

**Annual Report 2021
of
Lothian Pension Fund
and
Scottish Homes Pension Fund**

**“Statement on the system of internal financial control
for the year ended 31 March 2021”**

Section 95 of the Local Government (Scotland) Act 1973 states that “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs”. The Head of Finance serves as the Section 95 Officer for all of the City of Edinburgh Council’s accounting arrangements, including those of the Lothian Pension Fund and Scottish Homes Pension Fund. For the Pension Funds, however, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund.

In compliance with standard accounting practice, the Chief Finance Officer, Lothian Pension Fund, is required to provide the Chief Executive Officer with a statement of the effectiveness of the internal financial control system of the Funds for the year ended 31 March 2021.

The Funds place reliance upon the internal financial controls within the City of Edinburgh Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. Accordingly, the “Statement on the system of internal financial control” by Hugh Dunn, Head of Finance, City of Edinburgh Council, dated 1 June 2021, refers.

Within this overall control framework, specific arrangements for the Lothian Pension Fund and Scottish Homes Pension Fund are detailed in the Annual Governance Statement. These include:

- identifying the objectives of the Funds in Funding Strategy Statement, Statement of Investment Principles and Service Plan;
- a systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, senior officers and stakeholders, including the Pension Board and Independent Professional Observer;
- a structured programme to ensure that Pension Committee members have the required standard of knowledge and understanding of Local Government Pension Scheme matters;
- operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statements of Investment Principles;
- compliance with the CIPFA Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme;
- with the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Funds benefit from the custodian's extensive internal control framework;
- benchmarking of services in terms of standards and cost against other Local Government Pension Scheme funds;
- LPFE and LPFI operating within their respective constitutional documentation and the relevant company regulations;

- LPFI operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority regulations

The Chief Internal Auditor has provided an “Internal Audit Annual Report and Opinion for the year ended 31 March 2021”, in accordance with the requirement set out in the Public Sector Internal Audit Standards. This opinion, based on internal audit work undertaken during the year, concludes that “the LPF control environment and governance and risk management frameworks require some improvement, and is therefore reporting a limited ‘amber’ rated opinion, with our assessment towards the lower end of this category”. Requisite actions are being progressed on behalf the Funds to secure such control improvements.

Whilst the Chief Internal Auditor has raised a high rated finding on the employer cessations audit in respect of a need to “maintain stronger documentation evidencing the review and analysis performed on employer’s funding proposals to confirm their affordability, and develop and apply guidance on due diligence to be performed to identify potential security options”, I remain comfortable with the degree of rigour of financial due diligence applied to the proposals made by exiting employers, typically from the charitable sector, for payment of cessation liabilities, this being consistent with the principles established within the Funding Strategy Statement.

It is my opinion, therefore, that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control for the LPF Group in administering the Lothian Pension Fund and Scottish Homes Pension Fund.

**John Burns, FCMA CGMA, PgC
Chief Finance Officer,
Lothian Pension Fund**

31 August 2021