Lothian 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

This report concludes our audit of Lothian Pension Fund (LPF) and Scottish Homes Pension Fund ("the Funds") for the year ended 31 March 2024. This section summarises the key findings and conclusions from our audit.

Annual report and accounts audit

Audit opinion	The annual accounts were considered and approved by the Pension Committee on 25 September 2024. Our work is complete. Our independent auditor's report is unqualified.
Key audit findings	The Funds had appropriate administrative processes in place to prepare the draft annual report and accounts and supporting working papers to a high quality by the agreed date. We have obtained adequate evidence in relation to the key audit risks identified in our audit plan. The accounting policies, accounting estimates and judgements used to prepare the financial statements are considered appropriate. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Audit adjustments	We identified no material adjustments to the financial statements during our audit. We identified one immaterial adjustment which has not been adjusted in the financial statements and are summarised in Appendix 2. We require the Pensions Committee to confirm they consider these to be immaterial. All other disclosure and presentational adjustments to the annual report and accounts identified during the audit have been reflected in the final annual report and accounts presented to the Pensions Committee on 25 September 2024. The key change was for the disclosures in relation to climate change risks to be clarified within the management commentary in the annual report.

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 Funds' 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. We consider the financial control environment within the Funds to be satisfactory.

Wider scope 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 Lothian Pension Fund has effective arrangements for financial management and the use of resources. The Funds reported a small net increase in the funds held. Lothian Pension Fund reported a net withdrawal position in dealings with members of £20.519 million. Scottish Homes reported a net withdrawal position of £6.825 million. Annual operating plan updates are provided to each Pensions Committee meeting clearly explaining changes in group performance.
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Funds are 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 LPF has adequate arrangements in place to ensure ongoing financial sustainability. The focus of the Funds' investment strategy is to ensure a sufficient return over the long term to meet the funding objectives outlined by the Funding Strategy Statement. LPF has exceeded its medium (5 years) and longer (10 years) investments returns benchmarks, although it delivered below benchmark annual return on investments in 2023/24 (5.5% actual vs 8.8% benchmark). The triennial valuation at 31 March 2023 describes a comfortable funding position which is 157% for LPF and 127% for SHPF .This is an improvement on already positive results from the previous, 2020, valuation. The Funds applied a prudent approach while increasing its contribution rates.

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** No major weaknesses in arrangements but scope for improvement exists Project Forth, a proposed merger between Lothian and Falkirk Pension Funds, was ceased by the Pensions Committee in September 2023 and will be revisited in September 2025. Internal Audit identified one high recommendation in relation to Pensions Committee effectiveness of working relationships and three medium priority recommendations in relation to: committee membership and training, management of meetings and performance monitoring and self evaluation. For the second year in a row we recommend all members of the Board and Pensions Committee attend the minimum number of hours of training required by the Funds' training policy.
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** No major weaknesses in arrangements but scope for improvement exists The Funds' investment performance is subject to regular review by the Pensions Committee. Pension administration performance has declined significantly during the year due to staff leaving the organisation. 12 out of 14 indicators declined and targets for 10 were not met. Action have been taken to address the underlying causes and performance is above target in the first five months of 2024/25.

Definitions for wider scope audit gradings

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

Significant unmitigated risks affect achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to achievement of objectives are managed

Introduction

The annual external audit comprises the audit of 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 Audit Sub-Committee at the outset of our audit. We have not made any significant subsequent changes to the risks outlined in that plan.

Responsibilities

The Funds are responsible for preparing its annual report and accounts, including financial statements which show a true and fair view, 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.

Openness and transparency

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

Annual report and accounts audit

The Funds' annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

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 draft financial statements. management commentary, annual governance statement, governance compliance statement and remuneration report were considered by the Pensions Committee and approved on 26 June 2024. They were reconsidered and approved post audit on 25 September 2024. We have issued unqualified audit opinions. We have not identified any material misstatements during the audit. The immaterial misstatements are included in Appendix 2. We received the draft annual accounts and supporting papers in line with our audit timetable. The accounts and working papers were prepared to a high standard. Further information and revisions were provided promptly where required.

Opinion	Basis for opinion	Conclusions
		Our thanks go to the Finance team for their assistance with our work.
Going concern basis of accounting	In the public sector, 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 Funds' functions. Our wider scope audit work considers the financial sustainability of the Funds.	Last year we concluded that a proposed LPF and Falkirk Pension Fund merger, Project Forth, would represent a transfer of services under combinations of public sector bodies, and hence does not negate the presumption of going concern. However, in September 2023 on the advice of the administering authority, the Pensions Committee took a decision to re-consider the merger decision and pause further work on Project Forth, and therefore no further consideration in relation to going concern is necessary in this area until a decision to change future strategy is made. Our audit opinion is unqualified in this respect.
Opinions prescribed by the Accounts Commission: • Management Commentary • Annual Governance Statement • Governance Compliance Statement	We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	The annual report contains no material misstatements or inconsistencies with the financial statements. 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; • the information given in the Annual Governance Statement is consistent with

Opinion	Basis for opinion	Conclusions
	We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.	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 and the audited part of the remuneration report 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.

Objection to the accounts

An interested person has the right under section 101 of the Local Government (Scotland) Act 1973 (the 1973 Act) to inspect the unaudited annual accounts and submit an objection to the auditor. We received an objection to the unaudited annual accounts in July 2024. We assessed whether it meets the criteria of a valid objection under the 1973 Act and, after concluding that it did, we have considered the points raised. Our consideration focused on whether there could be a risk of material misstatement in the annual report and accounts.

The objection referred to two points which could be summarised as follows:

- to consider whether the disclosures within the annual report and accounts appropriately reflect the risks to the Funds posed by climate change;
- to request the Controller of Audit to prepare a report under section 102 of the 1973 Act in relation to climate change risks advice provided by external parties to the pension funds.

In response we have:

- Considered the first point and raised with the Funds the need to better reflect the climate change risks in the unaudited accounts. Changes were made to the risks section of the management commentary to improve disclosures. In our view, these changes adequately describe the nature of the risks to the Funds as currently understood and the ongoing work to continuously improve modelling to reflect emerging research.
- Forwarded the second request to Audit Scotland for their consideration as this is a matter for the Controller of Audit. Audit Scotland have confirmed they do not consider a statutory report to be appropriate; however, they are actively considering other options for public reporting on climate change risk.

At the time of drafting this report, we are waiting to confirm with the objector whether a hearing is required and are not therefore in a position to finally conclude on the objection.

We are satisfied we have dealt with the objection appropriately.

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 Funds. 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 was then updated as follows:

- Risk of fraud in revenue recognition was focussed on the occurrence of revenue.
- Risk of fraud in expenditure was rebutted due to the nature of the expenditure.

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. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

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 annual accounts as a whole, and not to express an opinion on individual accounts or disclosures.

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

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	Management of any entity is in a unique position to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a significant risk on all audits. This was therefore treated as a significant risk and Key Audit Matter.
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** • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and appropriate processing in line with the Funds' journals policy. • Gaining 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. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	Our work in this area is complete. We did not identify any indication of management override of controls or any areas of bias in key judgements made by management. Key judgements were also 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 Funds could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income. However, in respect of contributions received from member bodies we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition is present in all other income streams. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income. **Audit procedures** • Evaluating the significant income streams and reviewing the controls in place over accounting for revenue. • Considering key areas of income and obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been consistently applied during the year. • Performing substantive test on all material revenue streams.
Key observations	We have performed additional audit procedures as confirmations from some auditors of the employer members of the LPF were not provided on time. Based on audit work

Key risk area	Fraud in revenue recognition
	done, we gained reasonable assurance on the completeness and occurrence of all other material income streams and we are satisfied that income is fairly stated in the financial statements.

Key risk area	Investment valuations (significant accounting estimate)
Significant risk description	The Funds held investments of £10.270 billion as at 31 March 2024, of which 25% (£2.595 billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets. 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.
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** • Evaluate the Funds' investment strategy and review the controls in place over accounting for investments. • Consider the Funds' material investments and obtain evidence that investments have been appropriately valued at 31 March 2024 including challenging fair value classification. • Review investment transactions and obtain evidence that investment transactions are recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review management experts including the custodian and external investment managers. This includes reviewing auditor reports on the internal controls at the custodian and at each key investment manager.

Key risk area	Investment valuations (significant accounting estimate)
Key observations	Our work in this area is complete and we 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	Investment property valuations (significant accounting estimate)
Significant risk description	LPF hold a portfolio of investment properties. The management of the properties is undertaken by JLL, along with the Fund accounting for the portfolio. Investment properties are valued annually at fair value, in line with the Code. There is a significant degree of subjectivity in the measurement and valuation of investment properties. This subjectivity and the material nature of the Funds' investment property portfolio represents an increased risk of misstatement in the annual accounts.
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 investment property values within the financial statements. **Audit procedures** • Ensuring that investment properties are recorded in the annual accounts in accordance with the Code and the Funds' accounting policies, and have been accounted for appropriately. • Considering the competence, capability and objectiveness of the valuer in line with ISA (UK) 500 Audit Evidence. • Reviewing the valuation report and considering the assumptions used by the valuer against external sources of evidence. • Considering the scope of the valuer's work and the information provided to the valuer for completeness.

Key risk area	Investment property valuations (significant accounting estimate)
Key observations	LPF's investment properties were valued at £363.6 million as of 31 March 2024. The valuation undertaken by CBRE did not include any qualification. CBRE considers that sufficient market evidence exists upon which to base opinions of value. Based on our audit procedures and evaluation of the expert's work, we concur with this judgement. We gained reasonable assurance over the valuation of investment properties at the year end and are satisfied that investment properties are fairly stated in the financial statements.

Key risk area	Valuation of defined benefit pension obligations (significant 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 Funds 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 assumptions used are not appropriate.
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** • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to their actuarial experts and the scope of their work. • Evaluating the competence, capabilities and objectivity of management's actuarial expert.

Key risk area	Valuation of defined benefit pension obligations (significant accounting estimate)
	• Considering the basis on which the valuation was carried out and challenging the key assumptions applied. • Evaluating the information provided to the actuary for the purposes of their calculation of the IAS 26 estimate to ensure it was complete and consistent with our understanding.
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 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 issues of concern.

Estimates and judgements

We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to pension assumptions, investment valuations, investment properties valuations, provisions for legal obligations, doubtful debts and expected credit losses, investment fees and accruals. Other than investment valuations, investment property valuations and pension assumptions, we have not determined the accounting estimates to be significant. We revisited our assessment during the fieldwork and completion stages of our audit and concluded that our assessment remained appropriate.

Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Investments valuation	Auditor judgement: Balanced

Monthly valuation exercises of the investment portfolio are carried out to confirm that the valuation provided by the custodian, Northern Trust, is appropriate and in line with management's expectation.

As at 31 March 2024, the Funds' internal valuation exercise resulted in a valuation of £10.164 billion, a valuation £14.1 million (0.14%) lower than the custodian's valuation which is included in the accounts. The difference relates to timing of when information was received and the availability of information on certain foreign holdings. The Funds confirm that the valuation included in the accounts is materially in line with the internal exercise and that the custodian's valuation better reflects information known at 31 March 2024.

We considered investment valuations against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 March 2024.

Asset valuations at the Funds are based on third party information, where available, including publicly available market information, fund managers and custodian valuations. We evaluated the competence, objectivity and capability of management's expert in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate. We considered key assumptions against other sources of evidence.

Our findings and conclusions are included in the significant risk table above.

Investment property valuation	Auditor judgement: Balanced

Management consider the valuation of investment property on an annual basis. The valuation is carried out by the chartered valuation firm CBRE. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 March 2024.

Pensions Assumptions	Auditor judgement: Balanced

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.

Estimates and judgements
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.

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 Funds and the needs of users. We review 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 to the Funds and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Group and the Funds materiality

Our initial assessment of materiality for LPF Group was £149 million. On receipt of the 2023/24 unaudited annual accounts, we reassessed the materiality and made the following changes:

- SHPF overall materiality has decreased to £1.75 million (from £1.9 million at planning).

The above changes have also impacted the respective performance materiality and trivial threshold and all of these updated levels are included in the table below. We consider that our updated assessment has remained appropriate throughout our audit.

	Group (£m)	Lothian Pension Fund (£m)	Scottish Homes Pension Fund (£m)
Overall materiality for the financial statements	149	147	1.75
Performance materiality	111.75	110.25	1.30
Trivial threshold	7.45	7.35	0.088

Materiality	Our assessment is based on approximately 1.5% of the group and Funds' net investment assets as disclosed in the unaudited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing the financial performance of the Funds' and the group. In performing our audit we apply a lower level of materiality to the audit of the Remuneration Report. This materiality is set at £5,000.
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 dealings with members for Group was £13.64 million. On receipt of the 2023/24 unaudited accounts, we reassessed materiality levels and made the following changes:

- Group materiality on dealings with members increased to 15.9 million
- LPF dealings with members materiality increased to £15.8 million (from £13.3 million at planning)

We consider that our updated assessment has remained appropriate throughout our audit.

	Group (£m)	Lothian Pension Fund (£m)	Scottish Homes Pension Fund (£m)
Dealings with members materiality	15.9	15.8	0.34
Performance materiality	11.93	11.85	0.25
Trivial threshold	0.795	0.790	0.020

Materiality	We apply lower materiality for dealings with members, based on the fact these transactions are significant to the Funds' activities and it would not be appropriate to apply the assets based materiality to them. Our assessment is based on approximately 5% of the group and Funds' 2023/24 gross expenditure as disclosed in the unaudited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Funds' and group.
Performance materiality	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

Group audit

Lothian Pension Fund prepares its financial statements on a group basis. The group consists of Lothian Pension Fund and two special purpose vehicles, LPFE Ltd and LPFI Ltd. As group auditors under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and regarding the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The following table sets out the components within the group.

Component	Significant	Level of response required
Lothian Pension Fund	Yes	Comprehensive
LFPI Ltd	No	Analytical
LPFE Ltd	No	Analytical

Comprehensive – the component is of such significance to the group as a whole that an audit of the component's financial statements is required for group reporting purposes.

Analytical - the component is not significant to the group and audit risks can be addressed sufficiently by applying analytical procedures at the group level.

LPFE Ltd and LPFI Ltd are fully consolidated. We did not consider either to be of individual financial significance to the group or, due to the specific nature or circumstances, include a significant risk of material misstatement to the group financial statements.

We completed our review of the consolidation entries made within the group accounts and confirmed those entries back to the financial statements of the group bodies. We have not identified any material misstatements as a result of that work.

Azets is also the appointed auditor to LPFI Ltd and LPFE Ltd. During our audit we liaised with the audit teams to confirm that their programme of work is adequate for our purposes.

We revisited our assessment, following receipt of the unaudited accounts and our assessment remained the same.

We have nothing to report in respect of the following matters:

- no significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor; and
- there were no limitations on the group audit.

Audit differences

We are pleased to report that there were no material adjustments to the financial statements.

We identified small differences in our pensions paid workings for both LPF and SHPF. While small in our sample, when extrapolated to the full population these become larger than trivial but are still below performance materiality. These are extrapolations and we do not expect the accounts to be adjusted for them. Appendix 2 contains the detail.

We also identified disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements.

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 to the Pensions Committee. 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. We have raised other control point on cybersecurity in Appendix 3.

Financial ledger change

We note that LPF and SHPF have change the ledger from Oracle to X-ledger as of 1 April 2024. This had no impact on the audit of the 2023/24 financial statements and we will perform a review of the completeness and accuracy of the ledger transfer during the 2024/25 audit.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised by the audit in the prior year. Full details of our findings are included in Appendix 3.

Other communications

Accounting policies, presentation and disclosures

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 Funds.

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. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be 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 reviewed the laws and regulations impacting the Funds. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

Written representations

Written representations from management were approved at the same time as the financial statements were approved by the Pensions Committee, signed by the responsible officer and returned to us.

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 including fund manager investment valuation reports.

Wider scope audit

Financial management

Financial performance

The Funds have developed an annual Business Plan which sets out the strategic aims of the Funds. A two-year budget to 2025/26 supports the delivery of the Plan which considers the Group as a whole.

Business Plan updates are provided to each Pensions Committee meeting. The updates note progress of the Funds against the budget along with performance indicators and cashflow monitoring.

While the budget splits out the group into constituent components, budget reporting considers the Group as a whole. Due to the structure of the group, movements in year can affect performance of all group entities. The changes in financial performance for the group are supported by clear explanations.

Performance of the individual Funds can be scrutinised by the cashflow monitoring update provided in each Operating Plan update. This details the Funds' dealing with members for the year to date and the projected year end position on a cash basis.

While the information is presented such that it can be compared with the annual accounts, no information is provided on how performance to date compares with expectation, or prior year.

Lothian Pension Fund and Scottish Homes Pension Fund reported a net withdrawals position in dealings with members in line with forecast.

The return on the Lothian Pension Fund and decrease in value of investments in the Scottish Homes Pension Fund were reflected in the net assets position for both. Consequently, LPF Fund's net assets have increased by 6% while SHPF's decreased by 13% due to gilt market decreases.

The present value of the retirement benefit obligations is presented as a note to the accounts. The key assumptions remained in line with the prior year with the annual pension increase of 6.7% driving the increase in obligation. For SHPF the reduction was caused by slight reductions in CPI and increase in discount rate. These movements in the net asset position and present value of retirement obligations is shown in Exhibit 1.

Exhibit 1 – The Funds' Financial Position

	Net Assets	Present Value of Retirement Benefits
Lothian Pension Fund		
2023/24 (£million)	10,242	7,613
2022/23 (£million)	9,702	6,971
Movement (%)	6%	9%
Scottish Homes Pension Fund		
2023/24 (£million)	110	92
2022/23 (£million)	126	95
Movement (%)	-13%	-3%

Source: Lothian Pension Funds Annual Reports and Accounts

Withdrawal rates compare each Fund's income (contributions, transfers in) with its payments (pension related and transfers out). LPF recorded a higher withdrawal rate when compared to the forecast and to previous year. The higher 2023/24 withdrawal position resulted from a combination of higher pension payments and higher transfers out from the scheme. Scottish Homes Pension Funds withdrawal rate was below expected forecast. SHPF is a closed scheme therefore there is no income from contributions expected.

Exhibit 2 – Forecast versus Actual Net Withdrawals from the Funds

	2023/24 Forecast (£'000)	2023/24 Actual (£'000)	2023/24 Actual as % of Fund value	2022/23 Actual (£'000)
Lothian Pension Fund	(18,000)	(20,519)	0.2%	(18,190)
Scottish Homes Pension Fund	(7,000)	(6,825)	6.2%	(7,023)

Source: Lothian Pension Funds Annual Reports and Accounts

Systems of internal control

We evaluated the Funds' key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach included documenting the key internal financial controls and performing walkthroughs to confirm they are operating as intended.

As a part of this year's audit, and in accordance with the revised requirements of the International Standard on Auditing 315, we assessed the control environment of General IT controls in relation to the pension payments, ledger and payroll systems and the overall environment.

No significant issues were identified from our audit work. We consider the system of control in place at the Funds to be satisfactory.

Prevention and detection of fraud and irregularity

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity.

Lothian Pension Fund was not required to participate in the National Fraud Initiative but has done so voluntarily. The Fund has completed work to provide data to the scheme.

The most recent NFI exercise commenced in 2022, with matches received for investigation from January 2023. LPF uploaded the data, investigated the matches and returned the results to its administering authority, The City of Edinburgh Council. There are no significant findings to note so far.

Overall, the LPF arrangements with respect to NFI are satisfactory.

Standards of Conduct

In our opinion the Funds' arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and the scheme of delegation and for complying with national and local codes of conduct.

Internal audit

An effective internal audit service is an important element of the Funds' governance arrangements. The City of Edinburgh Council provide the Funds' internal audit service. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Funds' audit resource.

Internal Audit presented a ‘reasonable assurance’, amber opinion to the Pensions Committee for the year to 31 March 2024. An amber opinion was given as Internal Audit considered that LPF has generally sounds system of governance, risk management and control in place, with some issues of non-compliance and scope for improvement identified. The opinion is consistent with the prior year. From 2023/24 this opinion also covers LPF subsidiaries: LPFE ltd and LPFI ltd.

LPF has considered the assurances provided by Internal Audit as part of the Annual Governance Statement. The opinion is considered within the context of the wider assurance framework including assurances provided by the Section 95 Officer for the LPF Group and the Head of Finance at the City of Edinburgh Council.

In 2023/24 we did not place formal reliance on the work of internal audit; however, we have considered their findings in respect of our wider scope responsibilities and we are grateful to the internal audit team for their assistance during the course of our work.

New office

On review of the accounts, we noticed that, LPF have entered as lease for the new office in 2024, and retain the obligation for the previous office which continues for the next 5 years and total to £625k. We queried the rationale behind moving to the new office and the reasons LPF continues to pay the lease for the old one.

The move to the new office was prompted by the increase in staff numbers and limited space in the previous office which had maximum capacity of 58 employees prior to COVID19. There was also no option to expand the existing office and post COVID19 the capacity of the old office decreased to 42 spaces.

In 2019 the Pensions Committee approved the need for a new location and for LPF to perform relevant negotiations. The actual headcount in the years that followed exceeded 100 employees and Funds judged that even with the hybrid working in place a bigger office was still required.

This was reconsidered and approved in the Strategy and Business Plan 2023/24 presented to the Pensions Committee in March 2023. Three options were considered and the expected cost of the new lease, office reallocation and potential dilapidation were approved. The new lease is for 10 years and the lease commitments disclosed in the accounts add up to £3.4million over that period. The payments on the old office total up to £625k and a provision for the onerous contract has been made in the accounts as the Funds are still looking for a sub-tenant to decrease the future financial obligations.

Financial sustainability

Funding Strategy

The Funding Strategy Statement was fully revised at the 2023 Actuarial Valuation and reflects CIPFA guidance: “Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016”. Amendments made reflect changes in legislation which impact employers leaving the fund, as well as changes made in the fund’s strategy for setting contribution rates.

The Funds’ objectives, as set out in the Funding Strategy Statement, are to generate sufficient long term returns to pay promised pensions. This must be balanced with making the scheme affordable to employers now and in the future.

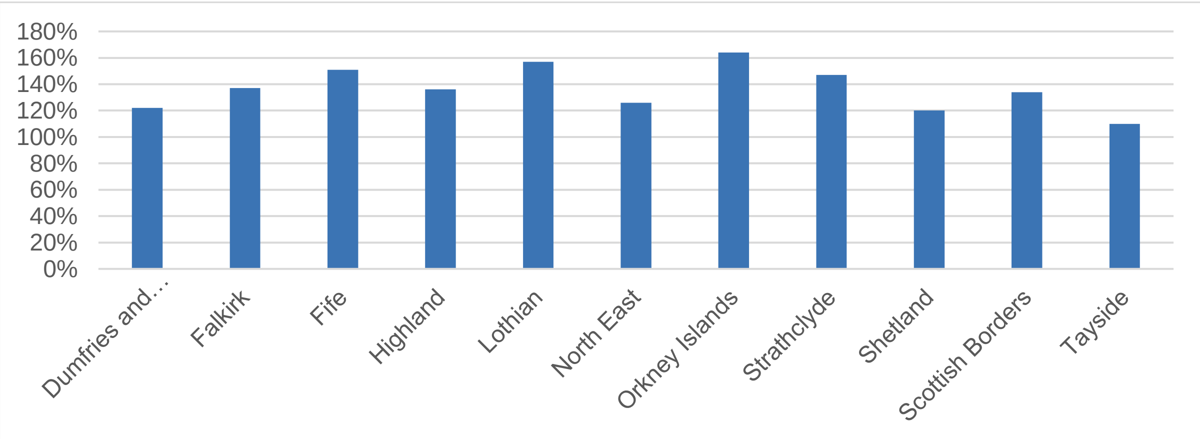
Liabilities will be met by asset returns, resulting from the Investment Strategy, and contributions, resulting from the Funding Strategy. A core funding objective is to maximise asset returns, within reasonable and considered risk parameters, in order to minimise the cost to employers.

Funding levels can be volatile, due to intrinsic uncertainties over asset returns particularly when considered only in the short term.

Actuarial funding levels

The triennial valuation as at 31 March 2023 was finalised in March 2024. The resulting funding of Lothian Pension Fund was 157% compared to 106% in the previous valuation. The main reason for the increase in the funding level is better than expected returns on assets. While the other significant event that occurred between the two valuations was COVID19, its impact through the increased mortality levels was minimal. Compared to other LGPS in Scotland LPF had the second highest funding level.

Exhibit 3 Scottish LGPS funding levels at 31 March 2023 triennial valuation



Source: Unaudited Annual Reports and Accounts 2023/24

The required investment return to be 100% funded is 2.2% p.a. (2.7% p.a. at 2020 valuation). The likelihood of the Fund's investment strategy achieving the required return is assessed as 95% (78% at 2020).

The primary contribution rates have increased from 23.1% to 25% due to a combination of higher prudence in funding plans and higher future inflation expectations at 2023, compared to 2020. Secondary rates have reduced due to strong investment performance since the last valuation.

The funding level of Scottish Homes Pension Fund at the 2023 triennial valuation was 127% (2020: 118%). This improved position is driven by a high rate of the investment returns expected and improvements in life expectancy.

While Scottish Homes Pension Fund holds mainly UK Gilts in line with the Fund's funding strategy, both Funds hold significant cash reserves. For Scottish Homes Pension Fund, this was equivalent to one and a half years' of pension payments. This provides an important buffer against short term market volatility affecting meeting pension liabilities as they fall due. We note that this ratio has decreased from 2.5 years' worth of payments in the previous year.

Investment Strategy

LPF held investments of £10.270 billion as at 31 March 2024, an increase of 6% over the prior year figure of £9.657 billion. Investment strategies are in place for each fund outlining the Fund's approach to ensure that all members and their dependents receive their benefits when they become payable. The investment strategy was updated and approved by the Pensions Committee in March 2024, taking effect from 1 April.

The primary objective of the Funds is to ensure there are sufficient funds available to meet all pension and lump sum liabilities as they fall due. The funding objectives for each 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 each Fund's investment strategy and govern the allocation across various asset classes.

The investment objectives of the Funds 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. Investment returns are generated by a combination of income (from dividends, interest and rents) and gains or losses on capital.

To address different circumstances of employers, LPF offers four distinctive types of strategy:

Exhibit 4 Investment strategy type

Name	Approach	Share of Fund value	Value of assets
Main	Long term and applying exposure to real investments like equities and infrastructure	94%	£9,622m
Buses	Lothian Buses Pension Fund specific	5%	£505m
50/50	A mix of Main and Mature Employer strategies	0.4%	£37m
Mature Employer	Aimed at reducing funding level and contribution rate risks	0.1%	£13m

Source: Investment Strategy Review 2024

Investment strategy going forward

The new strategy approved in March 2024 will change the strategic assets allocations to reflect the results of the latest triennial valuation results (at 31 March 2023). The main changes will be as follows:

- a decrease of investments in Equity group (listed equities, private equities, forward currency contracts, equity futures) from 60% to 55%;
- an increase of investments in Sovereigns group (Index-linked gilts, nominal gilts, gilt futures; overseas sovereign bonds) from 10% to 15%.

The new strategy considers the expected reduction in contributions from the latest actuarial valuation and aims to reduce the overall investment risk by 5% of investments in equities and matching increase in the gilts investment.

Investment Performance

Lothian Pension Fund aims to achieve a return in line with its strategic benchmark allocation over the long term, with a lower-than-benchmark level of risk.

During the year LPF decreased allocations in equities and cash to help increase allocation in gilts. The increase in gilts has been done over the last 18 months with the real yields being more attractive now compared to previous periods. The real assets allocation increased for new infrastructure investments and the allocation in non-gilts declined.

The Fund exceeded the benchmark returns in medium and long term. Annual performance to March 2024 was stronger than in the previous year, with overall annual returns of 5.5% (2023: 0.3%). However, the performance was below the benchmark of 8.8% while maintaining investment in lower risk equities. The summary of the performance is noted in Exhibit 5.

Exhibit 5 – Summary of returns performance for LPF

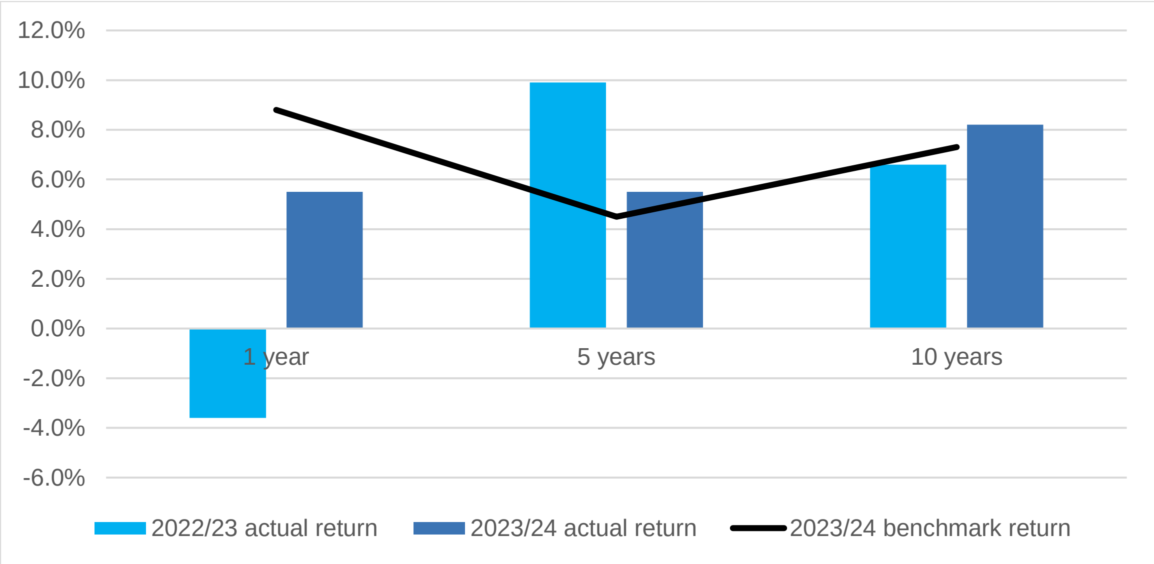
Policy Group	1 year (% pa)		5 Year (% pa)		10 year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	9.4	20.6	8.2	11.6	9.7	11.5
Real Assets	4.6	-9.6	6.4	-6.8	8.4	-0.7
Non-gilt debt	1.8	6.3	1.5	-0.2	5.6	3.0
LDI (Gilts)	-11.1	-11.9	-9.8	-10.0	0.2	0.4
Total return	**5.5**	**8.8**	**5.5**	**4.5**	**8.2**	**7.3**

Source: Annual Investment Update – Lothian Pension Fund

One year performance

Lothian Pension Fund’s annual performance against benchmark and prior year is given at Exhibit 6 below. The returns on equities were positive, but below the market global index (9.4% actual return vs 20.6% benchmark). This is within the context of outperformance in the prior 1-year period, the lower risk equity exposure of the Fund, and the very strong absolute returns of the index which were predominantly driven by a small number of stocks. The Fund had good performance against real assets benchmark (4.6% vs -9.6%).

Exhibit 6: Performance of Lothian Pension Fund against benchmark and prior year



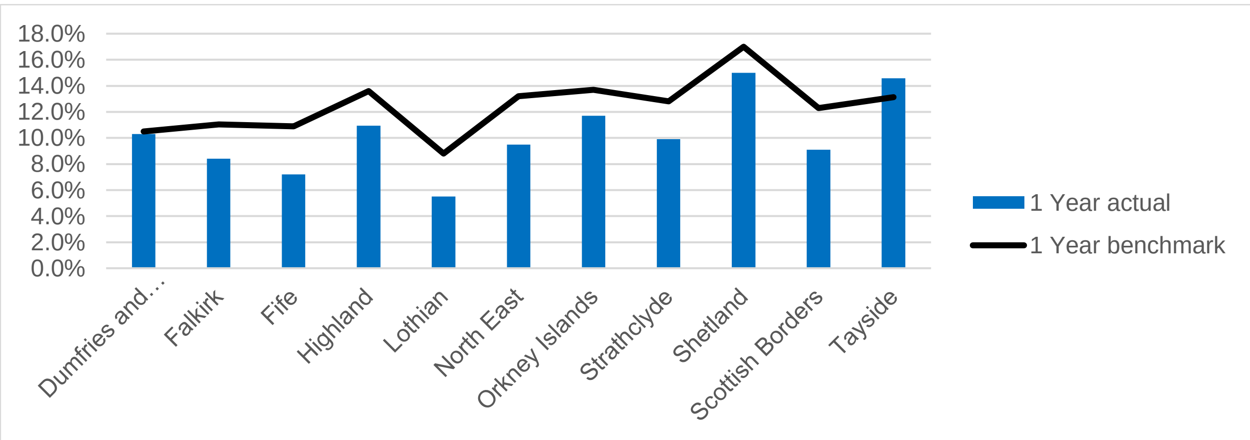
Source: Annual Reports and Accounts

Local government pension schemes annual returns comparison

1 year returns comparison

The Fund reported the lowest annual return in Scotland in 2024 (2023: second highest) and like most of the LGPS' in Scotland it did not meet its annual benchmark target. See Exhibit 7 for Lothian Pension Fund's annual performance against other Scottish LGPS Schemes. This is in the context of LPF having 157% funding level at the latest valuation (second highest in Scotland) and its strategy focus on long term benchmark.

Exhibit 7: Annual return across LGPS Scotland Funds against benchmark



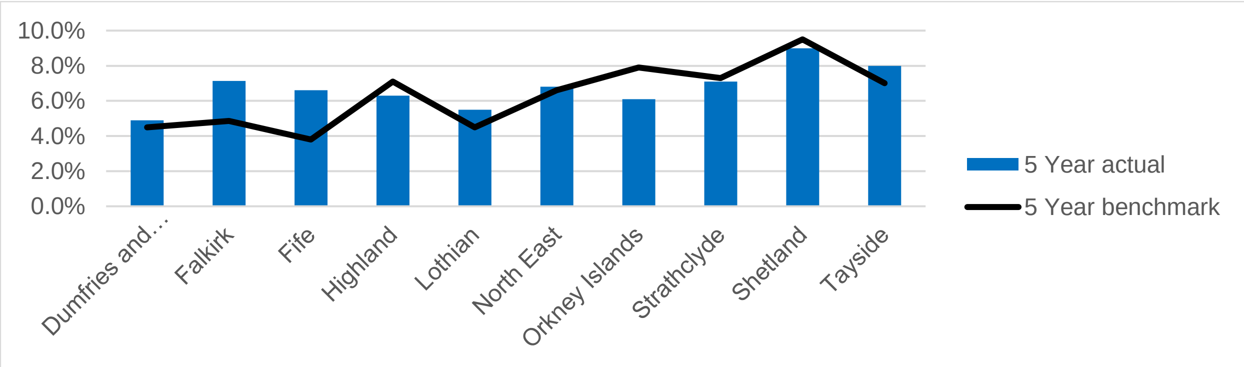
Source: Unaudited Annual Reports and Accounts 2023/24

5 year returns comparison

The 5 year comparison of Lothian Pension Fund's performance against benchmark and other Scottish LGPS Schemes is given in Exhibit 8.

As noted above, compared to the other pension funds LPF was the second lowest in terms of absolute returns in that period. However, like the majority of the LPGS' in Scotland, LPF exceeded its benchmark. While returns on equities were below benchmark, the returns on other types of investments were above, helping to exceed the benchmark overall. We note that these benchmarks across LGPS' are based on many factors individual to investment types, funds and fund managers.

Exhibit 8: Annualised 5 year returns across LGPS Scotland Funds against benchmark



Source: Unaudited Annual Reports and Accounts 2023/24

Vision, leadership and governance

Our detailed findings on the Funds' arrangements are set out below.

Vision

Lothian Pension Fund's Strategy document defines its vision 'to deliver outstanding pension and investment services for the benefit of members and employers'. The strategy document contains further information on the purpose of the Fund and its core values. LPF is striving to be the best LGPS in Scotland, if not the UK, in terms of meeting the needs of members and employers, in using their influence as a leading responsible investor, and offering a superior employment proposition to their employees. The strategy goes into detail on the key goals of the Fund and its more detailed objectives. These are accompanied by financial metrics, headcount, and the other essential components of a comprehensive business plan.

Project Forth

In previous years we have reported extensively on the progress of Project Forth, which considered a potential merger between Lothian Pension Fund and Falkirk Pension Fund. The intention to merge was publicly announced on 24th May 2022.

The aim and business case behind Project Forth was that a merger would result in substantial cost savings, achieve economies of scale and provide a future-proofed best in class governance model fit for the increasing legal and regulatory landscape of the LGPS.

The proposed structure agreed by the Pensions Committee was a joint venture between the City of Edinburgh Council and Falkirk Funds, as administering authorities. This would be a company limited by guarantee holding nominal membership pro-rated to contributing assets.

We noted further delays on progressing with the project and in September 2023 the Pensions Committee decided to re-consider the merger proposal and paused the project until September 2025 when it is due to be re-considered.

At the request of the Pensions Board, in June 2024 Pension Committee reviewed the decision-making process behind pausing the project. The Committee upheld its decision and concluded appropriate governance arrangements were in place when the decision was originally made.

Governance structure

The Pensions Committee has been delegated responsibility for governance of the Funds by the administering authority, the City of Edinburgh Council. The Pensions Committee is supported by an Audit Sub-Committee.

The Pensions Committee's responsibilities, as set out in the City of Edinburgh Council's Scheme of Delegation, include the administration and management of the Funds, including setting the investment strategy.

In line with the requirements of the Public Service Pension Act 2013, the Pensions Committee is supported by a Pensions Board.

The Pensions Board is responsible for establishing arrangements that ensure proper conduct of the affairs of the Funds and meets quarterly on a concurrent basis with the Pensions Committee.

The Funds complied with best practice and appointed an independent professional observer to the Board and Committee.

Due to the specialised nature of the Funds, it is vital that members have the appropriate knowledge and understanding to provide appropriate challenge and operate effectively. Training is therefore seen as a fundamental requirement for all Committee and Board members.

Our review found that all but one current Pensions Committee and Board members met the requirement to have a minimum of 21 hours training. While the LPF Code of Conduct states that these requirements have to be met 'from time to time' we would encourage all the members to fulfil this obligation to allow an effective oversight of the Funds' activities. This is the second year when one of the committee members have not met this requirement and we repeat our recommendation in Appendix 4.

Internal audit work on Pensions Committee effectiveness

We are aware that internal audit is currently finalising their work and report on governance arrangements. This report contains a number of important recommendations regarding efficiency of the Pensions Committee working relationships, training arrangements for its members and Committee management of meetings and performance monitoring and self evaluation. While we do not raise these recommendations in our report to avoid duplication, they will potentially have a significant impact on the work of the Pensions Committee and its governance.

Joint Investment Forum

The Joint Investment Strategy Panel has been replaced by the Joint Investment Forum during the year. The purpose of the change was to define the roles and responsibilities of all stakeholders, distinguishing more clearly between the strategic advisory services provided to Falkirk and Fife pension funds by LPFI, and the advice provided to all three funds by the external advisers to support decisions in relation to investment strategy and supporting investment decision making governance processes.

The Pensions Committee has delegated responsibility for investment strategy to the Executive Director of Resource who takes advice from a Joint Investment Forum made up of:

- the Chief Investment Officer, LPFI Ltd;
- two external independent investment advisers;
- Fife Pension Fund representative;
- Falkirk Council Pension Fund representative.

It meets quarterly and considers the appropriate investment management structure required to implement the Funds' investment strategy. In addition, it is responsible for:

- making recommendations about investment strategy; and
- directing and monitoring strategy implementation and risk.

The primary focus of the forum during 2023/24 has been the implementation and monitoring of existing strategies, asset allocations, the triennial review of investment strategy and the 2023 actuarial valuation for Lothian Pension Fund and Scottish Homes Pension Fund, as well as the implementation of the strategies of the collaborative partner funds.

Special areas considered by the panel in 2023/24 include:

- policy group allocation;
- benchmark and performance;
- portfolio diversification and allocations to private market investments;
- responsible investment principles; and
- consideration of wider economic and political issues.

Lothian Pension Fund continues to operate four investment strategies recognising the different membership profiles and requirements of the admitted and scheduled employers.

Scottish Homes Pension Fund achieved full funding at the 2020 and 2023 actuarial valuations and therefore the strategy is low risk and designed to protect against short term market changes.

Board and senior staff changes

During the year there have been a number of changes to the Board and the senior management team. LPF Board appointed a new chair and appointed a new member representative. LPFE had two new non-executive board members appointed, including the chair of the board, while LPFI has appointed a new chair from the existing non-executive directors. The changes to the senior staff of LPF included a new Chief Investment Officer and a new Chief Finance Officer.

Use of resources to improve outcomes

Our detailed findings on the Funds arrangements are set out below.

Investment Manager Operations

Lothian Pension Fund operates two special purpose vehicles: LPFE Ltd and LPFI Ltd. Both companies are wholly owned are wholly owned and controlled by the City of Edinburgh Council as the administering authority of the Funds.

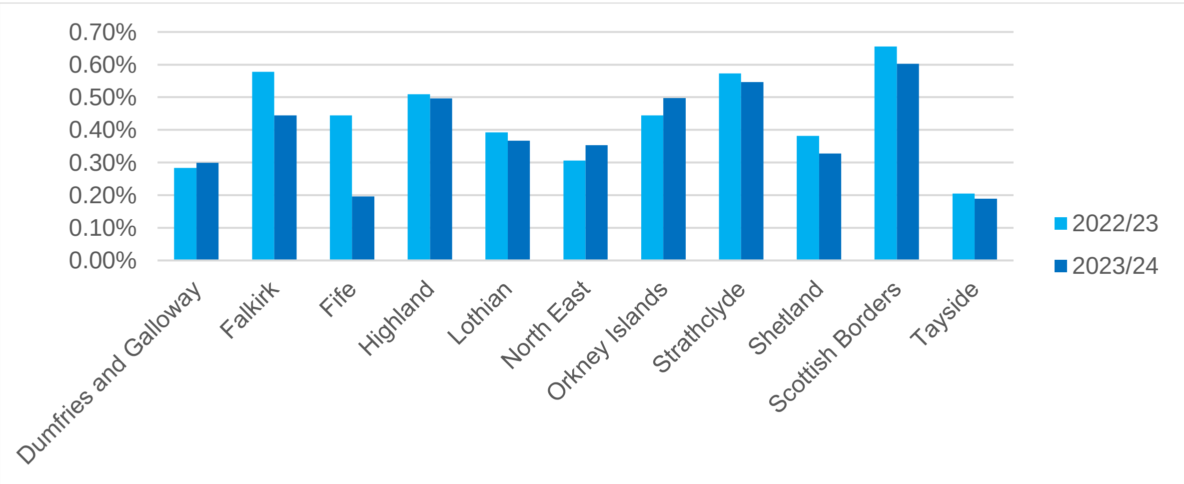
The special purpose vehicles were established to support the investment programme of the in-house investment team by providing organisational arrangements consistent with the capability, systems and controls of authorised investment companies.

In 2023/24, the proportion of funds managed internally remained at c.93 during the year two external fund managers equity portfolio was transferred to an in-house team. . External investment managers are primarily used in the management of corporate bonds.

Lothian Pension Fund reported management expenses of £37.6 million in 2023/24, an increase of 15% on the prior year. Management expenses are split into three main categories: administrative costs; investment manager expenses and oversight and governance costs. Investment management expenses account for 79% of total management expenses.

In year, Lothian Pension Fund's investment manager expenses (excluding indirect expenses) decreased marginally as a proportion of net assets. This is broadly in line with the main trend across the Local Government Pension Funds as shown in Exhibit 9.

Exhibit 9 – Management expenses as a proportion of net assets



Source: Unaudited Annual Reports and Accounts 2023/24

Investment manager expenses can vary due to a number of factors including actual returns on investments increasing the value of assets subject to fees and the nature of the investment assets held.

The Funds include detailed analysis over investment expenses in the 2023/24 Annual Report. Disclosures on investment management expenses exceed the requirements of the CIPFA guidance on cost transparency as LPF consider that the CIPFA methodology would result in under-reporting of indirect management expenses.

The Funds undertake annual benchmarking exercises using externally provided data, covering 30 LGPS funds and a wider global universe of 293 funds. Analysis of investment costs is carried out by an independent provider, CEM Benchmarking Inc.

The benchmarking exercise reported in March 2024 covers investment performance in 2022/23. For this year, Lothian Pension Fund reported an actual investment cost of 0.26% of average assets which was below the benchmark of 0.49%, an equivalent annual saving of circa £22 million.

The Fund credits the strong result against benchmark to two factors. The first is the high percentage of assets managed internally which allows the Fund to control costs effectively. Additionally, the Fund have low exposure to 'fund of fund' investment vehicles.

In relation to the pension administration benchmarking exercise undertaken by CEM, the Funds were categorised as ‘low cost; high service standard’. The Funds’ cost per member was £30.49 compared with a benchmark of £35.42. The Funds had a decreased service score of 68 out of 100 (74 in 2022/23 exercise). This is higher than the median score of 63.

Monitoring investment performance

There is an annual review of investment performance published in June for each of the Funds. The report provides a detailed analysis of each of the Fund’s investment performance against its investment strategy. We concluded that the Pensions Committee and Board Members are engaged in monitoring the performance of investments.

In addition to monitoring at a Committee level, the Funds’ performance is calculated by an external provider on a monthly basis. The external provider compiles information covering monthly, quarterly, and 1, 3, 5, 10 yearly performance measures. This information is presented to the Joint Investment Strategy Panel to allow for scrutiny of the investment performance of the Funds.

Administration performance

The Funds have developed an annual Operating Plan which sets out the strategic aims of the Funds. The aims are supported by performance indicators which are reported to each Pensions Committee meeting as part of the Operating Plan Update.

The annual results for 2023/24 are presented in the Funds' Management Commentary. Overall LPF has seen a significant decline in the administration performance. Performance declined from 2022/23 in 12 indicators, improving in 2. Relative to target, performance was below target for 10 indicators and above target for 4.

Exhibit 10 Administration performance

2022/23		Target	2023/24
97.9%	Proportion of pensions administration work completed within standards – individual performance within this indicator is shown below	Greater than 92%	89.4%
99.7%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	91%	64.6%
98.3%	Acknowledgement of the notification of the death of a member to next of kin within five working days	96%	97.5%
97.4%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	96%	83.7%
100%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service	91%	86.7%
97.4%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	96%	100%
75.8%	Notification of dependant benefits within five working days of receiving all necessary paperwork	96%	24.9%
96.5%	Payment of CETV within 20 working days of receiving all completed transfer-out forms	96%	83.5%
97.2%	Provide new members with scheme information within 20 working days of receiving notification from the employer	96%	98.88%
98.1%	Provide a transfer-in quote within 10 working days of receiving the CETV from member's previous pension provider	96%	52.9%
96.7%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form	91%	84%
98.5%	Notify members holding more than three months, but less than two years' service, of their options at leaving. As there's a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later	85%	86.7%
100%	Produce estimate requested by employer of retirement benefits within 10 working days	91%	82.7%
99.4%	Pay any lump sum death grant within seven working days of re-ceipt of the appropriate documentation	96%	78.8%

Source: Unaudited Report and Accounts 2023/24

The Funds attribute the decline in performance to several factors, including a number of staff changes which left some knowledge gaps and changes in the actuarial factors used in several calculations, leading to a backlog of processing.

In the last 12 months, the Pensions Administration team has been negatively impacted by attrition, parental leave and some of more experienced staff taking up new positions within the organisation.

This reduced the level of resources available to administer all categories of work particularly the more complex cases. The Funds faced challenges in recruiting experienced pensions administrators and entry level trainees required additional support whilst they progressed through a detailed training programme. Team coaches prioritised upskilling sessions to address the knowledge gaps in the teams and to provide ongoing contingency for all customer work types and channels.

This has taken several months and has delivered improvements in performance and for the last 5 months consecutively, the service target of 92% has been met (April 93.4%, May 92.5%, June 94.1%, July 94.3% and August 94.6%) giving a year-to-date result of 93.7%. The Funds continue to monitor resource levels and customer demand to ensure we are actively managing these and have regular knowledge assessments to maintain quality standards.

Appendices

Appendix 1: Responsibilities of the Funds and the Auditor

Responsibilities of the Funds

The Funds have 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.

Area	The Funds' responsibilities
Corporate governance	The Funds are 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 Funds have responsibility for: • preparing financial statements which give a true and fair view of the financial position of the Funds and its group and their 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 Funds. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the Funds and its financial performance, including providing adequate disclosures in accordance with the applicable financial

Area	The Funds' responsibilities
	reporting framework. The relevant information should be communicated clearly and concisely. The Funds are 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 Funds are 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 Funds are 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 Funds are 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 2021 Code came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General 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 Funds 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.

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 https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223

Independence

The Ethical Standards and ISA (UK) 260 require us to give the Funds 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 do not have any matters to not in that regard.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

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

Audit and non-audit services

The total fees charged (with VAT) to the Funds for the provision of services in 2023/24 were as follows:

	Current year £	Prior year £
Audit of Lothian Pension Fund (Auditor remuneration)	88,450	64,360
Pooled cost	3,220	-
Audit support costs	-	2,440
Sectoral cap adjustment	-36,990	-15,210
Total fee	**54,680**	**51,590**

Azets provides accounts preparation, corporation tax services and ad hoc VAT advice to LPFE Ltd and LPFI Ltd which are subsidiaries of Lothian Pension Fund. In 2023/24 non-audit fees are estimated to be c.£6,500 (net of VAT).

The FRC's Ethical Standard stipulates that where an auditor undertakes non-audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We have detailed in the table below the non-audit services provided to both the Funds and the wider group, the threats to our independence and the safeguards we have put in place to mitigate these threats.

Non-audit service	Service provided to	Type of threat	Safeguard
Accounts preparation administration, Xero subscription	LPFE Ltd LPFI Ltd	Self-review	Management retains responsibility for decisions and judgments in preparation of the accounts.
Tax compliance	LPFE Ltd LPFI Ltd	Self-review	Management retains responsibility and judgments in relation to tax services. The services are provided by a team separate to the audit team and directed by a different partner.

Appendix 2: Audit differences identified during the audit

We are required to report any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit.

Adjusted misstatements

We identified no adjusted misstatements during our audit.

Unadjusted misstatements

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

Scottish Homes Pension Fund

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Income Dr / (Cr) £'000	Expenditure Dr / (Cr) £'000
1.	Benefits underpaid (extrapolated)	Cash (0.022)	-	-	Benefits Paid 0.022
	Net impact on 2023/24 (income)/expenditure				0.022
	Net impact on 2023/24 net assets				(0.022)

Appendix 3: Current year recommendations

We have followed up on the progress the Funds have made in implementing the recommendations raised by external audit in previous years.

1. General IT controls	
Finding	Our review of cyber security have not identified any significant issues. Some minor points were identified in relation to clarification of roles and responsibilities, regularity of the policies updates, information asset register quality and testing of its security incident response plan.
Recommendation	We recommend the above points are actioned accordingly.
LPF response	Work to implement the above actions is underway. **Responsible officer: Head of IT & Change** **Target date: 31 December 2024**

Appendix 4: Follow up of prior year recommendations

We have followed up on the progress the Funds have made in implementing the recommendations raised by external audit in previous years.

1. Bank accounts	Action raised in 2017/18
Recommendation	The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require that after 1st April 2011 all pension fund monies are held in a separate bank account to the administering body and that all future monies received are directly to a pension fund bank account. There are a limited number of occasions where LPF needs to issue sales invoices to recover charges made to employers and members. The amounts involved are insignificant in comparison to the value of pension contributions. As the CEC finance system, as currently configured, does not allow LPF to raise sales invoices in its own name, the invoices go out under the name of CEC and payments are collected in a CEC bank account. However, the amounts involved are clearly identified and are held for the benefit of LPF. As regards purchase ledger payments, the CEC finance system, as currently configured, does not allow LPF to pay suppliers directly from an LPF bank account. However, the amounts involved are clearly identified and netted off against the sales ledger receipts mentioned above. Purchase ledger payments exceed sales ledger receipts by a considerable margin and LPF makes regular monthly payments to CEC. In LPF's opinion, the Regulations do not require payments to LPF suppliers to be made directly from an LPF bank account. As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby unfunded benefits are paid to teachers and other people on behalf of employers as part of the LPF pension payroll. Based on LPF's current understanding, there is a danger that if the unfunded benefits were paid directly from an LPF bank account, HMRC could regard such payments as unauthorised. For that reason, all benefit payments are made from a CEC bank account with LPF paying the value of the funded benefits into that bank account and CEC covering the value of the unfunded benefits (the cost being

1. Bank accounts	Action raised in 2017/18
	recovered by CEC via sales invoices to employers). In LPF's opinion, the Regulations do not require payments to LPF pensioners to be made directly from an LPF bank account. We recommend the Funds put arrangements in place to ensure compliance with the regulations.
Implementation date	**As soon as possible**
Complete	**2023/24 update:** Management are now comfortable with the position from CEC regarding funded benefits payments. LPF transitioned to X-Ledger on 1 April 2024 which will allow it to make supplier payments directly from their own bank accounts.

2. User access controls	Action raised in 2017/18
Recommendation	While our audit review in respect of the 2017/18 financial year did not identify any indications of user access being manipulated, we recommend that the Funds' officers in conjunction with City of Edinburgh Council review user access controls for the financial ledger.
Implementation date	**Initial target date March 2019**
Complete	This is an ongoing issue in 2022/23; however, we did not identify any instances where journals were posted by inappropriate users. **2023/24 update:** The transition of LPF to X-Ledger in April 2024 addresses this concern with the Fund in full control of who can access its financial ledger and what privileges they have.

3. Future funding levels	Action raised in 2022/23
Recommendation	The results of the next triennial valuation at 31 March 2023 will be available in 2024. The draft results indicate a significantly increased level of funding, and well above 100%. This could mean potential changes to the employers' membership levels in the scheme, if for example, admitted employers elect to leave the Fund to take advantage of high funding levels. A wide range of implications are possible, including a potential reduction in contribution level required to sustain the fund, to the change of the employer's membership structure, or the administrative support levels required at the Fund. We would encourage Lothian Pension Fund to consider medium- and longer-term implications of the expected triennial valuation results, including potential exits from the fund by smaller bodies, and the impact this will have on the Fund's liability.
Implementation date	**31 December 2023**
Complete	The triennial valuation has been finalised and there has been no significant employers leaving the pension fund and impacting negatively on the fund position.

4. Project Forth	Action raised in 2022/23
Recommendation	After three years of pursuing Project Forth and a merger between Lothian Pension Fund and Falkirk Pension Fund, the project has been put on hold due to lack of clarity over the future of the merger. The Fund will require to assess its strategic vision and consider cost involved in pursuing Project Forth. We recommend that after three years of pursuing the project the Fund makes a clear decision as to its strategic direction and examines the financial cost of Project Forth incurred to date. We would also expect this to be formally reflected in the Fund strategy and operational plans where appropriate.

4. Project Forth	Action raised in 2022/23
Implementation date	**31 December 2023**
Complete	The Pension Committee of LPF made the decision to formally pause Project Forth at the meeting on 27th September 2023. The project will be re-visited in September 2025.

5. Members training	Action raised in 2022/23
Recommendation	Our review found that all, but one, current Pensions Committee and Board members met the requirement to have a minimum of 21 hours training. Lack of training might lead to less efficient oversight and scrutiny of the Funds activities. While the LPF Code of Conduct states that these requirements have to be met ‘from time to time’ we would encourage all the members to fulfil this obligation to allow an effective oversight of the Funds activities. **2023/24** – the same issue was identified in the current year.
Implementation date	**Initial target date 31 December 2023**
Ongoing	The matter has been raised with the member in question and will be escalated to the Pension Committee convenor. The Fund continues to provide training to its committee and board members. Additional resources have been allocated to the Secretariat team which will provide additional support and scrutiny to ensure a standard of knowledge is maintained. A revised training and induction framework will be issued later in the year which will set clear expectations and provide clear guidance on training. **2023/24 update**
	This issue was also noted in the Internal Audit Report on Pension Committee Governance and Operational Effectiveness. A recommendation was made to make Pension Committee member training mandatory. This action has a due date of 30 June 2025.