

Pensions Committee

2.00pm, Wednesday, 28 September 2022

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 invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;
- 1.2 note the report by Azets Audit Services 'Lothian Pension Funds 2021/22 Annual Audit Report to Members of the Pensions Committee and the Controller of Audit' (at Appendix 1);
- 1.3 approve the audited Annual Report for the year ended 31 March 2022 for the Lothian Pension Fund and the Scottish Homes Pension Fund (at Appendix 2);
- 1.4 note that the audited financial statements, for the year ended 31 March 2022, of both the wholly owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in July 2022. These statements are shown in full at Appendices 3 and 4;
- 1.5 note the further Appendix 5, 'Letter of Representation (ISA 580), by the Chief Finance Officer, Lothian Pension Fund;

- 1.6 note the appointment of Audit Scotland as auditor for future years, 2022-2027; and
- 1.7 express its recognition and gratitude to Nick Bennett, Partner, Azets Audit Services, for his work and that of his team, for the audit assurance provided since 2015/16.

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 2022 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 2021/22 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 2021/22 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 2021/22 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 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 2022 for Lothian Pension Fund and Scottish Homes Pension Fund

Revisions from the Unaudited Annual Report 2022, as reported to Pensions Committee in June 2022

- 4.4 Some minor disclosure and presentational adjustments were identified during the audit. These have been reflected in the final set of financial statements.
- 4.5 With the completion of the work by Azets Audit Services, the Audited Annual Report 2022 for the Lothian Pension Fund and Scottish Homes Pension Fund has been finalised and is included at Appendix 2.
- 4.6 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 5.

Audited Financial Statements for the year ended 31 March 2022; LPFE Limited and LPFI Limited

- 4.7 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 2022. In the interests of governance transparency, these statements are shown in full at Appendices 3 and 4.
- 4.8 LPFE Limited is the employment vehicle for the Fund's staff. It provides staffing services to 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 2022, the underlying trading profit of the company was £115,889 (2021: £144,934). Turnover was £5,853,139 (2021: £5,873,311).
- 4.9 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 2022, the underlying trading profit of the company was £32,459 (2021: £24,377). Turnover was £1,515,239 (2021: £1,237,149).

- 4.10 The Annual LPF Group Governance Update, as reported to Pensions Committee in June 2022, provided further details on the operations of the two companies.

Future years' audit appointment and recognition of Azets Audit Services

- 4.11 In May 2022, Audit Scotland advised that it was “pleased to inform you that the Auditor General and Accounts Commission have approved the appointments for audits of financial years 2022/23 to 2026/27..... and confirm(ed) that the auditor for Lothian Pension Fund for the audits of 2022/23 to 2026/27 will be Audit Scotland”. Accordingly, this audit opinion provided by Azets Audit Services shall conclude its term of appointment, which had commenced in 2015/16 (as Scott-Moncrieff). LPF would like to express its recognition and gratitude to Nick Bennett, Partner, Azets Audit Services, for his work and that of his team over these years. Azets Audit Services, however, will continue as auditor to LPFE and LPFI Limited, this being an appointment by the respective company boards.

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 2021/22 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 2022 for the Lothian Pension Fund and Scottish Homes Pension Fund;

Appendix 3 - LPFE Limited – Financial Statements (Audited) for the year ended 31 March 2022;

Appendix 4 – LPFI Limited – Financial Statements (Audited) for the year ended 31 March 2022;

Appendix 5 – Letter of Representation (ISA 580) by Chief Finance Officer, Lothian Pension Fund