Fife Pension Fund

2023/24 Annual Audit Report to the Members of the Pensions Committee and the Controller of Audit

September 2024

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Key messages

Financial statements audit

Audit opinion	Our independent auditor's report is unqualified in all regards.
Key audit findings	Fife Council, as Administering Authority, had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers. We have obtained adequate evidence in relation to the key audit risks identified in our audit plan. The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Audit adjustments	The Pension Fund updated the financial statements for all material audit adjustments identified during the audit process. Two adjustments were made during this process: 1. Adjustment made to investment management expenses following late receipt of information. 2. Adjustment to reclassify costs associated with two bodies exiting the Fund as expenditure rather than negative income. Neither adjustment impacted upon the closing net assets of the scheme disclosed in the Fund Account. We identified one unadjusted misstatement. Through our sample testing we noted a timing difference in the valuation of level 3 assets between those held by the custodian and those of the external investment managers, resulting in an overstatement of asset values. As this was based on a sample estimate of the level of misstatement, and not deemed to be material, this has remained unadjusted in the financial statements.

Audit adjustments	We also identified some disclosure and presentational adjustments during our audit, all of which have been reflected in the final set of financial statements. Details of the adjusted and unadjusted misstatements are included in Appendix 2.
Accounting systems and internal controls	We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Fund's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report. No material weaknesses or significant deficiencies were noted.

Wider scope of public audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** Effective and appropriate arrangements are in place Fife Pension Fund has effective arrangements for financial management and the use of resources. In 2023/24, the value of the Fund's net assets increased to £3.659billion; an increase of £239million on 2022/23. The most significant impact on the outturn position was a favourable change in the market value of investments. In 2023/24 two admitted bodies exited the Fund, resulting in a reduction in the Fund's net assets of £16.0million due to settlement with the employers.
Financial sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services and the way in which they should be delivered.	**Auditor judgement** Effective and appropriate arrangements are in place Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability. The triennial valuation as at 31 March 2023 describes a comfortable funding position of 151%. This is a 54% improvement on the valuation as at 31 March 2020. The valuation also sets out that it is 94% likely that the Fund will be 100% funded by the next triennial valuation in 2026. A significant factor which has affected the funding strategy is better than expected investment returns. This has had a material positive impact on the funding position. Investments returns have been significantly above expected returns.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Pension Board and Pensions Committee continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.
Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** Effective and appropriate arrangements are in place The Fund has appropriate performance management processes in place that support the achievement of value for money in the use of resources. Annual investment performance to March 2024 was again stronger than in previous years, however, this remained below the annual benchmark target. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods.

Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.

There is a fundamental absence or failure of arrangements

There is no evidence to support necessary improvement

Substantial unmitigated risks affect achievement of corporate objectives.

Arrangements are inadequate or ineffective

Pace and depth of improvement is slow / needs to extend further

Significant unmitigated risks affect the achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to the achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to the achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Pensions Committee at the outset of our audit. We have not made any subsequent changes to the risks outlined in that plan.

Responsibilities

The Fund is responsible for preparing an annual report and accounts which show a true and fair view of the results for the year and position at the year end, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team or to Audit Scotland.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings / conclusions to inform our opinion are set out in this section of our annual report.	The annual report and accounts were considered and approved by the Pensions Committee on 30 September 2024. Our independent auditor's report is unqualified in all regards.
Going concern basis of accounting	When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise the Fund's functions. Our wider scope audit work considers the financial sustainability of the Fund.	We reviewed the financial forecasts for 2024/25. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Fund will continue to operate for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.
Opinions prescribed by the Accounts Commission: • Management Commentary	We plan and perform audit procedures to gain assurance that the Management Commentary, Annual Governance Statement and the Governance Compliance Statement are prepared in accordance with:	We have concluded that: • the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with relevant statutory guidance.

Opinion	Basis for opinion	Conclusions
• Annual Governance Statement • Governance Compliance Statement	• statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary); • the Delivering Good Governance in Local Government: Framework (Annual Governance Statement); and • The Local Government Pension Scheme (Scotland) Regulations 2018 (Governance Compliance Statement)	• the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework. • the information given in the Governance Compliance Statement is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Pensions Committee in March 2024. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Fund. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

We carried out a further review of our risk assessment following receipt of the unaudited annual report and accounts. Our risk assessment remained unchanged.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. This includes:

- an evaluation of the Fund's internal control environment, including the IT systems and controls; and
- substantive testing on significant transactions and material account balances, including procedures outlined in this report in relation to our key audit risks.

Quality indicators

We have applied a suite of quality indicators to assess the reliability of the financial reporting and response to the audit.

Metric	Grading*	Commentary
Quality and timeliness of draft financial statements	Mature	We received the unaudited financial statements of a good standard in line with our audit timetable.
Quality of working papers provided and adherence to timetable	Mature	We received working papers of a good standard in line with our audit timetable.
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	We had access to all key personnel at Fife Council. All audit queries and requests were responded to in a timely manner.
Quality and timeliness of the: • Management Commentary	Mature	We did not identify any issues with quality and timeliness of the Management Commentary, Annual Governance Statement and Governance Compliance Statement

Metric	Grading*	Commentary
• Annual Governance Statement • Governance Compliance Statement As well as the quality and timeliness of supporting working papers for those statements.		and the working papers to support those statements.
Volume and magnitude of identified errors	Mature	There were two adjustments and one unadjusted error noted through the audit period. These were due to updated late information, rather than indicative of error by management. We have no additional concerns as a result of these.

*We assess as mature / developing / significant improvement required

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the financial statements is not modified with respect to any of the risks described below.

The table below summarises the significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Yes	Assess design & implementation	High	No adjustment
Fraud in revenue recognition	Yes	Income recognised in the Fund's accounts relates to contributions received from member bodies and transfers in from other pension funds. Given the nature of this income we rebutted this risk.		
Fraud in non-pay expenditure recognition	Yes	Expenditure recognised in the Fund's accounts relates to benefits payable, payments to and on account of leavers and management expenses. We have assessed benefits payable to be the Fund's only material expenditure stream. We perform separate tailored testing on benefits payable and therefore rebutted this risk.		
Investments valuations (key accounting estimate	No	Assess design & implementation	High	No adjustment
Disclosure of present value of retirement obligations (key accounting estimate)	No	Assess design & implementation	Low	No adjustment

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	**Management override of controls**
Significant risk description	Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Very High
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. **Audit procedures** • Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determining criteria for selecting high risk and / or unusual journals. • Tested high risk and / or unusual journals posted during the year and after the unaudited financial statements stage back to supporting documentation for

Risk area	Management override of controls
	appropriateness, corroboration and ensured approval has been undertaken in line with the Fund's journals policy. • Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	We have not identified any indication of management override of controls in the year. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
Significant risk description	Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted. The presumption is that the Fund could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. Income recognised in the Fund's accounts relates to contributions received from member bodies and transfers in from other pension funds. Given the nature of this income we rebutted this risk.

Key risk area	Fraud in non-pay expenditure
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements. Expenditure recognised in the Fund's accounts relates to benefits payable, payments to and on account of leavers and management expenses. We have assessed benefits payable to be the Fund's only material expenditure stream. We perform separate tailored testing on benefits payable and therefore rebutted this risk.

Key risk area	Investment valuations (key accounting estimate)
Significant risk description	The Fund held investments of £3.426billion as at 31 March 2023, of which 44% (£1.517 billion) were classified as level 2 or level 3 financial instruments. These level 2 and 3 financial instruments are generally gilts and investment in infrastructure, which are more subjective in their valuation. Valuations of such investments are not based on unadjusted quoted prices in active markets, rather estimation produced by Investment Fund Managers commissioned by management as experts. Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error. **Inherent risk of material misstatement:** Investments (valuation, existence): High
How the scope of our audit responded to the significant risk	**Key judgements** There is the potential for management to use their judgement to influence the values within the financial statements. **Audit procedures** • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the investment fund managers and the scope of their work. • Evaluated the competence, capabilities and objectivity of the investment fund managers. • Considered the basis on which the valuation is carried out and the challenge in the key assumptions applied. • Tested the information used by the fund managers to ensure it is complete and consistent with our understanding.

Key risk area	**Investment valuations (key accounting estimate)**
	• Ensured that the year-end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct.
Key observations	We have gained reasonable assurance over the valuation of investments at year end and are satisfied that investments and investment transactions are fairly stated in the financial statements.

Key risk area	**Present Value of Retirement Obligations (key accounting estimate)**
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the Fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the data and assumptions used by management's expert are not appropriate in producing their estimate of the pension obligations, which results in an increased risk of material misstatement of this disclosure. **Inherent risk of material misstatement:** Retirement obligations (valuation): High
How the scope of our audit responded to the significant risk	**Key judgements** A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability. **Audit procedures** • Reviewed the controls in place to ensure that the data provided to the actuary is complete and accurate.

Key risk area	Present Value of Retirement Obligations (key accounting estimate)
	• Considered the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreed the disclosures in the financial statements to information provided by the actuary.
Key observations	We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness. We have considered the competence, capability and objectivity of the actuary in line with the requirements of *ISA (UK) 500 Audit Evidence*. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Fund and the needs of users. We reviewed our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality was £51.3 million. On receipt of the 2023/24 unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment. We consider that our assessment has remained appropriate throughout our audit.

	Materiality £million
Overall materiality for the financial statements	51.300
Performance materiality	38.475
Trivial threshold	2.565

Materiality	Our assessment is based on approximately 1.5% of the Fund's net assets as disclosed in the prior year financial statements. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Fund. As set out above, we have not considered it necessary to update this based on current year results.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Special materiality for dealings with members

Our initial assessment of materiality for dealing with members was £5.96million. On receipt of the 2023/24 unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment. We consider that our assessment has remained appropriate throughout our audit.

	Materiality £million
Dealings with members materiality	5.960
Performance materiality	4.470
Trivial threshold	0.298

Materiality	We apply a lower materiality for dealings with members, based on the fact these transactions are significant to the Fund's activities, and it would not be appropriate to use the asset-based materiality to them. Our initial assessment is based on approximately 5% of the Fund's Prior Year gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the Fund's dealings with members. As set out above, we have not considered it necessary to update this based on current year results.
Performance materiality	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

Audit differences

Two adjustments were made to the unaudited financial statements. The first adjustment was following receipt of updated information on investment management expenses. This adjustment did not impact on the reported closing net assets of the scheme.

The second adjustment was to reclassify the settlement paid to two bodies leaving the Fund in year as expenditure rather than negative income within contributions. This adjustment had a nil net impact on the Net (additions)/withdrawals from dealings with members disclosure in the Fund Account.

We identified one unadjusted misstatement. Through our sample testing we noted a timing difference in the valuation of level 3 assets between those held by the custodian and those of the external investment managers, resulting in an overstatement of asset values. As this was based on a sample estimate of the level of misstatement, and not deemed to be material, this has remained unadjusted in the financial statements.

Audit differences, both adjusted and unadjusted, identified during the audit are detailed in Appendix 2.

We also identified disclosure and presentational adjustments during the audit, which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these in this report. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We did not identify any significant control weaknesses during our audit.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 3.

Other communications

Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	There were no significant management judgements which required additional audit work, where there was disagreement over the judgement or where the judgement is significant enough that requires reporting.

Area of focus	Audit findings and conclusion
Prior year adjustments identified	There were no prior year adjustments to the financial statements identified.
Concerns identified in the following: • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target	No concerns were identified in relation to these areas.

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Fund.

The accounting policies, which are disclosed in the financial statements, are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to investment valuations and pension assumptions.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall, we concluded that for those key accounting estimates they were balanced and appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Pensions Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting the Fund. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

We note that in line with guidance from the SPPA the Fund have reported a breach of regulations, as they have not included McCloud information on the Annual Benefit statements for 2023-24. This is not however deemed to represent a significant issue as compliance is not included in the regulations for Scotland for the current year.

The Local Authority Accounts (Scotland) Regulations 2014

As part of our audit we reviewed the Fund's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10[1] as they relate to the annual report and accounts.

Overall we concluded that appropriate arrangements were in place to comply with these Regulations.

Written representations

We presented the final letter of representation to the Executive Director of Finance and Corporate Services to sign at the same time as the financial statements were approved.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

[1] Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

Wider scope of public audit

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** Effective and appropriate arrangements are in place
	Fife Pension Fund has effective arrangements for financial management and the use of resources. In 2023/24, the value of the Fund's net assets increased to £3.659billion; an increase of £239million on 2022/23. The most significant impact on the outturn position was a favourable change in the market value of investments. In 2023/24 two admitted bodies exited the Fund, resulting in a reduction in the Fund's net assets of £16.0million due to settlement with the employers

Financial sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services and the way in which they should be delivered.	**Auditor judgement** Effective and appropriate arrangements are in place Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability. The triennial valuation as at 31 March 2023 describes a comfortable funding position of 151%. This is a 54% improvement on the valuation as at 31 March 2020. The valuation also sets out that it is 94% likely that the Fund will be 100% funded by the next triennial valuation in 2026. A significant factor which has affected the funding strategy is better than expected investment returns. This has had a material positive impact on the funding position. Investments returns have been significantly above expected returns.
Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Pension Board and Pensions Committee continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.

Use of Resources to Improve Outcomes	Auditor judgement
Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	Effective and appropriate arrangements are in place The Fund has appropriate performance management processes in place that support the achievement of value for money in the use of resources. Annual investment performance to March 2024 was again stronger than in previous years, however, this remained below the annual benchmark target. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods.

Financial management

The Fund has experienced a change in value of £239.073million represented by an increase in capital value of investments of £203.867million (2022-23 loss £157.042million) coupled with income from dividends and interest of £55.123million (£45.286million 2022-23). The Fund experienced a net deficit of £2.914million (2022-23 surplus £18.610million) from dealings with members. The movement is a result of exit credits which were paid to two employers who ceased participation in the scheme.

Exhibit 1 – Financial position	**£'million**
2022/23 Net Assets	**3,420.129**
Movement:	
Net deficit from dealings with members	(2.914)
Management expenses	(16.524)
Income from dividends and interest	55.123
Taxes on income	(0.479)
Gain on capital value of investments	203.867
2023/24 Net Assets	**3,659.202**
Movement (%)	**1.07%**

Source: Fife Pension Fund Annual Report & Accounts 2023-24

The Fund's Investment Strategy was revised and updated to reflect the results of the actuarial valuation in 2023. This was approved at the Pensions Committee in March 2024. Throughout 2023-24, the Fund undertook some changes to the investment allocation as it continues to make steady progress on the implementation of the agreed investment strategy. Over the course of the financial year the Fund disinvested £85million from Equities, with the proceeds being invested in Sovereigns (formerly LDI). The Fund increased Sovereigns allocation aligned to the Fund's Investment Strategy.

In addition, by working with LPFI, the Fund was able to participate in some new Infrastructure Investment opportunities that would not have been afforded to it previously. These infrastructure investments reflect the continued implementation of the investment strategy with the Real Asset allocation now broadly in line with the strategic allocation contained in the strategy.

Exhibit 2 – Fife Pension Fund Investment Strategy

	Previous Strategy (Sept 2022) %	Revised Strategy (March 24) %	Permitted Range	Actual allocation 31 March 2024 %
Equities	50	50	40-60	49.2
Real Assets	20	20	10-30	21.7
Credit	15	13	5-25	13.3
Sovereigns (Formerly LDI)	15	15	5-25	14.2
Cash	0	2	0-15	1.6
Total	100	100		100

Performance of the Fund for 2023/24 resulted in a net increase in asset value of £239.073million with the Fund underperforming against its benchmark of 10.9% by -3.7% over a rolling 12-month period.

Longer term returns over 3 and 5 years and from inception demonstrate that the Fund has outperformed its benchmark over longer time periods.

The Fund invests in a well-diversified portfolio of global assets and is therefore exposed to worldwide economic factors. Commentary was provided by advisers from LPFI and is detailed in Exhibit 3 below.

Exhibit 3: Investment markets

For the 12 months to 31 March 2024, global equities, as measured by the MSCI ACWI index, returned 20.6% in sterling terms (source: MSCI). The bulk of those gains came in the second half of the year as slowing inflation fuelled hopes for interest rate cuts. Against that backdrop, US technology investments were notable winners, with investors showing particular enthusiasm for companies anticipated to benefit from the growth of artificial intelligence.

The year began with most major central banks tightening monetary policy in the face of inflation data that remained well above official targets. With inflation gradually receding as the year progressed, optimism grew around the potential for rate cuts. However, continuing strong economic data caused investors and policymakers to temper those expectations. The economy remained resilient despite the higher interest rate backdrop, with the UK entering a shallow technical recession but avoiding a more meaningful downturn. China, typically the largest contributor to global growth, experienced more turbulent conditions as its post-lockdown economic resurgence fizzled out, and concerns remained around its domestic real estate crisis and positioning towards Taiwan. Tragic events in the Middle East added a further source of international tension, alongside the ongoing war in Ukraine.

Government bond prices fell over the year amid rising rates, despite inflation falling from its peak. The 10-year gilt yield rose from 3.5% to 3.9% amid significant rate volatility, with yields briefly exceeding the levels (4.5%+) experienced during the UK's mini-budget crisis of 2022. The return on the FTSE Gilts All Stocks index was broadly flat for the year to March 2024, as coupon income offset the impact of higher yields. Corporate bond credit spreads (the difference in yields between bonds of differing quality) narrowed, with UK investment grade credit returning 6.1% over the year (source: Bloomberg).

Meanwhile, unlisted infrastructure valuations were resilient despite the challenging macroeconomic environment, with much of the sector benefiting from inflation-linked returns. However, higher borrowing costs have continued to weigh down commercial real estate capital values.

Source: Fife Pension Fund Annual Report & Accounts 2023-24; Investment Commentary as provided by LPFI Ltd.

Financial monitoring

The 2023/24 indicative budget and business plan was approved by the Pensions Committee in March 2023. The budget showed a net decrease of £0.4million from dealings with members and a net return on investments of £152.96million, resulting in a projected net increase in the value of the Fund of £154.68million.

As at 30 September 2023, the 2023/24 projected outturn was that the Fund would remain cash-flow positive with a net increase to the Fund of £1.794million from dealings with members and a net decrease on investments of £39.111million, resulting in a projected net decrease in the value of the Fund of £30.454million.

The financial outturn for the year showed a net increase in the value of the Fund of £239.073million. The most significant impact on the outturn position was due to the changes in market value of investments, although there was also a significant reduction in Net additions / (withdrawals) from dealing with members as a result of two admitted bodies exiting the Fund in year. (Exhibit 4).

Exhibit 4 – Financial Outturn

	2023-24 Budget	2023-24 Outturn	2023-24 Variance favourable / (adverse)
	£million	£million	£million
2022/23 Net Assets	3,420.129	3,420.129	-
Movement:			
Net additions / (withdrawals) from dealing with members	18.220	(2.914)	(21.134)
Management expenses	(13.98)	(7.165)	6.815
Income from dividends and interest	26.090	55.123	29.033
Taxes on income	(0.230)	(0.479)	(0.249)
Profit / (Loss) in capital value of investments	127.100	197.457	70.357
Net increase / (decrease) in the Fund	**154.680**	**239.073**	**84.393**
2023/24 Net Assets	**3,574.809**	**3,659.202**	**84.393**

Bodies exiting the Fund

There were two admitted bodies that exited the Fund in the financial year. These were Fife Housing Association and St Andrews Links Trust. The cash outflows to these bodies upon exiting the fund were £2.801million and £13.237million respectively. The Actuary, Hymans Robertson provided valuations for each body. The outflow was significant, however is representative of the share of the Fund attributable to those employers, meaning the overall funding position as per above remains at 151%. This is a very strong position for the Fund as a whole.

Actuarial valuation

The present value of the retirement obligations is presented as a note to the financial statements. The liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2023, with no allowance for future unfunded benefits. This movement in the present value of retirement obligations is shown in Exhibit 5.

Exhibit 5 – Actuarial valuation

	Present Value of Retirement Benefits
2023/24 (£billion)	2.955
2022/23 (£billion)	2.701
Movement (%)	9%

Source: Fife Pension Fund Annual Report & Accounts 2023-24

Systems of internal control

We have evaluated the Fund's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in the Fund's accounting and internal control systems during our audit.

Prevention and detection of fraud and irregularity

We found the Fund's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

Financial sustainability

Funding strategy

The primary objective of the Fund is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. The Funding Strategy Statement expresses the funding objective, which informs the investment strategy. The Funding Strategy Statement is reviewed at least triennially, the latest of which was within 2023-24.

There are two main sources of uncertainty that affect whether the Fund holds sufficient funds to pay future pension:

- the cost of future pensions; and
- the value of investments.

These risks are managed by the Fund in the following ways:

- The risk of failing to make adequate provision for the future is managed by having an independent actuary value the liabilities of the fund every three years and set contribution rates.
- The risk of losing money on investments is managed by having independent investment advisers review the Fund's investment strategy periodically and by diversifying assets by dividing them between several separate investment management firms, chosen to ensure a range of investment styles.

The investment objectives of the Fund are to achieve a return on fund assets which is sufficient over the long term to meet the funding objectives.

The Investment Strategy is fundamentally reviewed every 3 years and sets out the strategic allocation to various types of investments.

Officers of the council continue to implement the investment strategy and participate in Joint Investment Forum collaborative arrangement with Lothian Pension Fund and two independent advisors.

Indicative budget for 2024/25

An indicative budget has been developed for 2024/25 (Exhibit 6). The budget was developed using previous years trends of expenditure which have been adjusted to reflect the estimated levels of pay awards and estimated levels of pension increases. The return on investments were set at levels as per the 2023/24 indicative budget.

The budget is routinely monitored and reported to Committee on a biannual basis.

Exhibit 6: 2024/25 Indicative Budget	**2024/25 Budget**
	£'million
2023/24 Net Assets	**3,501.959**
Movement:	
Net additions/ (withdrawals) from dealing with members	9.720
Management expenses	(17.960)
Income from dividends and interest	48.000
Taxes on income	(0.260)
Profit / (Loss) in capital value of investments	123.100
Net increase / (decrease) in the Fund	**162.600**
2024/25 Net Assets	**3,664.559**

Source: Fife Pension Fund – Business Plan 2024-25

Actuarial funding levels

The triennial valuation as at 31 March 2023 was finalised in March 2024. The results of the valuation concluded that Fife Pension Fund was 151% funded which was an increase from the previous triennial valuation in 2020, which assessed the fund as being 97% funded. The increase in the funding level is due, in the main, to the increased return on assets held. Additionally, the 2020 valuation was impacted by the wider implications of, COVID-19.

The required investment return for Fife Pension Fund to be 100% funded is 2.8% per annum (3.2% per annum based on the 2020 triennial valuation). The likelihood of the Fund's investment strategy achieving the required return is assessed at 94% (68% in 2020).

The primary contribution rates as per the triennial valuation have decreased from 25.6% to 22.1% due to a combination of higher prudence in funding plans and higher future inflation expectations for 2023, compared to 2020. Secondary rates have also reduced due to strong investment performance since the last valuation.

Vision, leadership and governance

Strategy and business model

The Pension Fund's Funding Strategy Statement explains that the fund has a long-term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. The health of the Fund is monitored every three years by means of review by an independent actuary.

The funding objectives for the Fund are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to the Fund's investment strategy and governs the allocation across various policy groups.

The investment objectives of the Fund are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement. The implementation of the strategy is carried out by the Head of Finance. The Head of Finance operates within the parameters agreed by the Pensions Committee.

The Fund prepares a business plan which sets out all of the business as usual activity as well as some of the less routine development activities. The Fund will be involved in a procurement exercise for Custody and Performance measurement contracts and will look to work with its collaborative partners so that resources and expertise can be pooled and explore synergies and any efficiencies that may be possible.

Governance arrangements

Fife Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in Fife. The main functions of the Administering Authority are the management and investment of the assets of the Fund and administration of scheme benefits. Fife Council carries out its role as Administering Authority via;

- The Pensions Committee: delegated responsibility by Fife Council for maintaining the Fund.
- The Fife Pension Board: Assists Fife Council in ensuring compliance with legislation and ensuring efficient and effective governance and administration of the scheme.
- The Joint Investment Forum (JIF).
- Finance & Corporate Services Directorate and the Pensions Governance Group (PGG)

In recognition of the challenges ahead, and its commitment to strong governance arrangements, Fife Council as Administering Authority, has developed a senior officer role, reporting to the Head of Finance but with the responsibility for leading and managing the Fife Pension Fund and to deliver consistent, high quality service and raise standards in key pension fund areas. The addition of the Pension Service Manager role will ensure that the Fund is in a strong position to deal with future challenges and ensure that the pension fund is managed effectively, while continuing to protect members' interest.

The Pensions Administration Team's core purpose is to ensure that benefits are paid accurately and on time and to provide clear information on the benefit options available to help members plan for retirement. The team is accountable to the Pensions Committee, Pension Board, scheme employers and members.

Fife Pension Fund works in collaboration with City of Edinburgh Council for the provision of investment advisory services from its arms-length organisation LPFI Limited, the investment services company owned by Lothian Pension Fund. This is the fifth year of collaboration, and officers have continued to participate in the Joint Investment Forum (JIF), formerly known as the Joint Investment Strategy Panel (JISP). Strategic investment advisory services are provided by LPFI Limited and, two independent investment advisors. They provide direct advice to the Head of Finance and also provide training for Committee and Board members from time to time.

The relationship with LPFI Limited continued to expand to increase the use of LPFI's internal investment management capabilities with LPFI Limited now acting as a Fund Manager for some of the investment portfolios.

The Pensions Governance Group (PGG) is an officer's group, chaired by the Head of Finance, which meets quarterly, and its purpose is to provide assurance to the Committee and the Board through the monitoring of the requirements measured by the Pensions Regulator's Code of Practice No.14 and reviewing and managing risk. The work of the PGG will now incorporate assessing and monitoring the requirements of the new Pension Regulators General (single) Code of practice including preparing a gap analysis and action plan for moving towards compliance. A risk Register is maintained by the PGG with quarterly updates presented to the Pensions Committee.

Meetings of those charged with governance

Throughout 2023/24, the Fund has maintained all aspects of fund governance including its regular schedule of meetings.

Through our review of committee papers, we are satisfied that there continued to be effective scrutiny, challenge and informed decision making through the year.

Governance compliance

The Local government Pension Scheme (Scotland) Regulations 2018 require each Administering Authority to publish a Governance Compliance Statement, detailing how their governance arrangements comply with best practice guidance issued by Scottish Ministers. Details of how the Fund complies are included in the Governance Compliance Statement.

In its 2023/24 Governance Compliance Statement, the Council, as Administering Authority, reported that it is compliant with all principles with the exception of training where partial compliance was recorded. Partial compliance was reported as not all members of the Committee have complied with the policy and completed the minimum time requirement as per their policy.

The Fund's Training Policy (Comprising a compulsory training seminar for all new trustees and a requirement to undertake no less than two days (14 hours) of training in each year for all Pensions Committee and Pension Board members) provides the knowledge to enable them to evaluate and challenge the advice they receive. Training of members of the Pensions Committee and the Pensions Board are monitored and reported on a regular basis.

Internal audit

An effective internal audit service is an important element of a Pension Fund's overall governance arrangements. Fife Pension Fund's internal audit service is provided by Fife Council's Audit and Risk Management Services. During our audit we considered the work of internal audit wherever possible to inform our risk assessment and our work on the governance statement.

During 2023-24 the following assurance reviews were undertaken:

- Follow up review (Cyber Security)
- Investment Governance
- Governance
- Post Audit Reviews

The annual internal audit report was presented to the Pension Committee in June 2024. This report confirmed that the annual programme of internal audit work had been completed and that "reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2024.

Use of resources to improve outcomes

Monitoring investment performance

The Fund has appointed a number of investment managers who are employed to invest in assets for the Fund in accordance with agreed objectives. Safeguarding of the Fund assets is undertaken by the Custodian, Northern Trust.

Officers at Fife Council and Lothian Pension Fund monitor the performance of managers with performance reports presented to each meeting of the JIF and the Pensions Committee.

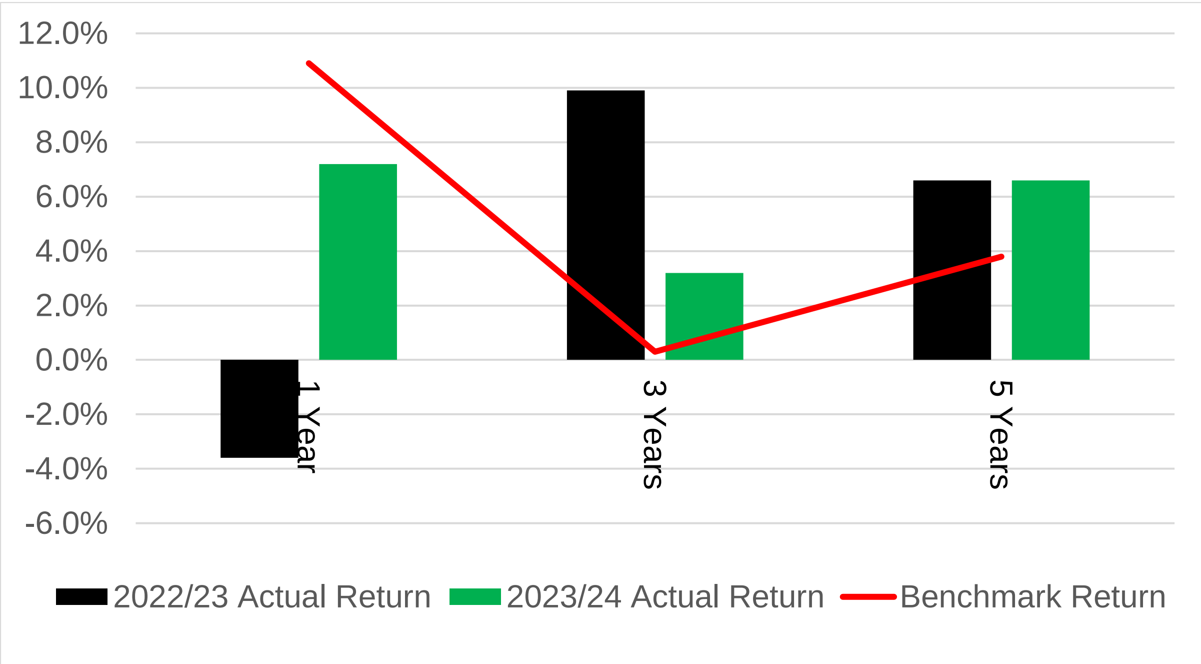
Through our review of committee papers, we are satisfied that there continue to be effective scrutiny, challenge and informed decision making through the year.

Fund performance

Fife Pension Fund annual performance

Annual performance to March 2024 was stronger than in the previous year, with overall annual returns of 7.2% (2023 - 3.6%. Performance was below the 2024 benchmark of 10.9%. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods. The Fund's performance against benchmarks and prior year are given at Exhibit 7.

Exhibit 7: Performance of the Fund against benchmarks and prior year

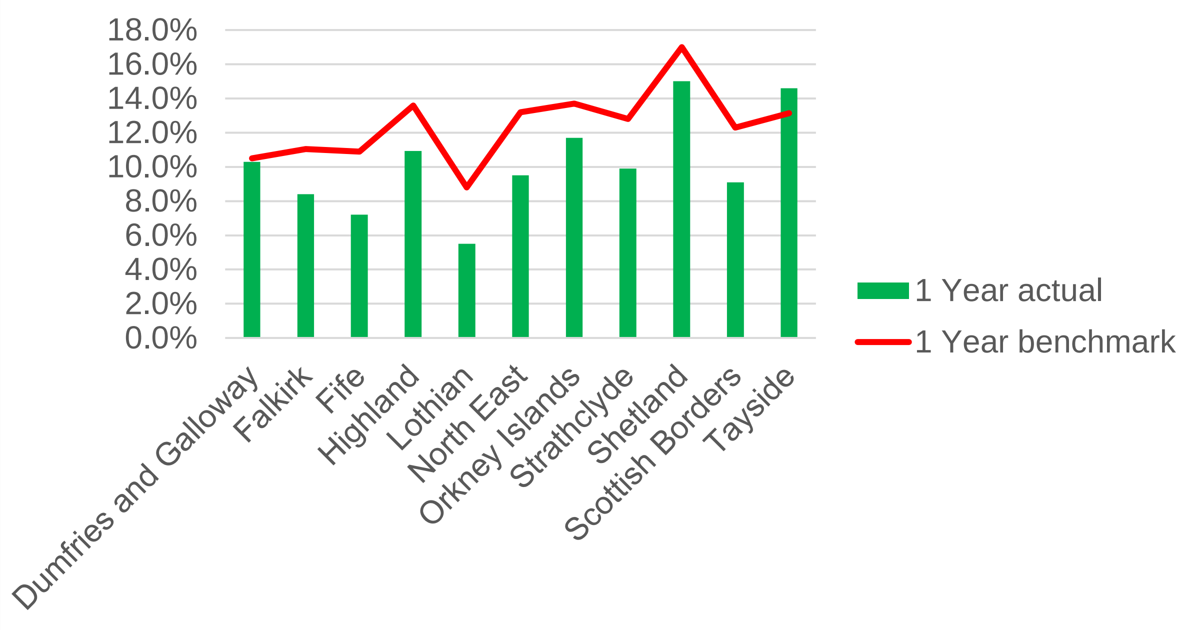


Source: Fife Pension Fund Annual Report & Accounts 2023/24

Annual returns comparison

The Fund reported the second lowest annual return in Scotland in 2024 and like most of the Local Government Pension Schemes' (LGPS) in Scotland, it did not meet its annual benchmark target. See Exhibit 8 for Fife Pension Fund's annual performance against other Scottish LGPS.

Exhibit 8: Annual return across LGPS Scotland Funds against benchmark

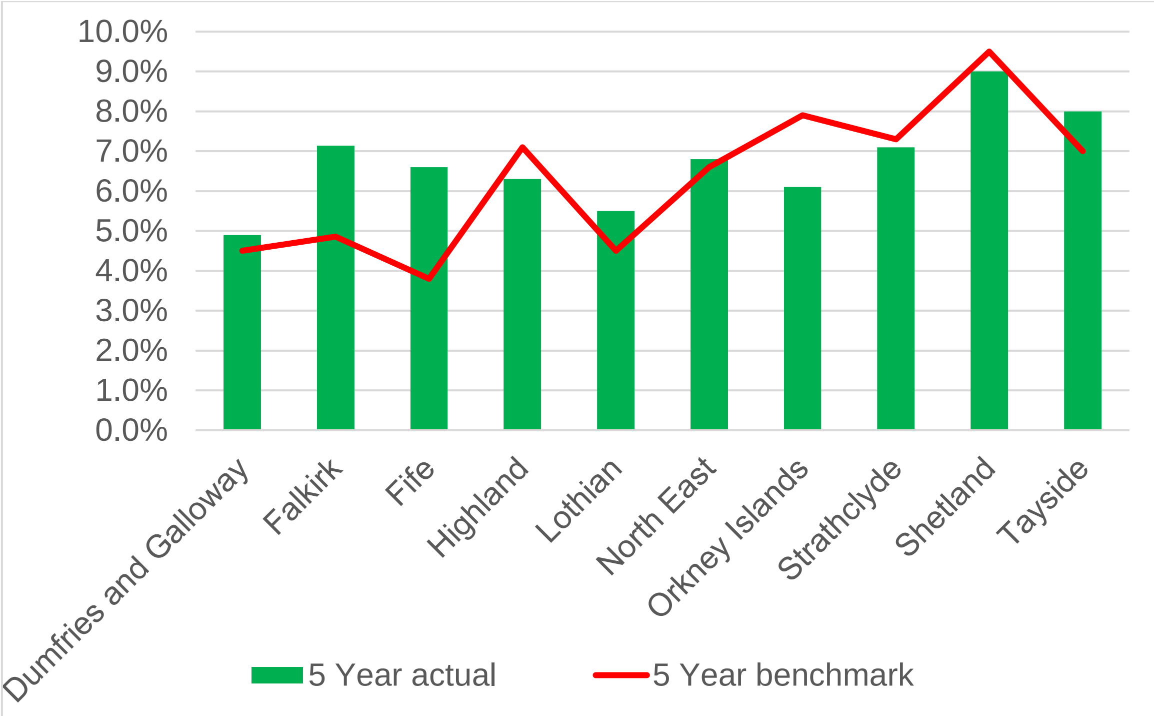


Source: Unaudited Annual Report and Accounts for LGPS Funds

5 year returns comparison

Comparison of the Fund's performance against other Scottish LGPS Schemes is shown in Exhibit 9. Compared to the other LGPS, was the fifth highest in terms of absolute returns in the 5 year period. However, like the majority of the LGPS' in Scotland, Fife Pension Fund exceeded its benchmark.

Exhibit 9: Annualised 5 year returns across LGPS Scotland Funds against benchmark[2]



Source: Unaudited Annual Report and Accounts for LGPS Funds

Management expenses

The Fund reported management expenses of £16.5million is 2023/24, a decrease of £1.0million on the prior year. Management expenses are split into three main categories: administrative costs; investment management expenses and oversight and governance costs. Investment management expenses account for 82% of total management expenses.

The Fund's investment management expenses (excluding indirect expenses), as a proportion of net assets, decreased in comparison with the prior year.

To demonstrate its continued commitment to ensuring value for money, the Fund also took part in CEM Benchmarking exercise for 2022-23 and the results were reported to Committee in June 2024. The results demonstrated that the Fund investment costs were slightly below other funds. Although having an aggregate higher cost implementation style, this was offset by paying less than peers for similar assets. The results also demonstrated a net 5-year return above the LGPS median.

[2] Scottish Borders Council Pension Fund does not disclose this information in its unaudited Annual Report and Accounts and therefore is excluded from the analysis above.

The Fund undertakes an annual benchmarking exercise using externally provided data, covering 45 funds including 6 LGPS funds. Analysis of investment costs is carried out by an independent provider, CEM Benchmarking Inc.

From the CEM report, there were several key takeaways. These are as follows:

- Fife Pension Fund had a higher cost implementation style in aggregate.
- Fife Pension Fund paid less than peers for similar asset types in aggregate.
- The 5-year net total return was 6.6% for Fife Pension Fund, this is higher than the LGPS median of 6.4%.
- Fife Pension Fund’s strategic asset allocation shows that it takes less risks relative to its liabilities in comparison to other LGPS funds.
- The Fund’s 5-year net value added was 2.1%, this is higher than the LGPS median of 0.9%.
- Fife Pension Fund’s cumulative 5-year net value added has added £332million to the funding of its plan.

Administration performance

The Fund has an Administration Strategy and suite of key performance indicators (KPIs) which are reported to the Pensions Committee on a quarterly basis. In 2023/24 a further three key processes were reported on a routine basis. Results of performance against KPI targets in 2023/24 are shown below in Exhibit 10.

Exhibit 10: Key Performance Indicators 2023/24

Membership Transactions	Target Days	Target	Within Target
Correspondence	10	90%	100%
Refunds	10	100%	95%
New Members	30	100%	100%
Provide Ill Health estimates	15	90%	36%
Provide Redundancy Estimates	12	97%	80%
Retirals	7	95%	85%
Transfer in	10	90%	20%
Transfer out	10	90%	36%
Death Grants	7	90%	85%
Divorce Settlements	10	90%	65%

Source: Fife Pension Fund Annual Report & Accounts 2023-24

Performance in some areas is less than the target due to several factors including new staff, training requirements, delays in receiving paperwork and feedback while the tasks remain open in the system. Revisions have been made to the task set up and timing within the task tor recording the elements carried out by the team and exclude potential delays when awaiting information. This was introduced part way through 2023-24 and improvement should be seen in the coming year. Performance on all transfers was impacted by the delay in receiving new factors from Government Actuary Department, coupled with training needs of the team. Training is underway and factors have been received therefore progress on transfers is being made towards improving performance. Performance has been reported on a quarterly basis and reviewed and discussed by the Pensions committee.

Appendices

Appendix 1: Responsibilities of the Fund and the Auditor

Responsibilities of the Fund

The Fund has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Area	Fund responsibilities
Corporate governance	The Fund is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Fund has responsibility for: • preparing financial statements which give a true and fair view of the financial position of the Fund and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. The management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the Fund. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the Fund and its financial performance, including providing adequate disclosures in accordance with the applicable financial

Area	Fund responsibilities
	reporting framework. The relevant information should be communicated clearly and concisely. The Fund is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Fund is also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The Fund is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.
Financial position	The Fund is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code of Audit Practice outlines the responsibilities of external auditors and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Fund and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

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.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited 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.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

The administering authority (Fife Council) has responsibility for ensuring that its business, including that of the 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.

The outcome of audit work on the administering authority's Best Value arrangements is reported in the Fife Council annual audit report. There are no findings directly applicable to the Fund.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at Quality of public audit in Scotland: Annual report 2023/24

Independence

The Ethical Standards and ISA (UK) 260 require us to give the Fund full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we note the following matter to bring to the Fund's attention:

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard.

In particular:

- Non-audit services: There are no non-audit services provided to the Fund.
- Contingent fees: No contingent fee arrangements are in place for any services provided.
- Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the Fund, senior management or staff.
- Relationships: we have no relationships with the Fund, its members, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a

director, or in a senior management role covering financial, accounting or control related areas.

Our period of total uninterrupted appointment as at the end of 31 March 2024 was two years.

Audit and non-audit services

The total fees charged to the Fund for the provision of services in 2023/24 were as follows. Prior year charges for the predecessor auditor are also shown for comparative purposes:

	2023/24	2022/23
Auditor remuneration	£63,940	£60,915
Pooled costs	£2,200	£-
Audit support costs	-	£2,160
Sectoral cap adjustment	(£17,770)	(£16,850)
Total fee	£48,370	£46,225

There have been no non-audit fees charged to the Fund by Azets during the year. The audit fees charged reconcile to the fees disclosed in the financial statements.

Appendix 2: Audit differences identified during the audit

We are required to inform the Fund of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. Material misstatements which have been adjusted for are summarised in the table below.

Adjusted misstatements

Details of the items corrected following discussions with management are as below.

No	Detail	Fund Account Dr £m	Fund Account (Cr) £m	Net Asset Statement Dr £m	Net Asset Statement (Cr) £m
1.	Being adjustment to investment management expenses following receipt of updated information provided by the fund managers. DR Management Expenses CR Return on investments	6.4	(6.4)		
2.	Being adjustment to reclassify two bodies leaving the Fund as expenditure rather than negative income. This does not affect the bottom line of the Fund account DR Payments to and on account of leavers CR Contributions Receivable	16.0	(16.0)		
	Net impact on net assets			-	-

Unadjusted misstatements

We identified the following exceptions which have remained uncorrected by management as detailed below.

No	Detail	Fund Account Dr £m	Fund Account (Cr) £m	Net Asset Statement Dr £m	Net Asset Statement (Cr) £m
1.	Being extrapolation of difference in valuation of level 3 assets between custodian and external investment managers due to timing of information being available. * DR Changes in market value of Investments CR Investment Assets	20.537	(6.4)		(20.537)
	Net impact on net assets			**-**	**(20.537)**

* Value of error noted within sample testing was £9.836million. This has been extrapolated over the full level 3 investment population to give an estimated total error of £20.537million.

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Fund.

Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	Note 11a (Reconciliation of movements in investments and derivatives) The narrative at the foot of the note was updated to reflect the adjustment in investment management expenses.

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

Appendix 3: Follow up of prior year recommendations

We have followed up on the progress the Fund has made in implementing the recommendations raised by the previous auditor last year.

1.	**Working papers in preparation of the annual accounts**
Recommendation	We would encourage management to request and challenge all information provided by Northern Trust which is required in the preparation of the annual report and accounts.
Implementation date	**30 June 2024**
Complete	Information provided by Northern Trust has been challenged appropriately.

2.	**Assurance Reports on Controls at a Service Organisation**
Recommendation	We would encourage management to obtain and review the internal control report and associated audit report as it relates to Heywood Pension Technologies and the provision of the Altair pension administration software platform.
Implementation date	**31 March 2024**
Complete	Appropriate Internal Control reports associated with Heywood Pension Technologies and the Altair Pension Administration software platform have been received by Fife Pensions Fund.

3.	Administration Costs
Recommendation	Consider the inclusion of unit costs for administration in budget monitoring and administration reports.
Implementation date	**31 March 2024**
Ongoing	Management has continued to consider the inclusion of unit costs for administration, however this has not yet been actioned. **Revised Implementation date: 31 March 2025.**

4.	Service organisation control reports and complementary user entity controls
Recommendation	Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the governance assurance framework.
Implementation date	**31 March 2024**
Ongoing	A review of service organisation control reports has been included in the 2023/24 annual report and accounts. Audit observation: As in 2022/23 we noted that LPFI do not currently commission and publish a service internal control report as prepared by an independent reporting accountant. In 2023/24, the Fund received a controls letter from LPFI as alternative assurance to a controls report. We continue to encourage the Fund to obtain from LPFI an internal control report. **Revised Implementation date: 31 March 2025.**