North East Scotland Pension Fund

2023/24 Annual Audit Report

Prepared for the North East Scotland Pensions Committee and the Controller of Audit

September 2024

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Introduction

1. This report summarises the findings from the 2023/24 annual audit of North East Scotland Pension Fund (the fund). The scope of the audit was set out in an Annual Audit Plan which was considered by the Pensions Committee in March 2024. This Annual Audit Report comprises:

- significant matters arising from the audit of the fund's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021:*
    - financial management
    - financial sustainability
    - vision, leadership, governance and use of resources to improve outcomes (herein collectively referred to as governance and resources)
- conclusions on the administering authority's arrangements related to the pension fund for meeting its Best Value duties.

2. This report is addressed to the Pension Committee of Aberdeen City Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2023/24

3. We have been appointed by the Accounts Commission as auditor of North East Scotland Pension Fund for the five-year period 2022/27. The 2023/24 financial year is the second year of our appointment.

4. We would like to thank officers and elected members for their cooperation and assistance during the year and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. As the administering authority for the fund, Aberdeen City Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts for the pension fund that are in accordance with proper accounting practices. The administering authority is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice including supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of the administering authority from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £51,270 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to the fund by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Our audit opinions on the annual report and accounts are unmodified.

The annual accounts give a true and fair view of the state of affairs of North East Scotland Pension Fund as at 31 March 2024 and have been properly prepared in accordance with the financial reporting framework.

Audit opinions on the annual report and accounts are unmodified

11. The Pension Committee approved the fund's 2023/24 annual report and accounts on 13 September 2024. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £116 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report.

13. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. The initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality was set with reference to net assets which was judged as the figure most relevant to the users of the financial statements.	£116 million
Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting the fact that this is the second year of our audit appointment, no significant misstatement was found in our audit last year and taking issues noted during planning into consideration such as valuation of promised retirement benefits and unquoted investments.	£87 million
Reporting threshold - We report to those charged with governance all unadjusted misstatements more than the 'reporting threshold' amount.	£3.5 million

15. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

16. Under ISA (UK) 260, we communicate significant findings from the audit to the administering authority, including our view about the qualitative aspects of the fund's accounting practices. The Code of Audit Practice also requires us to highlight key audit matters within the annual audit report which are defined in ISA (UK) 701 as those matters judged to be of most significance.

17. The significant findings including key audit matters, are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
1. Valuation of unquoted investments The valuation of unquoted investments in the unaudited accounts was based on an estimate using the latest available capital statements rolled forward to 31 March 2024. Comparison between the rolled-forward estimate and the final valuation identified that private equity investments were understated by £42.5 million. The difference between estimate	The estimate is based on the latest available information when the accounts are prepared. The actual valuation for investments held at 31 March is usually available to the fund in July enabling the fund to review the accuracy of the estimate. Management do not propose to amend the audited accounts to reflect the

Issue	Resolution
and actual represents movements in the financial markets.	revised valuation at 31 March 2024 and we are in agreement as the amount involved is not considered to be material. The amount has been included in Appendix 2 as an unadjusted misstatement.

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

18. We obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
Risk of material misstatement due to fraud caused by the management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Assessed the design and implementation of controls over journal entry processing and tested a sample of journals with a focus on risk areas. Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Evaluated significant transactions outside the normal course of business. Reviewed the arrangements for identifying related parties and associated transactions. Assessed any changes to the methods and underlying	There is increased openness and transparency in related parties disclosures. Significant improvements were made through the provision of summaries of transactions and balances with the council and interests declared by members and key management personnel. Based on audit work undertaken above and across other areas, there was no evidence of management override of controls.

Audit risk	Assurance procedure	Results and conclusions
	assumptions used to prepare accounting estimates compared to the prior year.	

Source: Audit Scotland

19. In addition, we identified ‘areas of audit focus’ in the 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. We kept these areas under review during the audit and having obtained appropriate assurance, satisfactory conclusions were reached as follows:

- **Actuarial present value of promised retirement benefits** - Valuation depends on a number of assumptions about the future. We obtained assurances on the work of the actuary as a management expert, we reviewed the completeness and accuracy of the source data provided to the actuary and we confirmed that the actuarial valuation disclosures in the accounts were in accordance with the triennial valuation at 31 March 2023 and the IAS26 report at 31 March 2024. No issues were identified.

- **Valuation of unquoted investments** – There is a significant degree of subjectivity in the measurement and classification of this type of investments. For material unquoted investments, we undertook a review of relevant fund managers as management experts in accordance with ISA 500 and confirmed valuation disclosures in the accounts to underlying valuation reports and/or other supporting documentation. Other than the matter referred to in Exhibit 2, no issues were identified.

The unaudited annual report and accounts were received in line with the agreed audit timetable

20. The unaudited annual report and accounts were received by 30 June 2024, in line with our agreed audit timetable. The working papers provided with the unaudited accounts were of a good standard and officers provided good support to the audit team.

Performance reporting was of a good standard

21. The Management Commentary included in the annual report and accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body’s performance as well as helping stakeholders understand the financial statements.

22. We reviewed the Management Commentary and have concluded that it is adequate and transparent.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

The fund has appropriate financial management arrangements in place which includes comprehensive reporting of investment performance and appropriate medium term financial planning.

Appropriate financial internal controls are in place including satisfactory counter fraud arrangements.

2023/24 performance of North East Scotland Pension Fund

23. When considering the fund's investment performance, it is important to recognise the impact of world events on financial markets and investments. The global impact of the conflict in Ukraine and other events have significantly increased market volatility. The fund's performance in 2023/24 is summarised in Exhibit 4.

Exhibit 4
Assets, funding level and investment performance

Increase in net assets	Funding level	Investment performance
£6.237 billion Closing net assets as at 31 March 2024 (+7.46%)	**133%** Net assets vs promised retirement benefits 31 March 2024	**6.8%** Average annual return on investments over 5 years
£5.804 billion Opening net assets at 1 April 2023	**126%** Opening net assets as a proportion of promised retirement benefits	**9.5%** Return on investments 2023/24

Source: 2023/24 North East Scotland Pension Fund annual report and accounts

24. The fund's net assets increased from £5.804 billion at 31 March 2023 to £6.237 billion at 31 March 2024. This is mainly attributed to the profits on disposal and changes in market value of investments of £0.446 billion in 2023/24 compared to a previous year loss of £0.426 billion.

25. The promised retirement benefits at 31 March 2024 have been estimated at £4.706 billion (31 March 2023 – £4.598 billion) representing a 1.99% increase. This estimate is based on assumptions in line with International Accounting Standards (IAS) 26 requirements for the purposes of the fund's financial statements. It is not directly comparable to the liability measured on a funding basis.

26. Employee contribution rates and benefits payable are set by statute. The Funding Strategy Statement (FSS) addresses the issue of managing the need to fund those benefits over the long term. In line with the FSS, the fund determines the contribution required of each employer at every triennial valuation to meet future retirement liabilities.

The fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance

27. The administering authority's chief finance officer is the Proper Officer responsible for North East Scotland Pension Fund. The council's financial regulations, as administering authority, apply to the fund. We consider these to be current, comprehensive and support good financial management.

28. The Pension Committee receives administration and performance reports at its quarterly meetings. These reports are comprehensive and include fund performance trends, investment manager performance against benchmarks, and movements in asset allocations. Based on our observations of committee meetings, we concluded that reports presented to members are subject to adequate review and scrutiny.

The fund has appropriate financial control arrangements in place

29. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and testing the operating effectiveness of specific key controls, we did not identify any internal control weaknesses which could affect the fund's ability to record, process, summarise, and report financial and other relevant data and/or result in a material misstatement in the financial statements.

30. We have however identified some minor weaknesses around changes in pensioner bank details documentation and the evidencing of quarterly reviews of Altair users. These have been discussed separately with officers.

31. Internal audit carried out a review of Pensions Investment Strategy to provide assurance over compliance with the fund's strategy and the adequacy of controls over management of investments. While the chief internal auditor concluded that a sound system of governance, risk management and control is generally in place, a recommendation was made to include planned actions to rebalance the fund in line with the investment strategy in its reporting to the committee on asset and investment performance reporting. Where action has not been taken, then appropriate reasons should be provided.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

32. In the public sector there are specific fraud risks, including those relating pension claimants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption.

33. Through the administering authority, the fund has adequate arrangements in place to prevent and detect fraud or other irregularities including whistleblowing and counter fraud policies.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

The 2023 triennial valuation was concluded in line with plans.

Effective medium term financial planning arrangements are in place.

Fund membership levels continue to increase but the ratio of active members to pensioners is reducing resulting in changes in investment strategy.

We carried out audit work in response to risk relating to financial sustainability identified in the Annual Audit Plan

34. Exhibit 5 sets out the wider scope risk relating to financial sustainability identified in the 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 5
Wider scope risks identified under the Code of Audit Practice

Audit risk identified in Annual Audit Plan	Assurance procedure	Results and conclusions
Markets continue to be volatile due to uncertainties around inflation and interest rates. These have resulted in investment performance in the short to medium term, i.e., for the quarter, year and 3-year period, being lower than benchmark as at 30 September 2023. Longer term performance, i.e., five years and since inception, is still ahead of benchmark but margins are dwindling.	Reviewed the performance of the fund through quarterly performance reports. Reviewed investment performance against benchmark returns. Evaluated the fund's arrangements for monitoring performance against financial plans, including funding strategy. Reviewed the triennial valuation's underlying assumptions and the factors	New employer rates have been set for the next three years in line with the Funding Strategy Statement. Asset class allocations will be amended to increase investments in Income/Protection Assets and reduce Growth Assets in line with existing Investment Strategy. The above measures are aimed at maintaining

Audit risk identified in Annual Audit Plan	Assurance procedure	Results and conclusions
The fund is finalising a new Funding Strategy Statement based on the results of the triennial valuation at 31 March 2023. The valuation resulted in an increased funding level of 125% compared with 103% previously. The new strategy will set employer rates for the next three years and prompt a review of investment strategy as appropriate to ensure that the fund has sufficient assets to meet its liabilities.	considered when setting new employer contribution rates from 1 April 2024.	solvency of the fund in the longer term.

The 2023 triennial pension valuation was concluded in line with plans

35. There is a statutory requirement for local government pension funds to undertake a full actuarial valuation of assets and liabilities every three years. This is referred to as a triennial valuation. The latest valuations took place in 2023/24 based on data as at 31 March 2023. The main purpose of the valuations is to review the financial position of each fund and to set appropriate employer contribution rates for the upcoming three-year period as part of funds' overall funding strategies.

36. The results of the 2023 triennial valuation of North East Scotland Pension Fund showed a funding level of 126%, a considerable improvement to the 2020 level of 103%. This meant that overall, the fund has a surplus of assets over liabilities and that assets are sufficient to meet 126% of its liabilities.

37. As highlighted in the annual report and accounts, in line with the Funding Strategy Statement, the fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the fund is 13 years.

38. The valuation determined that the average employer cost of providing members' benefits across the fund was 20.2% (the primary contribution rate.) By spreading the surplus over 13 years the secondary contribution rate for the whole Fund is -6.2% meaning that the average employer contribution rate is 14.0% of pensionable pay. This is a reduction from the average contribution of 17.2% which applied between 2021/24. For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates.

39. We reviewed the pension fund's arrangements for providing the underlying membership data to the actuary as this formed an important element of the valuation process. No major issues arose from this review.

Effective medium-term financial planning arrangements are in place

40. There is considerable volatility in pension funding and the results of the triennial valuation are in effect a snapshot of the fund as at 31 March 2023. Following each triennial valuation, the fund reviews and revises its funding strategy which sets out how future liabilities will be funded. It outlines the types of investment to be held and the balances between the different types of investment.

41. As can be seen in Exhibit 6, the fund has a history of strong funding levels which exceed the target level of 100%.

Exhibit 6

Funding levels in the past three actuarial valuations

Valuation Date	31 March 2017	31 March 2020	31 March 2023
	£m	£m	£m
Asset Values	**3,815**	**4,367**	**5,804**
Liabilities	**3,576**	**4,254**	**4,614**
Surplus/(Deficit)	**239**	**113**	**1,190**
Funding level	**107%**	**103%**	**126%**

Source: North East Scotland Pension Fund Investment Strategy Review June 2024

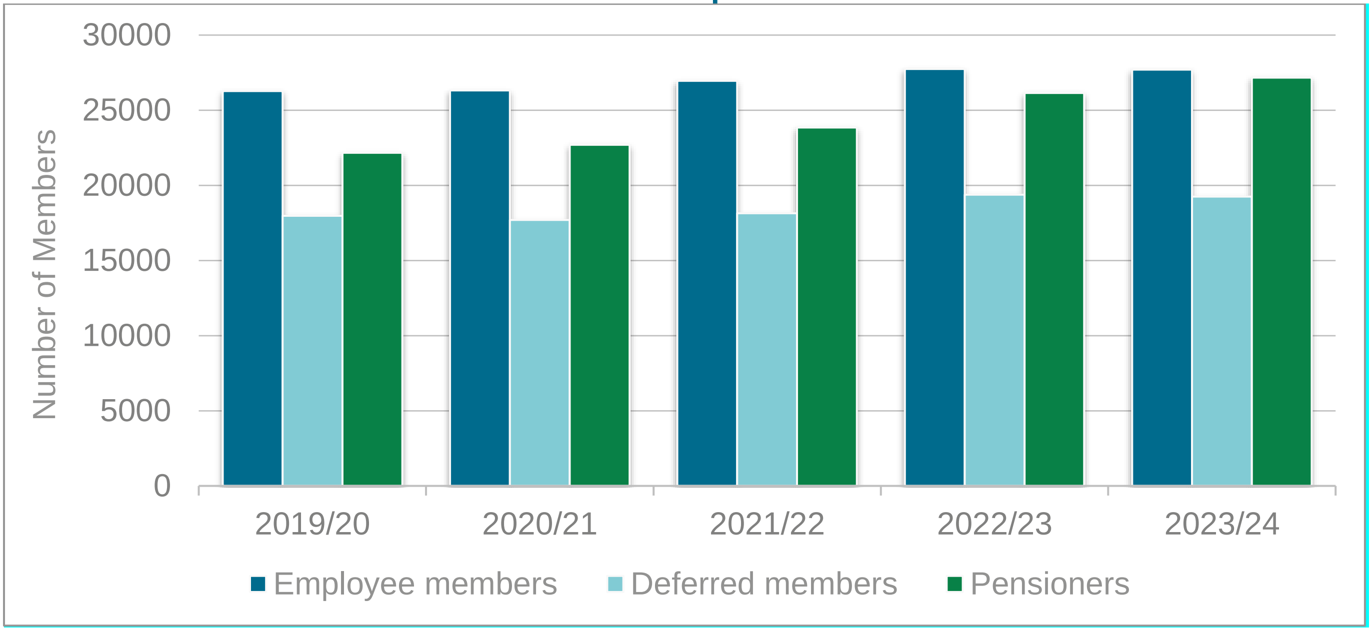
42. As at 31 March 2024, growth assets represented 63.5% and Income/Protection assets 36.5% of total assets. Having reached an above favourable funding position, the fund acknowledges it is now essential to implement a more balanced strategy which secures this funding level and protects the position going forward. In line with the strategy, the allocation will be amended to Growth Assets 55% +/- 5% and Income/Protection Assets 45% +/- 5% and this will be achieved by reducing global equities in favour of bonds/credit assets.

Fund membership levels continue to increase but the ratio of active members to pensioners is reducing

43. North East Scotland Pension Fund is a multi-employer fund including three local authorities and around 40 other employers. The current membership profile is shown at Exhibit 7.

44. The fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each member's life. It is therefore important that the fund maintains the capacity to meet the current and future pension entitlements of its members.

Exhibit 7
North East Scotland Pension Fund membership



Source: 2023/24 North East Scotland Pension Fund annual report and accounts

45. Active membership has been steadily increasing since 2019/20 but experienced a slight decline in 2022/23, a reduction of 43 compared with the previous year.

46. The number of pensioners has also been steadily increasing. There has been an increase of 1,025 or 3.9% in 2023/24 compared with the previous year. The number of active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced over the past five years.

47. Net cash flow from dealings with members continues to be negative with more paid out in benefits than is received from contributions. In 2023/24, the deficit was £78.6m compared to £34.3m in 2022/23 or a 129% increase (2022/23 the deficit was £1.2m or a 3.6% increase). In addition to increasing pension payments, exit payments were paid to two employers who left the fund during 2023/24.

48. The continued growth in the number of pensioners makes funding benefit payments increasingly challenging. Over the long term, the cash flow position will impact on the investment strategy. With contributions reducing, more income will be required from investments to pay pensions. North East Scotland Pension Fund considered this as part of its investment strategy refresh and intends to further diversify its investment structure to increase investment in income generating assets.

4. Governance and resources

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

Instability and vacancies in membership threaten the effective operation of the pensions committee.

Members' commitment to pensions training needs to be improved to support good scrutiny.

There are effective arrangements for complying with the Pensions Regulator Public Service Code.

The pension administration function has performed well against targets.

The impact of global markets' performance impacted annual returns but investment performance continues to outperform longer-term benchmarks.

The administering authority has appropriate arrangements in place for securing Best Value.

Instability and vacancies in membership threaten the effective operation of the pensions committee

49. In our 2022/23 audit report, we commented on the considerable changes in the membership of the committee and the existence of long term vacancies on the committee. The committee experienced further instability during 2023/24 which potentially impacts on the effectiveness of the committee. We therefore continued to highlight this matter as a wider scope risk in our annual audit plan.

50. Following the Local Government election in May 2022, the administering authority increased membership of the committee from 9 to 13, bringing it into line with other council committees. During 2023/24, the council decided to reduce the size of all committees and consequently, membership of the pensions committee reverted to nine members. At 31 March 2024, there were two long standing vacancies on the committee which continue to exist with no immediate resolution expected as a result of political differences.

51. We recognise that local government is a political environment but members should be mindful of the role and remit of the pensions committee. They effectively act as trustees with responsibilities to all fund employers and

members. They have fiduciary duties and responsibilities for decision-making and effective scrutiny of the fund.

52. The pension fund is a complex body which requires specialist knowledge and continuity in engagement. With only seven active members on the committee, this places significant pressure on its ability to operate effectively and ensure there is appropriate scrutiny of complex activities.

Recommendation 1

Aberdeen City Council, as administering authority, should fill the vacancies on the Pensions Committee and members need to work together for the benefit of the fund.

Members' commitment to pensions training needs to be improved to support good scrutiny

53. Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the North East of Scotland. In discharging this overall responsibility, the Pensions Committee is responsible for putting proper governance arrangements in place.

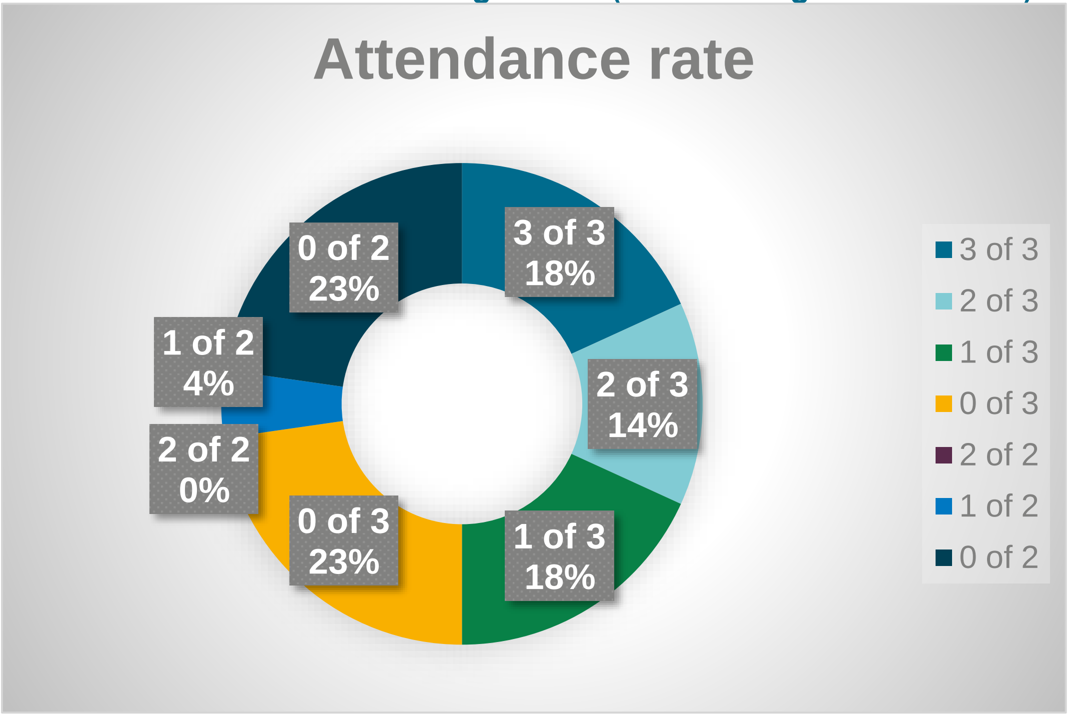
54. North East Scotland Pension Fund has a Pension Board whose primary function is to ensure that the fund complies with regulations and meets the requirements of the Pensions Regulator. In doing so, the board ensures the fund operates in accordance with the law, securing the effective and efficient governance and administration of the Scheme. Board membership comprises of eight members, four trade union representatives and four employer representatives appointed from employer councils and scheduled or admitted bodies.

55. The fund's governance framework is set out in the Annual Governance Statement in the annual report and accounts. Operation of the fund is governed by complex regulations and investment decisions involve significant sums of money. It is therefore crucial that members have the specialist knowledge to understand and effectively challenge information presented to them.

56. The framework therefore includes a training programme to ensure that Pensions Committee and Pension Board members develop the required level of knowledge and understanding of the LGPS.

57. Pensions Committee and board members previously agreed to regard certain committee and board training as mandatory training. This includes the Pensions Regulator's (tPR) online toolkit and Hymans Online Learning Academy (LOLA). The committee approved funding for LOLA licences in December 2021. Exhibit 8 shows a summary of attendance at training sessions in 2023/24.

Exhibit 8
Members' attendance at training events (minimum agreed sessions)



Source: 2023/24 North East Scotland Pension Fund annual report and accounts

58. As demonstrated by Exhibit 8, attendance is variable. Only 4 out of 22 members (18%) attended all training sessions available to them. Ten members out of 22 (46%) have not attended any training session.

59. Additional training opportunities, including externally delivered training, is also highlighted to both Pensions Committee and Pension Board members as and when available but these are in addition to the mandatory requirements. There is evidence of officers actively providing members with training and development opportunities but more engagement is required from members.

Recommendation 2

The programme of mandatory training should be refreshed and sanctions agreed and implemented where agreed training is not undertaken within reasonable timescales.

There are effective arrangements for complying with the Pensions Regulator Public Service Code

60. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

61. North East Scotland Fund carries out a six monthly review of its compliance with the code, the most recent being in December 2023 which concluded that key controls for monitoring the ongoing compliance with legislation and code requirements are in place and working effectively. There were no breaches of law reported to the Pensions Regulator or the Information Commissioner during 2023/24.

The pension administration function has performed well against targets

62. The Pensions Committee meets on a quarterly basis and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

63. The Pension Service Business Plan covers a three-year planning cycle from 2023/26 and sets out the following key priorities for the fund:

- Improve customer experience
    - Review all communication and develop new website.
    - Continue to utilise technology to improve service delivery.

- Improve staff experience
    - Continue to implement workforce and succession planning.
    - Continue to roll out and update individual training plans.
    - Review recruitment and retention options.

- Improve use of resources
    - Improve work planning and business support.
    - Develop management reporting across the fund.
    - Risk review.

64. The Service Business Plan does not set out an agreed mechanism for monitoring and reporting progress against key priorities either at fund or service level. While there is existing quarterly performance reporting by service to the committee under the banner of the Strategy Report, there is scope to provide a clear link between performance reported with service business plan key priorities.

Recommendation 3

There is scope to formally track progress against priorities at both fund and service level.

The impact of global markets' performance impacted annual returns but investment performance continues to outperform longer-term benchmarks

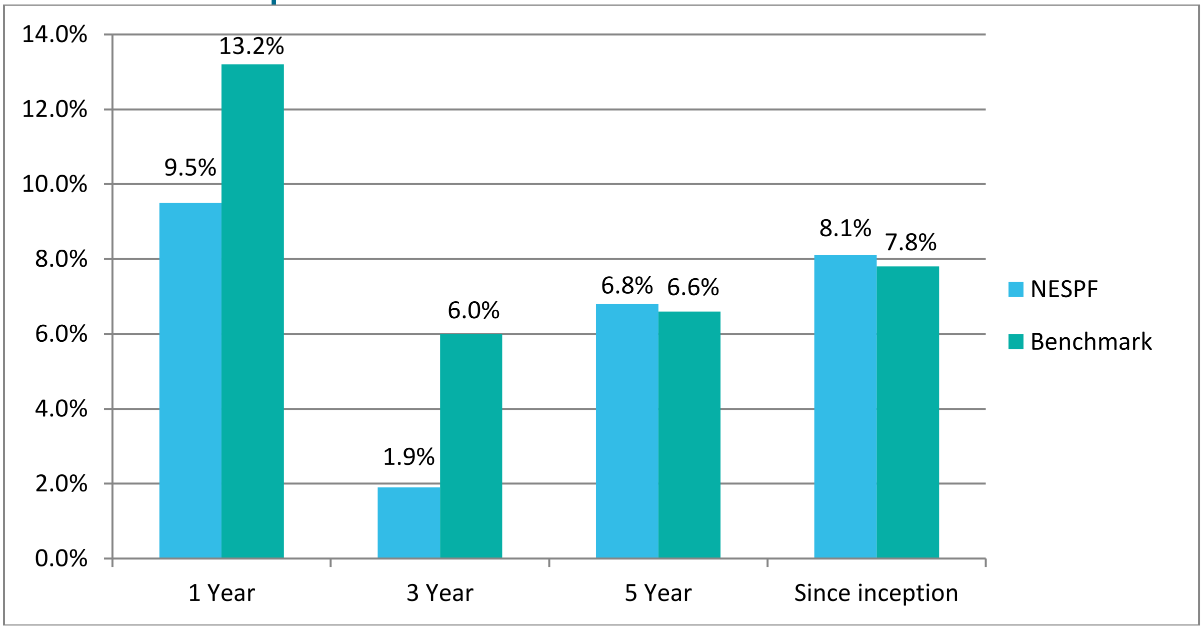
65. Financial markets have remained volatile, however returns against most asset classes, especially equities were positive. Exhibit 9 shows that over the

year, the fund generated a return of 9.5% against a benchmark of 13.2%. Equity portfolios were the most significant contributor to this increase.

66. Over the medium to longer term, the fund is behind its three year benchmark but still ahead of its five and ten-years benchmarks. In the longer term, the fund outperforms the benchmark returns which provides assurance that the fund's investment strategy is working and the fund believes it will continue to deliver the required returns over the longer term.

Exhibit 9

Fund investment performance



Source: 2023/24 North East Scotland Pension Fund annual report and accounts

The fund's approach to climate change

67. The fund recognises that climate change is a long-term financial risk. The risk register refers to a failure to meet Environmental, Social and Governance (ESG) issues for which mitigating controls include monitoring the impact of climate change and adoption of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Initial training on climate change has also been provided for elected members.

68. The fund engages a range of external fund managers to deliver investment mandates providing the best returns for members of the fund. Through the fund managers, the fund engages with companies more directly by raising ESG concerns and meeting with senior management and reporting their engagements to the fund on a quarterly basis. Due to the sensitivities around some of this activity, the Pensions Committee consider ESG issues as an exempt paper. With a view to increasing the fund's transparency on significant ESG issues, consideration is being given to reporting these issues in public session, where appropriate.

69. While the fund does not have an explicit policy towards delivery of Net Zero, it can demonstrate steps towards greener activities in some of its recent investments. Fund managers currently provide some information on the carbon footprint of their investment portfolios but work is required to ensure consistency in approach before a carbon footprint can be calculated for the fund as a whole.

70. Some early generic climate change analysis was undertaken as part of the 2023 triennial valuation which will be developed further for the next valuation. In setting the funding strategy, the fund looks perhaps 10 to 15 years ahead. Given the nature of the pension fund, there is scope to extend this further through horizon scanning a period perhaps 40 to 50 years ahead to identify the potential risks and implications for the long term delivery of pension benefits to members.

71. TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. The fund will report on its approach to climate risk in its first TCFD report due for publication in 2024/25. This will provide an opportunity for a more focused consideration of the fund's approach to climate change and to be more transparent in its future annual reports about its current activities and future plans in this area.

Recommendation 4

There is scope to review and improve the content of future annual reports where appropriate e.g. approach to climate change.

The administering authority has appropriate arrangements in place for securing Best Value

72. Aberdeen City Council, as the administering authority, has responsibility for ensuring that its business, including that of North East Scotland Pension Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value which are subject to audit.

73. As part of the 2023/24 audit of the council, best value thematic work has been undertaken in relation to workforce innovation. The audit concluded that the council has robust workforce planning arrangements in place.

Appendix 1: Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1.**Membership of Pensions Committee** As a result of political differences, there are two long standing vacancies on the committee with no immediate resolution expected. As trustees, members have fiduciary duties with responsibilities to all fund employers and members and should therefore be operating a politically neutral scrutiny committee.	Aberdeen City Council, as administering authority, should fill the vacancies on the Pensions Committee and members need to work together for the benefit of the fund.	Chief Officer Finance and Pension Manager to raise the issues with the relevant parties. December 2024
2. **Elected member mandatory training** With vacancies on the committee and the need for more engagement in training events, there is a risk the committee is not undertaking appropriate scrutiny of the pension fund's activities.	The programme of mandatory training should be refreshed and sanctions agreed and implemented where agreed training is not undertaken within reasonable timescales.	Pension Manager to review mandatory training and agree and remind members of possible sanctions. December 2024
3. **Monitoring progress against priorities** The service business plan does not set out an agreed mechanism for monitoring and reporting progress against key priorities either at fund or service level. There is a risk the fund is not appropriately delivering its priorities.	There is scope to formally track progress against priorities at both fund and service level.	Pension Manager to progress Operating Model Review and update service business plan to include a process to formally track performance. 2024/2025

Issue/risk	Recommendation	Agreed management action/timing
4.**Future annual reports** The fund will report on its approach to climate risk in its first Task Force on Climate-related Financial Disclosures (TCFD) report due for publication in 2024/25. This provides an opportunity for a more focused consideration of the fund's approach to climate change and related future plans. There is a risk that the Annual Report and Accounts is not transparent about the fund's current activities in this area.	There is scope to review and improve the content of future annual reports where appropriate e.g. approach to climate change.	Pension Manager to review content/style of the annual report to ensure capturing changing approaches across the industry. March 2025

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £3.5 million.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 1. We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Fund Account		Net Assets Statement	
Accounting Misstatements		**Dr £m**	**Cr £m**	**Dr £m**	**Cr £m**
1. Private equity valuation – difference between actual data and estimated data.	Investment Assets			42.5	
	Changes in Market Value of Investments		42.5		

North East Scotland Pension Fund

2023/24 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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