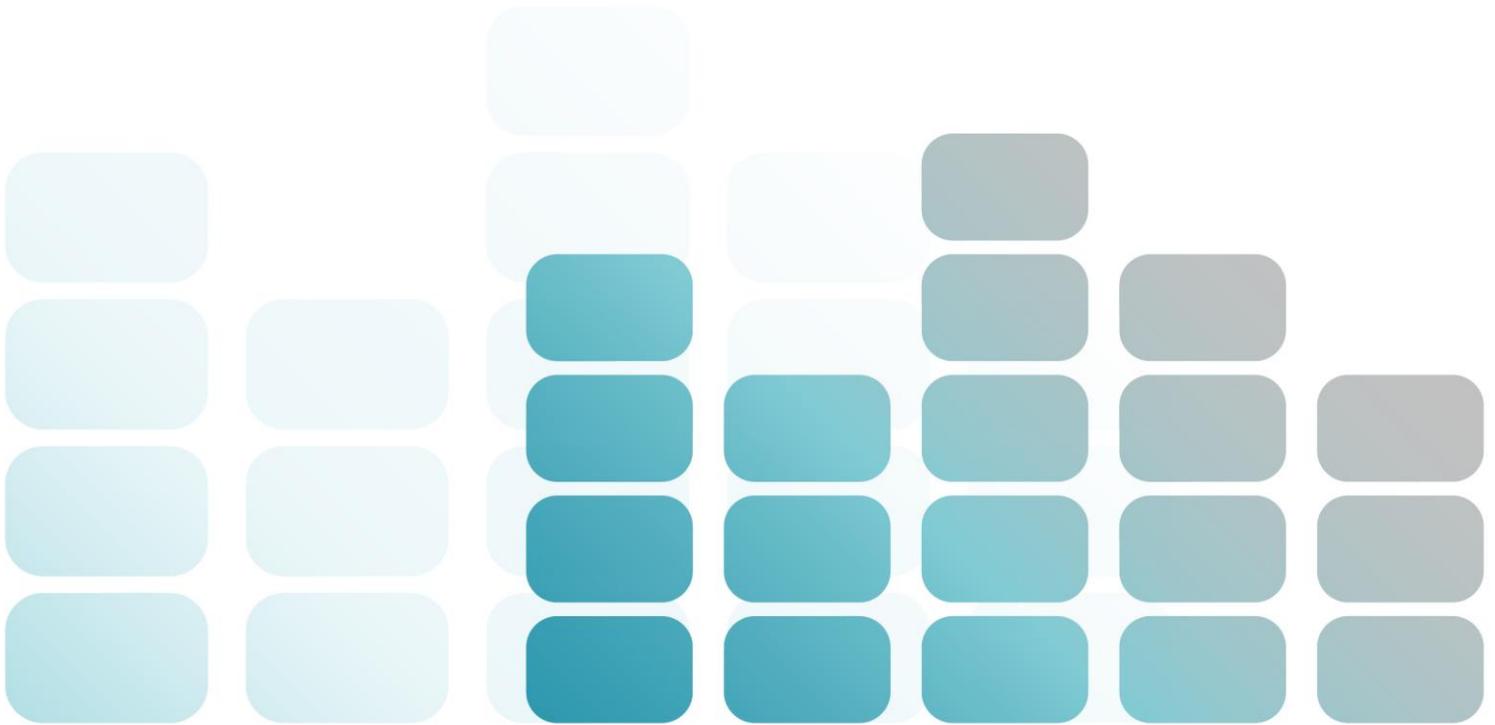


The Highland Council Pension Fund

Annual Audit Plan 2025/26



Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the annual report and accounts	6
Wider scope and Best Value	10
Reporting arrangements, timetable and audit fee	12
Other matters	15

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of The Highland Council Pension Fund (the Pension Fund) annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Claire Gardiner, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of the Pension Fund for the period from 2024/25 until 2026/27.

3. The appointed auditor and the audit team are independent of the Pension Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the Pension Fund to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement.
- Conclusions on the Pension Fund's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the Pension Fund and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on the Pension Fund's arrangements in place for the wider scope areas.

The Pension Fund's responsibilities

8. The Pension Fund has primary responsibility for ensuring 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:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements that give a true and fair view and other information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the annual report and accounts

Introduction

9. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

10. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

11. The concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

12. The materiality levels determined for the audit of the Pension Fund are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for the Pension Fund

Materiality	Pension Fund
Materiality – based on an assessment of the needs of users of the financial statements and the nature of the Pension Fund operations, the benchmark used to determine materiality is net investment assets based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.	£54.0 million
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required.	£40.5 million

Materiality**Pension Fund**

Using professional judgement, performance materiality has been set at 75% of planning materiality.

Reporting threshold – all misstatements greater than the reporting threshold will be reported.

£2.7 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. The risk assessment process draws on the audit team's cumulative knowledge of the Pension Fund, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

14. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

15. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the Pension Fund and those charged with governance, where relevant.

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals at the year-end and post-closing entries and focus on those assessed as higher risk. • Evaluate significant transactions outside the normal course of business.

Risk of material misstatement	Planned audit response
	<ul style="list-style-type: none"> • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.
<p>Estimation applied to level three investment assets</p> <p>The Pension Fund has a significant portfolio of level three investments, £736m as at 31 March 2025.</p> <p>There are no observable inputs available for level three investments and therefore the valuation of these investments involves a significant degree of subjectivity, and valuations are estimated using specialist assumptions. Changes in the assumptions can result in material changes to the valuation of investments.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Critically assess the Pension Fund's arrangement for arriving at the valuation of level 3 investments, including reviewing the use of experts in undertaking the valuation. • Assess the competence, capabilities, and objectivity of the management experts involved in valuation of investments. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Confirmation of year-end valuations to valuation reports, or equivalent supporting documentation, prepared by investment managers. • Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty. • Perform substantive analytical procedures on level three investments, using forecasts and market movements, to determine the reasonableness of valuations at the year-end. • Review investment managers' controls reports to identify if there are any issues that impact on the planned audit procedures.

Source: Audit Scotland

Key audit matters

16. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

17. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.

- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

18. In addition to the significant risks of material misstatement [Exhibit 2](#), the following area of specific audit focus has been identified as part of our planning process and will be reported on in the Annual Audit Report.

- **Actuarial present value of promised retirement benefits:** The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality rates, discount rates and earning assumptions. We will review the work of the actuary in accordance with ISA 500, the reasonableness of the actuarial assumptions adopted, and assess the arrangements for ensuring the data provided to the actuary is complete and accurate.

Wider scope and Best Value

Introduction

19. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on the Pension Fund being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term to ensure the pension fund has a strong funding position. This is assessed by considering the Pension Fund's funding and investment strategies, Fund membership and cashflow position.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning. This is assessed by considering the Pension Fund's administration performance against target and its investment performance against its benchmarks.

20. A conclusion on the effectiveness and appropriateness of arrangements the Pension Fund has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Best Value

21. The Pension Fund is administered by The Highland Council. As pension funds are not local authorities or separate bodies that fall within section 106 of the Local Government (Scotland) Act 1973, the statutory

responsibility for securing Best Value for pension funds lies with the administering local authority, The Highland Council.

22. Therefore, consideration of the arrangements the Pension Fund has put in place to secure Best Value will be carried out as part of the Highland Council audit, and a conclusion on the arrangements any matters relating to the Pension Fund will be reported in the Annual Audit Report.

Significant wider scope and Best Value risks

23. No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

Reporting arrangements, timetable and audit fee

Audit outputs

24. The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the Highland Council Pension Fund and the Accounts Commission setting out opinions on the annual report and accounts.
- An Annual Audit Report to the Highland Council Pension Fund and the Accounts Commission setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, recommendations, where required, and any good practice identified.

25. The matters to be reported in the outputs will be discussed with the Pension Fund for factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

26. Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual report and accounts, which is 30 September 2026 for local government bodies.

27. The audit team will be unable to achieve the target date of 30 September 2026 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to prioritising the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit work by the later date of 31 October 2026 and subsequent presentation and signing of accounts in December 2026. We are working towards delivering the audit by target dates over the course of the five-year audit appointment.

Audit timetable

28. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 3](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the Pension Fund and reported to those charged with governance, where required.

Exhibit 3 2025/26 audit timetable

Audit activity	Target date	Relevant committee date
Issue of Annual Audit Plan	16 March 2026	16 March 2026
Annual report and accounts:		
• Consideration of unaudited annual report and accounts by those charged with governance	30 June 2026	18 June 2026
• Submission of unaudited annual report and accounts and all working papers to audit team	31 July 2026	
• Latest date for audit clearance meeting	9 October 2026	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	27 October 2026	
• Agreement of audited and unsigned annual report and accounts	By 31 October 2026	
• Approval by those charged with governance and signing of audited annual report and accounts	16 December 2026	16 December 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report	16 December 2026	

Source: Audit Scotland

Audit fee

29. The Pension Fund's audit fee is determined in line with Audit Scotland's fee setting arrangements. The agreed audit fee for the 2025/26 audit is £40,680.

30. In setting the audit fee, it is assumed that the Pension Fund continues to have effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

31. The Pension Fund is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

32. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

33. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

34. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

35. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

36. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

37. Audit Scotland may periodically seek the views of the Pension Fund on the quality of audit services provided. The audit team would also welcome feedback at any time.

The Highland Council Pension Fund

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