testing to interrogate 100% of journals posted across the Fund;
- making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- performing a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- reviewing the accounting estimates for bias, such as year-end creditor and debtor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- ensuring that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- testing the design and implementation of controls around the investment and disinvestment of cash during the year; and
- Making enquiries of management in relation to the identification of related parties.

A photograph of a stone cairn, a stack of rocks, at dusk. The sky is a deep blue with scattered clouds, and the sun is low on the horizon, casting a soft glow. In the background, there is a body of water and some distant lights. The text "Audit focus areas" is overlaid in white on the right side of the image.

Audit focus areas

Timeliness and accuracy of contributions

Risk identified

The correct deduction and timely payment of contributions depends on system-based processing of membership data and salary details, together with a robust internal controls framework. Errors in processing contributions can lead to issues such as non-compliance with the Local Government Pension Scheme Regulations 2014 (“LGPS Regulations”) and the recommendations of the actuary, and deducting incorrect amounts from the active members’ payroll, which can be costly to rectify and cause reputational damage.

In addition, while no opinion is issued on timely payment of contributions, it remains an area of focus, as LGPS Regulations stipulate due dates for payment. Late payments could cause reputational damage.

There is a risk that contributions are not paid to the Fund accurately or in a timely manner.

Response of those charged with governance

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are accurate and complete.

Deloitte response to risk identified

In order to address this area of audit focus, we will perform the following audit procedures:

- Review the design and implementation of key controls over the contribution process;
- Perform an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- For a sample of active members, we will recalculate individual contribution deductions to ensure these are being calculated in accordance with the rates stipulated in the LGPS Regulations for employee contributions and the recommendations of the actuary for employer contributions;
- Test that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions;
- Test the reconciliation of the total number of active members between the membership records and the employer payroll records; and
- For a sample of monthly contributions paid, check that they have been paid within the due dates per the LGPS Regulations.

Completeness of investments

Risk identified

The Fund holds a large and highly material portfolio of investments, which is diversified with several investment managers. As a result of this we consider the completeness of these investments to be an area of audit focus.

The Fund holds investments primarily in pooled funds, pooled property unit trusts and fixed income unit trusts with a range of investment managers.

Response of those charged with governance

The Fund appoints various investment managers and Northern Trust as custodian for these investments. These parties have strong control environments in place.

Deloitte response to risk identified

In order to address this area of audit focus, we will perform the following audit procedures:

- Review the design and implementation and operating effectiveness of key controls over the valuation of investments by obtaining the investment manager internal controls reports and evaluating the implications for our audit of any exceptions noted;
- Independently request confirmations from all investment managers and the global custodian for balances held per the financial statements;
- Agree year end valuations, sales proceeds and purchases in the financial statements to the reports received directly from the investment managers;
- Perform a full unit reconciliation of investments held during the year;
- Perform valuation testing by using a range of techniques depending on the type of investment:
 - Where the investment is not directly quoted on an exchange, we will confirm if it is registered on the Financial Conduct Authority website and obtain an independent price, or use sales transactions close to the year end as an estimate of the price.
 - Where the investment is a unit linked insurance policy, we will confirm that the investment is held under the form of a unit linked insurance policy, that the insurance provider is authorised to provide insurance services and obtain confirmation that the provider would be willing to transact at the unit price stated on the confirmation received.
 - Where none of these options are available we will obtain audited financial statements and assess the year end price against the audited accounts, and benchmark movements where the date of the audited financial statements is not coterminous with the Fund's financial year.



**Maintaining
audit
quality**

Maintaining audit quality

Responding to challenges in the current audit market



This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)
- Deloitte fully supports an independent review into the role of auditors
- The Government's Brydon Review will consider UK audit standards and how audits should evolve

Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model

Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies

Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts
- We have governance in place to assess any areas of potential conflict, including where required to protect the public interest
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)

Deloitte

- Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest
 - Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>
 - Our response to the latest AQR report is on page 21
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Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory updates, relevant to you

Other relevant communications

- Our technical updates provide the Audit Committee with some insight in to relevant topical events in the pensions industry.
- We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and Fund risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Pat Kenny

for and on behalf of Deloitte LLP

Glasgow | 14 February 2020



Appendices

Key audit matters

Appendix 1: Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Audit Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified management override of controls as a key audit risk for the Fund.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Audit Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.



Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.



The Trustee

- How the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the Audit Committee on the most significant fraud risk factors affecting the Fund.



Appendix 2: Independence and fees

A Fair and Transparent Fee



As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

<p>Independence confirmation</p>	<p>We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2020 in our final report to the Audit Committee.</p>								
<p>Fees</p>	<p>The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £28,447 (2018/19: £29,100) as analysed below:</p> <table data-bbox="386 642 1043 785"> <tr> <td>Auditor remuneration:</td> <td style="text-align: right;">£24,387</td> </tr> <tr> <td>Pooled costs:</td> <td style="text-align: right;">£2,510</td> </tr> <tr> <td>Contributions to Audit Scotland costs:</td> <td style="text-align: right;">£1,550</td> </tr> <tr> <td>Total:</td> <td style="text-align: right;">£28,447</td> </tr> </table> <p>There are no non-audit services fees proposed for the period.</p>	Auditor remuneration:	£24,387	Pooled costs:	£2,510	Contributions to Audit Scotland costs:	£1,550	Total:	£28,447
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Pooled costs:	£2,510								
Contributions to Audit Scotland costs:	£1,550								
Total:	£28,447								
<p>Non audit services</p>	<p>In our opinion there are no inconsistencies between the FRC’s Ethical Standard and the Fund’s policy for the supply of non-audit services or any apparent breach of that policy.</p> <p>We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.</p>								
<p>Relationships</p>	<p>We have no other relationships with the Fund, the Audit Committee, or management, and have not supplied any services to other known connected parties.</p>								

Deloitte.



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