

Pensions Committee

2.00pm, Wednesday, 29 September 2021

Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund

1. Executive Summary

The Pensions Committee (Committee) is requested to:

- 1.1 note the report by Azets Audit Services ‘Lothian Pension Funds 2020/21 Annual Audit Report to Members of the Pensions Committee and the Controller of Audit’ (at Appendix 1);
- 1.2 approve the audited Annual Report (and Financial Statements) for the year ended 31 March 2021 for Lothian Pension Fund and Scottish Homes Pension Fund (at Appendix 2);
- 1.3 note that the audited financial statements, for the year ended 31 March 2021, of both the wholly owned companies, LPFE Limited and LPFI Limited were approved by the respective Board of Directors in July 2021. These statements are shown in full at Appendixes 3 and 4;
- 1.4 note the further Appendixes 5 and 6, namely ‘Lothian Pension Funds – Statement on the system of internal financial control’ and ‘Letter of Representation (ISA 580), both by the Chief Finance Officer, Lothian Pension Fund.

John Burns

Chief Finance Officer, Lothian Pension Fund

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Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund

2. Executive Summary

- 2.1 The purpose of this report is to present the Audited Annual Report (and Financial Statements) for the year ended 31 March 2021 for Lothian Pension Fund and Scottish Homes Pension Fund. International Standard on Auditing (ISA) 260 requires the external auditor to communicate its finding to those charged with governance of the Funds. Accordingly, Azets Audit Services 'Lothian Pension Funds 2020/21 Draft Annual Audit report to Members of the Pensions Committee and the Controller of Audit' is included at Appendix 1.
- 2.2 Azets Audit Services intends to provide an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund and intends also to confirm that there are no matters on which it is required to report by exception.

3. Background

ISA 260 annual report by External Auditor

- 3.1 Under statutory accounting guidance issued by the Scottish Government, Administering Authorities are required to issue a separate Annual Report covering the Local Government Pension Scheme (LGPS) funds that they are responsible for. These Annual Reports are subject to a separate external audit.
- 3.2 International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires the External Auditor to communicate its findings to those charged with governance of the Funds. This summarises any matters arising from the audit of the financial statements prior to the formal signing of the independent auditor's report.
- 3.3 As part of the standard, the External Auditor is required to provide a view of the following:
- any significant qualitative aspects within the Funds' accounting practice;
 - any significant difficulties encountered during the audit;
 - any material weakness in the design, implementation or operating effectiveness of the system of internal control;
 - Any significant matters arising from the audit discussed with management;
 - Any representations that have been requested from management; and
 - Any other matter that is significant.

4. Main Report

Azets Audit Services - Lothian Pension Fund and Scottish Homes Pension Fund 2020/21 Annual Audit Report to Members and the Controller of Audit

- 4.1 The report by the external auditor on the financial statements is included at Appendix 1 – 'Azets Audit Services - Lothian Pension Fund and Scottish Homes Pension Fund 2020/21 Annual Audit Report to Members and the Controller of Audit'. This will be presented to Committee by Nick Bennett, Partner, Azets Audit Services.
- 4.2 Key points within the Audit Report include confirmation that:
- 4.2.1 Work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Financial statements audit

1. An unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund (collectively referred to as the "Funds") will be given which will also confirm that there were no matters which we were required to report by exception.
2. Azets has commented "We are pleased to report that there were no material adjustments to the financial statements and no unadjusted differences identified."

Wider scope audit

3. LPF has adequate arrangements in place to ensure ongoing sustainability.
 4. LPF has effective arrangements for financial management and the use of resources
 5. Governance arrangements at the Funds are appropriate.
 6. The Funds have appropriate arrangements in place to secure value for money through appropriate monitoring of performance of investments and the administration of the Funds.
- 4.3 The Action Plan details the control weaknesses and opportunities for improvement that the auditor has identified, and the actions taken, or to be taken, by LPF in relation to the relevant points. For the current year, this is shown within the auditor's report at Appendix 3, with the follow up of prior year recommendations shown at Appendix 4.
- 4.4 In addition to members of the Pensions Committee and Pensions Audit Sub-Committee, Azets Audit Services will send the report to the Controller of Audit and

has advised that it will therefore be published on Audit Scotland’s website in due course.

Audited Annual Report 2021 for Lothian Pension Fund and Scottish Homes Pension Fund

Revisions from the Unaudited Annual Report 2021, as reported to Pensions Committee in June 2021

- 4.5 With the Annual Internal Audit Opinion for the year to 31 March 2021 having been reported to the special Pensions Committee on 20 August 2021, the Annual Governance Statement has been revised (from the Unaudited Annual Report) accordingly. Similarly, a revised “...Statement on the system of internal financial control by Chief Finance Officer, Lothian Pension Fund is provided at Appendix 5.
- 4.6 Some minor disclosure and presentational adjustments were identified during the audit. These have been reflected in the final set of financial statements.
- 4.7 With the completion of the work by Azets Audit Services, the Audited Annual Report 2021 for the Lothian Pension Fund and Scottish Homes Pension Fund has been finalised and is included at Appendix 2.
- 4.8 As part of the completion of the audit, the auditor seeks written assurances from the Chief Finance Officer, Lothian Pension Fund, on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix 6.

Audited Financial Statements for the year ended 31 March 2021; LPFE Limited and LPFI Limited

- 4.9 The consolidated financial statements (within the Annual Report 2021) combine those of the Fund (the parent entity) and its controlled entities (the investment staffing company, LPFE Limited, and the investment services company, LPFI Limited), as defined in International Accounting Standard (IAS) 27. The financial statements of both companies have been audited by Azets Audit Services and were approved by the respective Boards of Directors in July 2021. In the interests of governance transparency, these statements are shown in full at Appendices 3 and 4.
- 4.10 LPFE Limited is the employment vehicle for the Fund’s staff. It provides staffing services to the the Lothian Pension Fund (acting through its administering authority the City of Edinburgh Council) (LPF), LPFI Limited and to Falkirk Council. The company’s financial objective is to make a modest trading surplus before adjustments required under International Financial Reporting Standards (IFRS). Such adjustments primarily relate to pension costs, as required by International Accounting Standard (IAS) 19, and the related deferred tax. For the year ended 31

March 2020, the underlying trading profit of the company was £144,934 (2020: £131,583). Turnover was £5,873,311 (2020: £4,914,525).

- 4.11 LPFI Limited provides Financial Conduct Authority (FCA) regulated investment services, both to LPF and other likeminded pension funds and/or institutional investors but does not employ any staff directly. Its financial objective is to make a modest trading surplus. For the year ended 31 March 2021, the underlying trading profit of the company was £24,377 (2020: £11,860). Turnover was £1,237,149 (2020: £915,296).
- 4.12 The Annual LPF Group Governance Update, as reported to Pensions Committee in June 2021, provided further details on the operations of the two companies.

5. Financial impact

- 5.1 There are no direct financial implications as a result of this report beyond those otherwise stated.

6. Stakeholder/Regulatory Impact

- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the funds and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 None.

8. Appendices

Appendix 1 – Azets - Lothian Pension Fund and Scottish Homes Pension Fund 2020/21 Annual Audit Report to Members and the Controller of Audit, in accordance with International Standard on Auditing (UK and Ireland) 260 (ISA 260);

Appendix 2 - Audited Annual Report 2021 for the Lothian Pension Fund and Scottish Homes Pension Fund;

Appendix 3 - LPFE Limited – Financial Statements (Audited) for the year ended 31 March 2021;

Appendix 4 – LPFI Limited – Financial Statements (Audited) for the year ended 31 March 2021;

Appendix 5 – Lothian Pension Funds – Statement on the system of internal financial control by Chief Finance Officer, Lothian Pension Fund

Appendix 6 – Letter of Representation (ISA 580) by Chief Finance Officer, Lothian Pension Fund