



## **Pensions Committee**

2.00pm, Wednesday, 25 September 2024

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

**Item number 6.1**

#### **1. Executive Summary**

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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 2023/24 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 2024 for the Lothian Pension Fund and the Scottish Homes Pension Fund (at Appendix 2);
- 1.4 note the objection to the accounts and the Fund and Azets response (at Appendix 3);
- 1.5 note that the audited financial statements, for the year ended 31 March 2024 of both the wholly owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in June 2024. These statements are shown in full at Appendices 4 and 5; and
- 1.6 note the further Appendix 6, 'Letter of Representation (ISA 580), by the Chief Finance Officer, Lothian Pension Fund.

#### **Alan Sievwright**

Chief Finance Officer, Lothian Pension Fund

Contact: Jason Koumides, Financial Controller, Lothian Pension Fund

E-mail: [companysecretariat@lpf.org.uk](mailto:companysecretariat@lpf.org.uk) | Tel: 0333 996 1900

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

## 2. Executive Summary

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- 2.1 The purpose of this report is to present the Audited Annual Report (and Financial Statements) for the year ended 31 March 2024 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 2023/24 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

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### 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

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### **Azets Audit Services - Lothian Pension Fund and Scottish Homes Pension Fund 2023/24 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 - 2023/24 Annual Audit Report to the Members of the Pensions Committee and the Controller of Audit.' This will be presented to Committee by Chris Brown, 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. no material adjustments have been required to the financial statements

#### **Wider scope audit**

1. LPF has effective arrangements for financial management and the use of resources.
  2. LPF has adequate arrangements in place to ensure ongoing sustainability.
  3. Vision, Leadership and Governance arrangements at the Funds are appropriate.
  4. The Funds have appropriate resources in place to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.
- 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 2023 for Lothian Pension Fund and Scottish Homes Pension Fund**

### **Revisions from the Unaudited Annual Report 2024, as reported to Pensions Committee in June 2024**

- 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 2023 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 of 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.

### **Objection to Unaudited Annual Report and Auditor response**

- 4.7 Under the provisions of the Local Government (Scotland) Act 1973, members of the public can ask to “inspect the accounts to be audited and all books, deeds, contracts, bills, vouchers and receipts” relating the accounts of Local Authorities. Lothian Pension Fund falls within the scope of the requirements due to its relationship with City of Edinburgh Council. Lothian Pension Fund received one such request this year, to which the fund responded. More details are provided in Appendix 3.
- 4.8 Additionally, under the same legislation, interested parties may object to the Funds accounts. The Fund received an objection to its accounts as further detailed in Appendix 3. The basis of the complaint being that the Fund “had not adequately disclosed the awareness of the LPF Pension Committee and officers to the significant risk that climate change is being significantly underestimated in the financial modelling for the LPF undertaken by its advisors”.
- 4.9 Senior members of the fund worked with Azets, the fund auditor, to provide more information to allow them to assess the objection. As part of this work, the fund suggested the inclusion of some additional narrative in the risk section of the annual report which provide more information on the results of the stress testing of the current actuarial model, providing caveats to the assumptions used. Additionally, advising readers of the Annual Report that work continues to enhance models in advance of the next triennial valuation. This additional wording has been included in the updated Annual Report and Azets concluded that this wording addressed the complaint.

## **Audited Financial Statements for the year ended 31 March 2024; LPFE Limited and LPFI Limited**

- 4.10 The consolidated financial statements (within the Annual Report 2024) 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 June 2024. In the interests of governance transparency, these statements are shown in full at Appendices 4 and 5.
- 4.11 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 2024, the underlying trading profit of the company was £200,081 (2023: £118,254). Turnover was £8,660,398 (2023: £7,309,586).
- 4.12 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 2024, the profit after tax of the company was £98,086 (2023: £32,622). Turnover was £2,491,099 (2022: £1,873,534).
- 4.13 The Annual LPF Group Governance Update, as reported to Pensions Committee in June 2024, provided further details on the operations of the two companies.

## **5. Financial impact**

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

## **6. Stakeholder/Regulatory Impact**

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- 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**

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7.1 None.

## **8. Appendices**

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Appendix 1 – Azets - Lothian Pension Fund 2023/24 Annual Audit Report to the Members of the Pensions Committee and the Controller of Audit;

Appendix 2 - Audited Annual Report 2024 for the Lothian Pension Fund;

Appendix 3 – Objection to Accounts and Auditor response;

Appendix 4 - LPFE Limited – Financial Statements (Audited) for the year ended 31 March 2024;

Appendix 5 – LPFI Limited – Financial Statements (Audited) for the year ended 31 March 2024;

Appendix 6 – Letter of representation (ISA 580) by Service Director- Finance and Procurement