

A decorative graphic on the left side of the page. It consists of a large blue triangle pointing right, followed by a series of smaller triangles in light grey, green, and blue, all pointing right, creating a sense of movement and depth.

Lothian Pension Fund

2024/25 Annual Audit Report to the Pension Committee
and the Controller of Audit

September 2025

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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 2025. This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	Our independent auditor's report is unqualified in all regards.
Audit approach	Our audit approach has been based on gaining a thorough understanding of the Funds and group's control environment and has been risk based. This included: • An evaluation of the Funds' and group's internal control environment, including the IT systems and controls; and • Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to our key audit risks. We have not altered our audit plan.
Key audit findings	The Funds had effective administrative processes in place to prepare the annual report and accounts. We have obtained sufficient evidence in relation to the significant audit risks identified in our audit plan. The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Audit adjustments	We have not identified any errors requiring adjustment. We identified only small misstatements in the presentation of the related parties disclosures and no unadjusted misstatements in year. This is a decrease in errors from the previous year and is broadly in line with our expectations.

Internal controls

The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of internal control.

Our audit is, therefore, not designed to identify all control weaknesses.

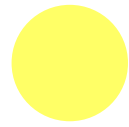
No material weaknesses or significant deficiencies were noted.

Wider scope of public audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	Auditor judgement Effective and appropriate arrangements are in place  Lothian Pension Fund has effective arrangements for financial management and the use of resources supported by a two-year budget up to 2026/27. LPF reported a small net increase in the funds held, SHPF reported a small decrease. Lothian Pension Fund reported a net withdrawal position in dealings with members of £156.3million of which £61.6 million related to the bulk transfer out of the Scottish Fire and Rescue Services members to the Strathclyde Pension Fund. Scottish Homes reported a net withdrawal position of £6.950 million. Annual operating plan updates are provided to each Pensions Committee meeting clearly explaining changes in group performance.
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Financial Sustainability	Auditor judgement	
Financial sustainability looks forward to the medium and longer term to consider whether the Funds are planning effectively to continue to deliver services and the way in which they should be delivered.	Effective and appropriate arrangements are in place	
	LPF has effective 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 short (1 year) medium (5 years) and longer (10 years) investment return benchmarks.	
	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 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 Scope for improvement exists Our review of the conflict-of-interest declarations arrangements confirmed these are adequate in design and operation. We recommend regular review of the Funds' Code of Conduct as it was last updated in 2019. Internal Audit identified one high priority recommendation and a number of medium priority recommendations to improve Pensions Committee effectiveness and working relationships. Implementing these will support the effectiveness of all aspects of the Pensions Committee's governance and operations, including those to avoid conflicts of interest.
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Use of Resources to Improve Outcomes

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

Auditor judgement

Effective and appropriate arrangements are in place



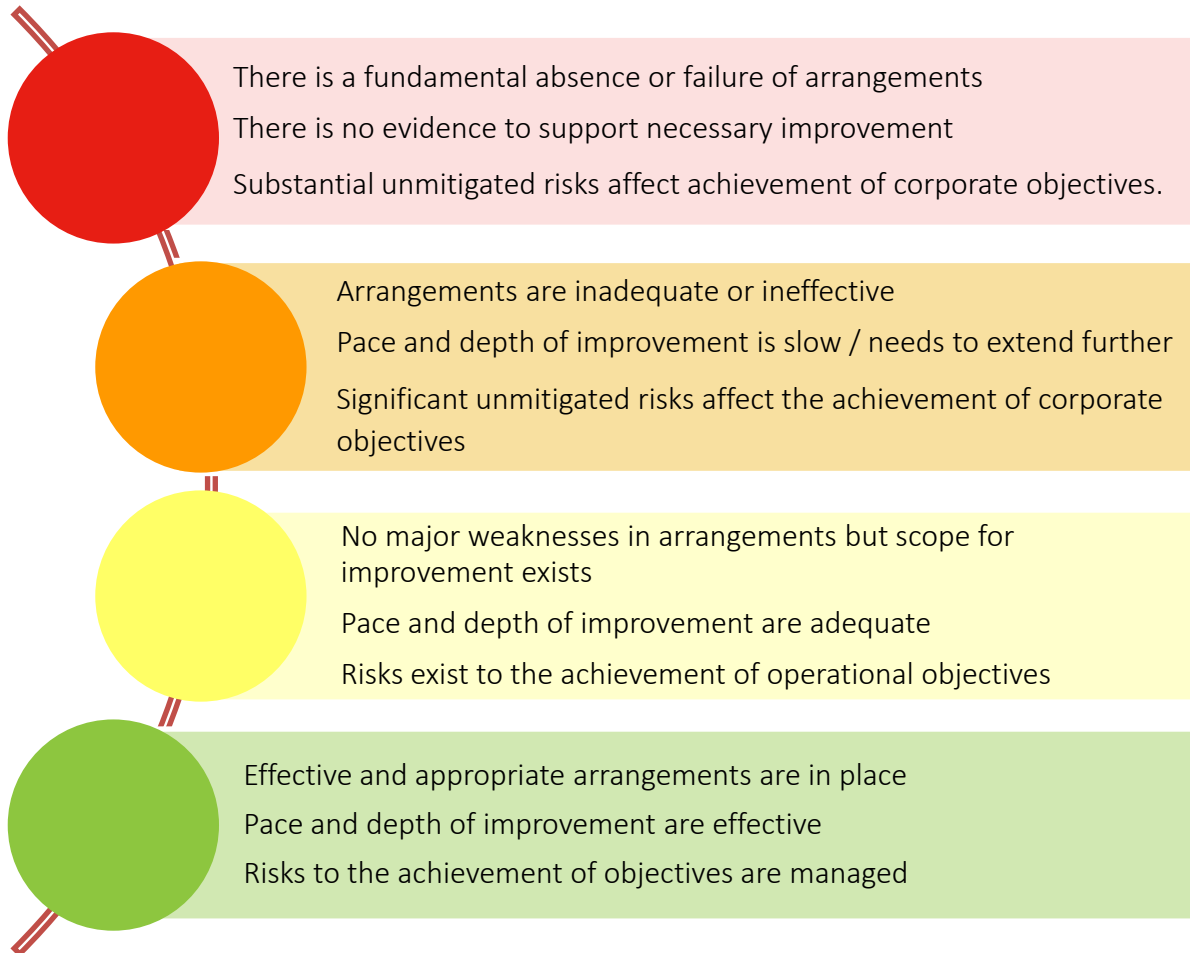
The Funds' investment performance is subject to regular review by the Pensions Committee.

Lothian Pension Fund reported management expenses of £34.8 million in 2024/25, a decrease of 7% on the prior year. The actual investment cost represents 0.24% of average assets which was below the benchmark of 0.49%, an equivalent annual saving of circa £22 million.

Pension administration performance has improved significantly during the year, and all 14 indicators improved when compared to the prior year. Targets for 9 were exceeded, with 5 reported below the target. This is a positive reversal of the prior year's low performance.

Definitions

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.



Introduction

Scope of audit

The annual external audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in Audit Scotland's Code of Audit Practice. [Code of Audit Practice 2021 | Audit Scotland](#)

We outlined the scope of our audit in our External Audit Plan, which we presented to the Pension Committee at the outset of our audit.

Responsibilities

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

We do not accept responsibility for any loss occasioned to any third party acting, or refraining from acting, on 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 our clients demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to

promote improved standards of governance, better management and decision making and more effective use of public money.

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

Openness and transparency

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

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings / conclusions to inform our opinion are set out in this section of our annual report.	The annual report and accounts were considered by the Pensions Committee on 25 June 2025 and were approved by the same committee on 24 September 2025. Our independent auditor's report is intended to be unqualified in all regards.
Going concern basis of accounting	When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise the Funds' functions. Our wider scope audit work considers the financial sustainability of the Funds.	We reviewed the financial forecasts for 2025/26. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Funds will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.
Opinions prescribed by the Accounts Commission: Management Commentary	We 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	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

Opinion	Basis for opinion	Conclusions
- Annual Governance Statement - Governance Compliance Statement - Statement of Responsibilities	materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.	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 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; - The information given in the Statement of Responsibilities is consistent with the financial statements.

Opinion	Basis for opinion	Conclusions
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 parts 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.

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 Pension Committee in March 2025. 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.

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

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

Quality indicators

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

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Quality and timeliness of draft financial statements	Mature	We received the unaudited annual report and accounts of a good standard in line with our audit timetable. Revisions were processed promptly where required.
Quality of working papers provided and adherence to timetable	Mature	Working papers were provided on time and were of good quality. The audit was able to start on time as planned. Audit requests / inquiries were turned around promptly and accurately.
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	We received full access to the finance team and other key personnel. All audit queries and requests were responded to in a timely manner.
Quality and timeliness of the: • Management Commentary • Annual Governance Statement • Governance Compliance Statement	Mature	We did not identify any issues with the timeliness or quality of the information provided in support of those statements.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Statement of Responsibilities As well as the quality and timeliness of supporting working papers for those statements.		
Volume and magnitude of identified errors	Mature	We identified only small misstatements in the presentation of the related parties and no unadjusted misstatements in year. This is a decrease in errors from the previous year but is broadly in line with our expectations.

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 are designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we considered 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 report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

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

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

Risk area	Financial statement / Assertion level risk	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Financial statement	Yes	Assess design & implementation	N/A	Satisfactory
Implementation of new accounting system	Financial statement	No	Assess design & implementation	N/A	Satisfactory
Valuation of level 2 and 3 investments	Assertion level	No	Assess design & implementation	High	Satisfactory
Investment property valuations	Assertion level	No	Assess design & implementation	High	Satisfactory
Disclosure of present value of retirement obligations	Assertion level	No	Assess design & implementation	High	Satisfactory
Fraud in revenue recognition	Assertion level	Yes	N/A	N/A	Income recognised in the Funds' accounts relates to contributions received from member bodies, investment income and transfers in from other pension funds. Given the nature of this

Risk area	Financial statement / Assertion level risk	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
					income, we rebutted this risk.
Fraud in non-pay expenditure recognition	Assertion level	Yes	N/A	N/A	Expenditure recognised in the Funds' accounts relates to benefits payable, payments to and on account of leavers and management expenses. Given the nature of this expenditure, we rebutted this risk.

Significant risks at the financial statement level

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

Risk area	Management override of controls
Significant risk description	Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

Risk area	Management override of controls
	Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. This was considered to be a significant risk and Key Audit Matter for the audit. Risk of material misstatement: Very High
How the scope of our audit responded to the significant risk	Key judgement There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. Audit procedures • Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined the criteria for selecting high risk and/or unusual journals. • Tested high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Funds' journals policy. • Gained an understanding of the key accounting estimates and critical judgements made by management. We challenged assumptions and considered for reasonableness any indicators of bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	We did not identify any indication of management override of controls in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Risk area	Implementation of new accounting system
Significant risk description	From 1 April 2024, the Funds began using a new general ledger system, Xledger. When implementing a significant new accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of data. There is also a risk over the completeness and accuracy of the data transfer made from the previous ledger system into the new one. Inherent risk of material misstatement: High
How the scope of our audit responded to the significant risk	Key judgement We have therefore identified this area as a significant risk with potential impact on all financial statements areas. Audit procedures • Obtained an understanding of the process used for new system implementation. This was done through understanding the effect that the new system had on material business processes by performance of walkthroughs to confirm appropriate design and operation of controls in place. • Reviewed access rights granted to the users of the new ledger for reasonableness in the context of individual staff roles. • Tested data migration activity on the opening trial balance as at 1 April 2024 to understand how the previous year closing trial balance as at 31 March 2024 has been migrated into the new system to ensure completeness and accuracy.
Key observations	We did not identify any issues in relation to the ledger transfer and access rights in place. During our work on reconciling the accounts to the closing trial balances we noted that, similar to the previous ledger (Oracle) system, the investments and related movements are not recorded on the new ledger (Xledger) and come from Northern Trust reports, further reconciled by management. While we have not identified issues with this external information during our audit we recommend all balances and transactions are recorded in the new ledger going forward.

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

Key risk area	Valuation of level 2 and 3 investments (key accounting estimate)
Significant risk description	The Funds held investments of £10.3 billion as at 31 March 2025, of which 21% (£2.2 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. This was considered to be a significant risk and Key Audit Matter for the audit. Inherent risk of material misstatement: Investments (valuation/existence): High
How the scope of our audit responded to the significant risk	Key judgements Funds are required to ensure investments are held at a fair value at 31 March, alongside appropriate additional disclosures. Audit procedures • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the investment managers and the scope of their work. • Evaluated the competence, capabilities and objectivity of the external investment managers. • Considered the basis on which the valuation is carried out and the challenge in the key assumptions applied. • Ensured that the year-end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct. • Substantively tested a sample of level 2 and 3 investments to confirm their values to supporting documentation.

Key risk area	Valuation of level 2 and 3 investments (key accounting estimate)
	Confirmed whether the information used to disclose the values the investments was as at 31 March and considered any differences with this expectation.
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. We note that level 2 and 3 investments valuation at 31 March included in the unaudited accounts were based on the information available at the time of accounts preparation. For some of the investments that meant these were valued at earlier than year end dates. Management provided an updated valuation as at 31 March during the audit based on further information obtained post year end. This resulted in a difference of £16.3 million when compared to the accounts. As this is above our trivial reporting levels, but below our performance materiality and relates to timing differences we do not treat the difference as a misstatement.

Key risk area	Investment property valuations (key accounting estimate)
Significant risk description	LPF hold a portfolio of investment properties which, as at 31 March 2025, was valued at £381.3 million. The administration 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. This was considered to be a significant risk and Key Audit Matter for the audit. Inherent risk of material misstatement: Investment property (valuation/existence): High
How the scope of our audit responded to the significant risk	Key judgements Funds are required to ensure investments are held at a fair value at 31 March, alongside appropriate additional disclosures. Audit procedures • Ensured 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. We reviewed investment property valuations. • Considered the competence, capability and objectiveness of the valuer in line with ISA (UK) 500 Audit Evidence. We reviewed the valuation report and considered the assumptions used by the valuer against external sources of evidence. • Considered the scope of the valuer's work and the information provided to the valuer for completeness. • Substantively tested a sample of valuations to supporting documentation.
Key observations	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.

Key risk area	Investment property valuations (key accounting estimate)
	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	Disclosure of present value of retirement obligations (key accounting estimate)
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the 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, which may result in material misstatement of this disclosure note. Inherent risk of material misstatement: Retirement obligations (valuation): High
How the scope of our audit responded to the significant risk	Key judgements A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability. Audit procedures • Evaluated management processes and assumptions for the calculation of the estimates. • Evaluated the competence, capabilities and objectivity of management's actuarial expert. • Considered the basis on which the valuation was carried out and challenged the key assumptions applied. • Evaluated 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 risk area	Disclosure of present value of retirement obligations (key accounting estimate)
Key observations	The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards assumptions, is estimated to be £5.5 billion. 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.

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 reviewed our assessment of materiality throughout the audit.

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

Group and Funds overall materiality

Our initial assessment of materiality for the group financial statements was £153.10 million. On receipt of the 2024/25 unaudited annual accounts, we reassessed that the group and LPF's materiality levels can remain at the same level. We made the following changes to the SHPF materiality:

- overall materiality has decreased to £1.68 million (from £1.80 million at planning)
- performance materiality has decreased to £1.26 million (from £1.35 million at planning)
- trivial threshold has decreased to £0.08 million (from £0.09 million at planning).

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

	Group £million	Lothian Pension Fund £ million	Scottish Homes Pension Fund £million
Overall materiality for the financial statements	153.10	153.00	1.68
Performance materiality (75% of materiality)	115.10	115.00	1.26
Trivial threshold	7.61	7.60	0.08
Materiality	Our initial assessment is based on approximately 1.5% of the group and Funds' net assets as at 2023/24. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Funds' and the group.		
Performance materiality	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall 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 £16.1 million. On receipt of the 2024/25 unaudited annual accounts, we reassessed that the SHPF materiality levels can remain at the same level. We made the following changes to the group and LPF materiality:

- Group materiality on dealings with members increased to £20.61 million (from £16.10 million at planning)
- LPF dealings with members materiality increased to £20.6 million (from £16.00 million at planning)
- Group and LPF trivial thresholds increased to £1.03 million (from £0.81 million at planning).

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

	Group £million	Lothian Pension Fund £ million	Scottish Homes Pension Fund £million
Overall materiality for the financial statements	20.61	20.60	0.34
Performance materiality (75% of materiality)	15.46	15.45	0.25
Trivial threshold	1.03	1.03	0.02
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' 2024/25 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 the 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

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.

For periods commencing on/after 15 December 2023 the auditing standard for group engagements has been revised. The key changes that are reflected in the audit findings have been outlined below:

- Revisions to the definitions of a group and component now encompass a wider range of group scenarios. This means that a single legal entity could fall under the scope of the group ISA based on its internal structure, while multiple legal entities may sometimes be defined as a single component.
- There is increased leadership responsibilities and involvement requirements for the group engagement leader, particularly when component auditors are utilised.
- In the UK, there is a specific requirement for all component auditors to confirm their ability and willingness to comply with the FRC's Ethical Standard, regardless of their local jurisdiction.
- The analytical/desktop review designation has been removed from the scope of procedures performed over a component in response to risk.

Group audit findings

The following table sets out the components within the group and our audit findings in respect of each component.

Component	Scope	Planned audit approach	Audit findings
Lothian Pension Fund	Full Scope	Full scope statutory audit as set out in this annual audit report	As set out in this annual audit report
LPFE Ltd	None	No group procedures planned, but subject to consolidation examination and separate statutory audits	None
LPFI Ltd	None	No group procedures planned, but subject to consolidation examination and separate statutory audits	None

Full Scope: Design and perform further audit procedures on the entire financial information of the component.

Specific Scope: Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures.

None: No further audit procedures required. However, we perform checks on consolidation workings for the purpose of the group audit opinion.

Risks at the component-level

The risks identified at the Funds are set out in this report. There are no other risks identified in any of the other components above in respect of the Group audit.

Note that a component may require a statutory audit under UK or overseas company law irrespective of whether an audit is required for group reporting purposes.

Audit differences

As noted in Appendix 2 we have not identified any non-trivial differences during our audit. We have noted some minor presentational points, mainly to do with completeness of the related parties disclosures and management amended those.

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

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these at Appendix 3. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Other communications

Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	There were no other significant management judgements which required additional audit work, where there was disagreement over the judgement or where the judgement is significant enough that requires reporting, in addition to those reflected in this report.
Prior year adjustments identified	There were no prior year adjustments identified.
Concerns identified in the following: • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target	No concerns were identified in relation to these areas.

Accounting policies

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

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

The accounting policies, which are disclosed in the financial statements, are in line with the Code of practice on local authority accounting and are considered appropriate.

Presentation and disclosures

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

Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to investments valuations, investment properties valuations and retirement obligations actuarial assumptions.

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

Fraud and suspected fraud

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

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

Non-compliance with laws and regulations

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

Written representations

We issued the final letter of representation to the Funds to sign at the same time as the financial statements were approved.

Related parties

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

Confirmations from third parties

All requested third party confirmations have been received.

Wider scope of public audit

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

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Auditor judgement

Effective and appropriate arrangements are in place



Financial performance 2024/25

The Funds have developed an annual Business Plan which sets out the strategic aims of the Funds. A two-year budget to 2026/27 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' dealings 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.

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's net assets have increased by 1% while SHPF's decreased by 7%.

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 are shown in Exhibit 1.

Exhibit 1 - The Funds' Financial Position

	Net Assets	Present Value of Retirement Benefits
Lothian Pension Fund		
2024/25 (£million)	10,321	5,480
2023/24 (£million)	10,243	7,613
Movement (%)	+1%	-28%
Scottish Homes Pension Fund		
2024/25 (£million)	112	87
2023/24 (£million)	120	95
Movement (%)	-7%	-8%

Source: Lothian Pension Funds Annual Reports and Accounts

Lothian Pension Fund and Scottish Homes Pension Fund reported a net withdrawals position in dealings with members, however LPF's actual withdrawal was double the forecast. The main reason for this difference was a bulk transfer out in relation to Scottish Fire and Rescue Service staff who were transferred to the Strathclyde Pension Fund. This was announced after the LPF budget was prepared, was effective as of October 2024 and the transfer value was £61.6m. Other reasons for the variance include reduction in employer contribution rates resulting from the high overall funding position of 157% and maturing age profile of the Fund translating into a higher number of pensioners.

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

	2024/25 Forecast (original) (£'000)	2024/25 Forecast (revised) (£'000)	2024/25 Actual (£'000)	2024/25 Actual as % of Fund value	Actual 2023/24 (£'000)
Lothian Pension Fund	(77,000)	(143,000)	(156,301)	1.5%	(20,519)
Scottish Homes Pension Fund	Not available	(7,000)	(6,950)	6.0%	(6,825)

Source: Lothian Pension Funds Annual Reports and Accounts

Systems of internal control

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

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

Internal audit

An effective internal audit service is an important element of the Funds' overall governance arrangements. The Funds' internal audit service is provided by the City of Edinburgh Council Internal Audit team. During our audit we considered the work of internal audit wherever possible to inform our risk assessment and our work on the governance statement.

Internal Audit presented a 'reasonable assurance', amber opinion to the Pensions Committee for the year to 31 March 2025 reflecting that assurance activity has assessed the Funds as having a generally sound system of governance, risk management and control in place. Internal Audit work completed during the year identified several issues, areas of non-compliance and scope for improvement which may put at risk the achievement of objectives if not addressed, however management have agreed appropriate corrective actions. The opinion is consistent with the prior year.

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 2024/25 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, including our work on governance arrangements of LPF.

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 2024, with matches received for investigation from January 2025. 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.

Standard procedures

In our opinion the Funds' arrangements in relation to standing orders, financial instructions and the scheme of delegation and prevention and detection of bribery and corruption are adequate.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Funds are planning effectively to continue to deliver services and the way in which they should be delivered.

Auditor judgement

Effective and appropriate arrangements are in place



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 funds’ 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.

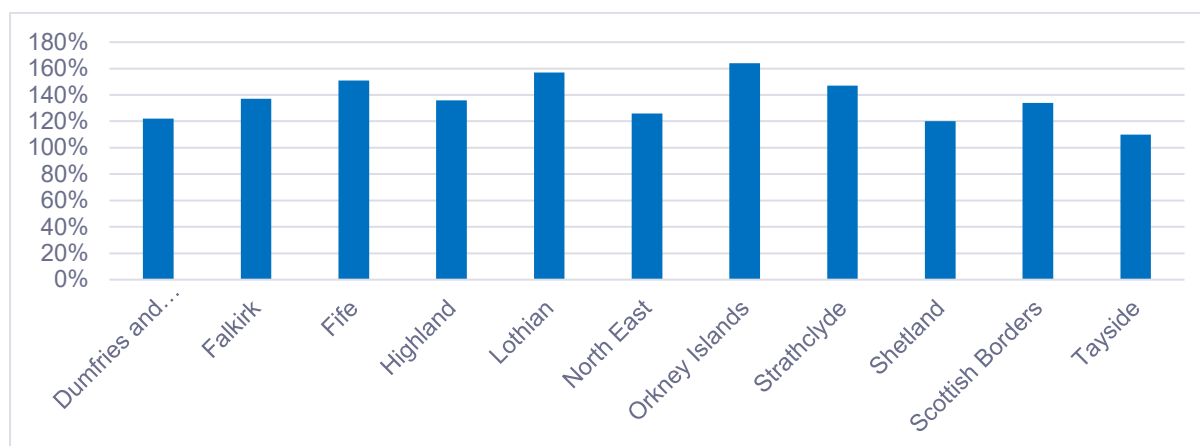
Liabilities will be met by asset returns, resulting from the Investment Strategy, and contributions, resulting from the Funding Strategy. A core funding objective is to maximise asset returns, within reasonable and considered risk parameters, in order to minimise the cost to employers.

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: Annual Reports and Accounts 2023/24

The 2023 triennial valuation stated that 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 taking the overall contributions rate to 17.6% for most of the large employers.

The funding level of Scottish Homes Pension Fund at the 2023 triennial valuation was 127% (2020: 118%). This improved position is driven by high expected investment returns 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. Holding cash can provide an important buffer against short term market volatility affecting meeting pension liabilities as they fall due.

Investment Strategy

LPF held investments of £10.290 billion as at 31 March 2025, an increase of 0.2% over the prior year figure of £10.270 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 2024.

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.

The current strategy changed the strategic assets allocations to reflect the results of the latest triennial valuation results. This strategy considers the expected reduction in contributions from the latest actuarial valuation and aims to reduce the overall investment risk by reducing the investments in equities by 5% and by a matching increase in the gilts investment.

To address different circumstances of employers, LPF offers four distinct types of strategy which have not changed significantly compared to prior year.

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	94.8%	£9,779m
Buses	Lothian Buses Pension Fund specific	4.8%	£493m
50/50	A mix of Main and Mature Employer strategies	0.3%	£29m
Mature Employer	Aimed at reducing funding level and contribution rate risks	0.1%	£12m

Source: Annual report and accounts 2024-25

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 further allocations in equities and exited from the Nordea Global equity mandate leaving internal fund managers team responsible for over 98% of the total investments. In line with the prior year the real assets allocation increased for new infrastructure investments and LPF increased its exposure to sovereigns (gilts).

The Fund exceeded the benchmark returns (before the fees) in short, medium and long term with only short-term returns being below the consumer price index. Annual performance to March 2025 was weaker than in the previous year, with overall annual returns of 2.4% (2024: 5.5%). However, the performance was above the benchmark of 0.8%. The summary of the performance is noted in Exhibit 5.

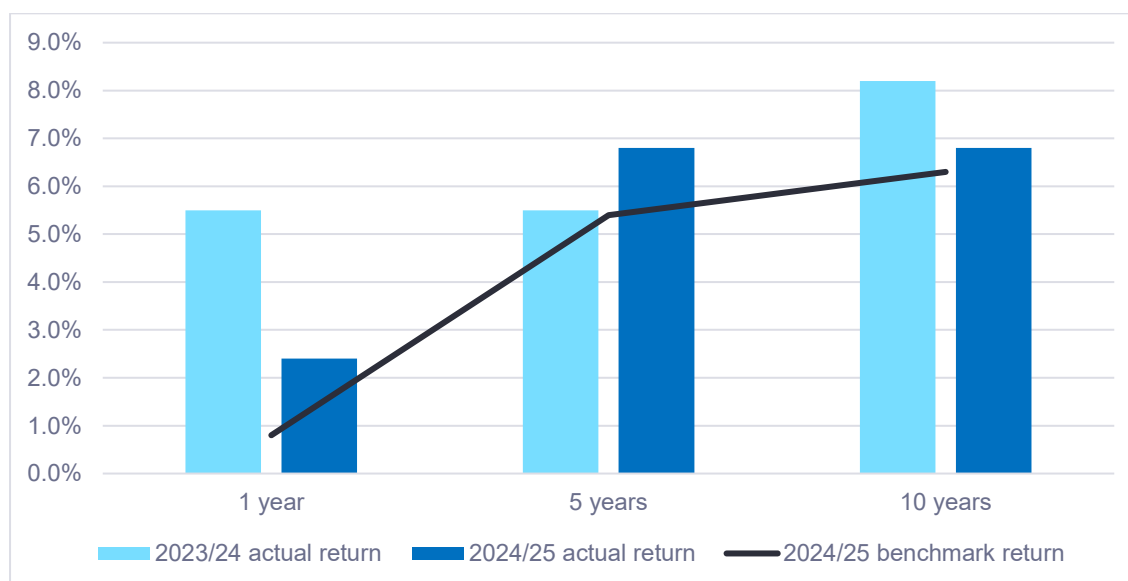
Exhibit 5 – Summary of returns performance for LPF

Policy Group	1 year (% pa)		5 Year (% pa)		10 year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	7.0	4.4	11.9	13.7	8.7	10.1
Real Assets	4.2	3.7	5.9	-6.7	7.7	0.8
Credit (former non-gilt debt)	3.6	2.6	1.5	0.0	3.4	2.0
Sovereigns (former LDI Gilts)	-13.3	-15.3	-12.8	-13.3	-3.3	-3.7
Total return	2.4	0.8	6.8	5.4	6.8	6.3

Source: Annual Investment Update – Lothian Pension Fund

Lothian Pension Fund's performance against benchmark and prior year is given at Exhibit 6 below. The returns on all categories of investments exceeded relevant benchmarks within the one-year timeframe. This is also the case in the 5-year and 10-year periods apart from the equities category.

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



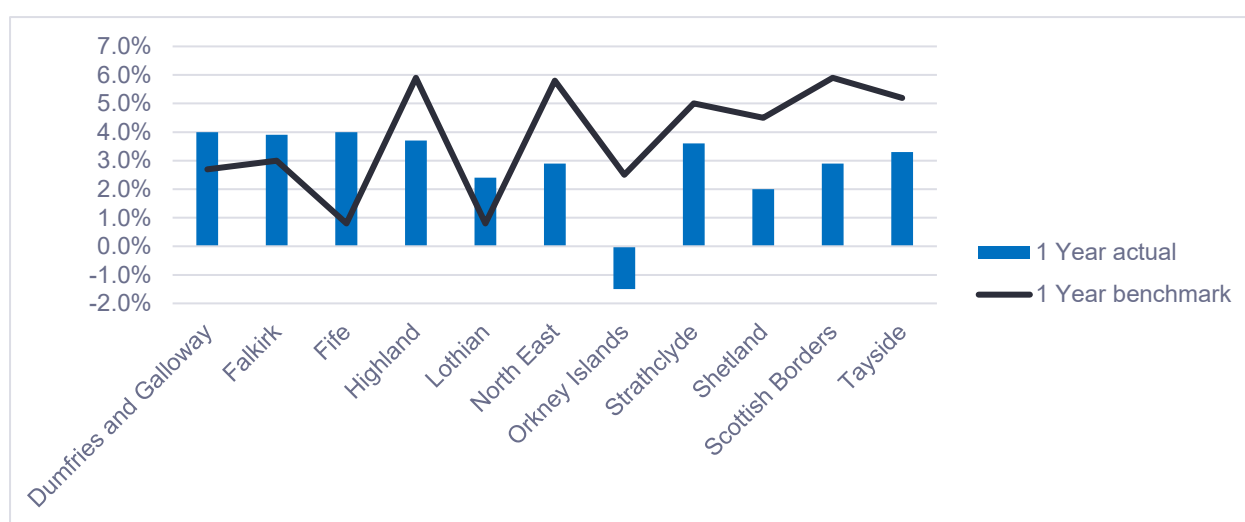
Source: Annual Reports and Accounts

Local government pension schemes return comparison

1 year returns comparison

The Fund reported the third lowest annual return amongst the Scottish LGPS' in 2025 (2024: the lowest), but was one of the four LGPS' in Scotland which exceeded 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



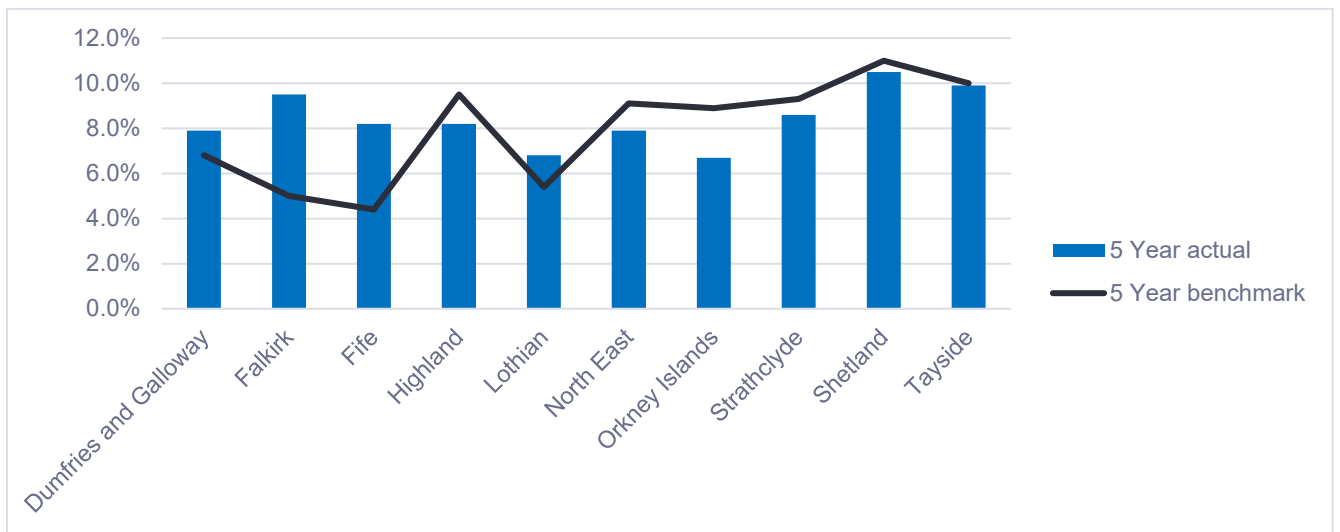
Source: Unaudited Annual Reports and Accounts 2024/25

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.

LPF was among four LGPS' in Scotland which exceeded its 5-year benchmark, while in absolute terms it was the second lowest return. While returns on equities were below its benchmark, the returns on other types of investments were above, helping to exceed the overall benchmark. 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



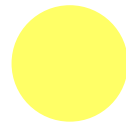
Source: Unaudited Annual Reports and Accounts 2024/25

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

Scope for improvement exists



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.

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 assisting the administering authority in securing compliance with all relevant LGPS regulations and the requirements of the Pensions Regulator 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 two 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 had previously encouraged all the members to fulfil this obligation to allow an effective oversight of the Funds' activities. From the current members only one Board member was not able to fulfil this duty during the year.

Review of conflict-of-interest arrangements

Last year the annual report and accounts sign off was delayed due to a potential conflict of interest consideration. Following that, we have reviewed the arrangements and requirements applicable to Lothian Pension Fund in relation to declarations of interest. In doing that work we have liaised with internal audit, LPF staff and the governance officer for the administering body (the City of Edinburgh Council).

The arrangements are more complex than for other public sector entities as the Funds are subject to a variety of regulatory and legislative frameworks:

- The Pension Committee membership consists of councillors of the administering local authority who are subject to the council's Code of Conduct, but also to the LPF Code of Conduct.
- The councillors are subject to the Standards Commission for Scotland oversight. This public sector organisation also provides guidance and training on how to apply the Codes of Conduct.
- There are Pension Committee members who are not councillors and subject to the LPF's Code of Conduct only.
- Pension funds have a UK-wide regulator – the Pension Regulator, and follow its guidance.
- Pension funds and their trustees have a fiduciary duties to maintain as a part of their responsibilities. Members of the Pensions Committee act as 'quasi trustees' of the Funds.
- LPFI due to its investment management nature is Financial Conduct Authority regulated body subject to the FCA's rules.

We established that there are no significant differences between the administering council's and LPF's codes of conduct and noted that the latter is due for a review as it was last updated

in 2019. Both codes of conduct do not differ when it comes to declaring interests and follow wording from the Code of Conduct for Councillors issued in 2021 by the Scottish Ministers.

It is a committee member's (whether a councillor or not) responsibility to decide whether a potential interest exists which needs to be declared. This decision is driven by the objective test, which is whether a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice a member's performance of their duties in their role as a member.

There is also best practice guidance for councillor members of the Pension Committee, which comes from the Standards Commission for Scotland. This sets out an example where a councillor could go above and beyond existing requirements by making a transparency statement, such as where the objective test has not triggered a declaration and the individual wishes to explain this and why they have not declared an interest. Transparency statements are not a mandatory requirement and not a part of the administering authority's, Scottish Ministers nor the LPF's Codes of Conduct requirements.

Overall, we concluded that the arrangements in place are adequate in design and operation but that LPF's Code of Conduct should be reviewed regularly. In addition, the recommendations in the internal audit report on governance, outlined below, should be implemented.

Internal audit work on Pensions Committee effectiveness

During the year, internal audit reviewed the governance arrangements at the Pension Committee and issued 'a reasonable assurance' opinion. The report identified a number of areas of good practice including defined governance structures, comprehensive terms of reference and standing orders, good attendance records, robust risk arrangements and good support by officers in administration and reporting.

The areas for improvement included a number of medium to low priority recommendations and one high priority recommendation in relation to establishing effective working relationships and encouraging full interaction to ensure a focus on collective priorities. This was based on a survey issued to 21 regular committee attendees and the results indicated that interactions within the committee are not as effective and working relationships are not as harmonious as they could be:

- only 27% stated that there were effective working relationships between committee members, and between the committee and the groups it interacts with;
- only 18% stated that there were effective relationships between the convenor of the committee and key stakeholders;
- only 45% stated that committee deliberations are open and constructive and encourage a high-quality debate with robust and probing questions.

The internal audit report recognises that a harmonious committee does not mean everyone thinking the same but rather that each member considers a range of ideas and concerns.

The medium rated recommendations included development of mandatory training for all Pension Committee members; review of the agenda that committee considers, their complexity and volume; arrangements for the annual performance and effectiveness reviews.

While we do not repeat these recommendations in our report to avoid duplication, implementing them will support the effectiveness of all aspects of the Pensions Committee's governance and operations, including those to avoid conflicts of interest.

Joint Investment Forum

The purpose of the Joint Investment Forum is 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 governance.

The Pensions Committee has delegated responsibility for implementing the 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 2024/25 has been the implementation and monitoring of existing strategies, asset allocations, discussions on market volatility in 2025, consideration of allocation to US government bonds vs UK equivalent, private markets considerations, as well as the implementation of the strategies of the collaborative partner funds.

Special areas considered by the panel in 2024/25 included:

- policy group allocation;
- benchmark and performance;
- consideration of financial markets and impact on investment strategy;
- review of LPFI services;

- 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, Pensions Committee and senior staff changes

During the year there were a number of changes to the Pensions Committee and the senior management team. For the Pensions Committee: one member representative's term ended, one member representative was appointed, two councillors stepped down, two councillors were appointed and one employer representative was re-appointed. LPFI Ltd had one new non-executive director appointed during the year. The senior staff complement remained relatively stable with an existing SLT member taking up the role of chief operating officer during the year.

Use of resources to improve outcomes

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

Auditor judgement

Effective and appropriate arrangements are in place



Performance Management Arrangements

Investment Manager Operations

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

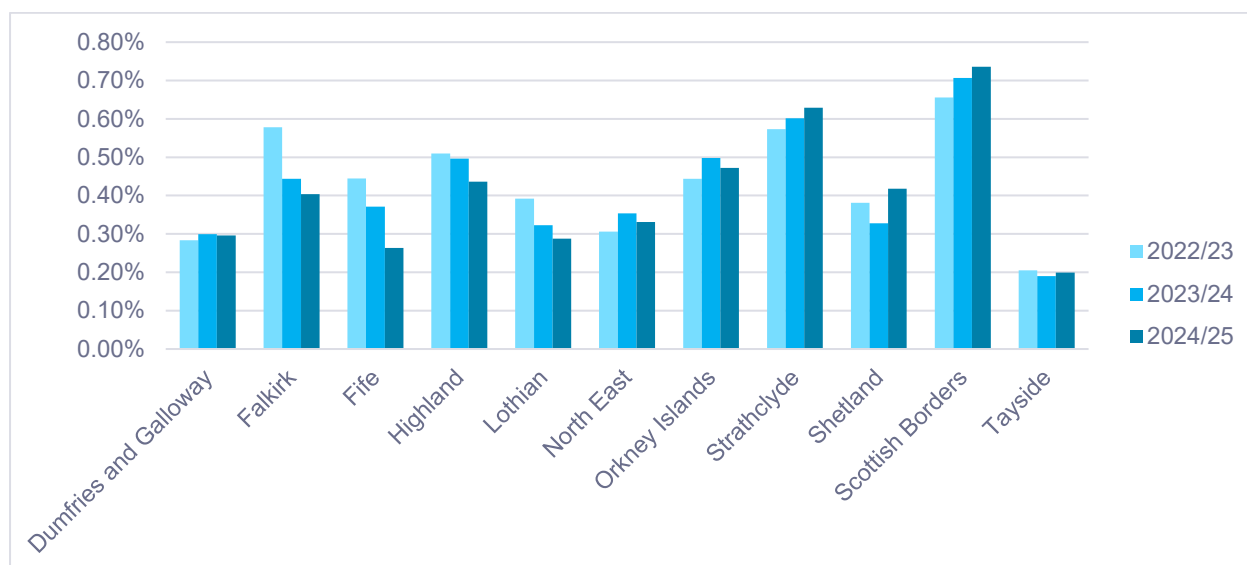
The special purpose vehicles were established to support the investment programme of the in-house investment team by providing organisational arrangements consistent with the capability, systems and controls of authorised investment companies.

At the end of 2024/25, the proportion of funds managed internally increased to c.98% as the Funds exited the Nordea's global equity mandate. External investment managers are primarily used in the management of corporate bonds.

Lothian Pension Fund reported management expenses of £34.8 million in 2024/25, a decrease of 7% 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 74% 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 half of the Local Government Pension Funds in Scotland as shown in Exhibit 9.

Exhibit 9 – Management expenses as a proportion of net assets



Source: Annual Reports and Accounts

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 2024/25 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 295 funds. Analysis of investment costs is carried out by an independent provider, CEM Benchmarking Inc.

The benchmarking exercise reported in March 2025 covers investment performance in 2023/24. For this year, Lothian Pension Fund reported an actual investment cost of 0.24% of average assets which was below the benchmark of 0.49%, an equivalent annual saving of circa £22 million.

The Funds credit the strong result against benchmark to two factors. The first is the high percentage of assets managed internally which allows the Funds to control costs effectively. Additionally, the Funds 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 £33.35 compared with a benchmark of £38.96. The Funds had a slightly increased service score of 69 out of 100 (68 in 2023/24 exercise). This was higher than the median score of 58.

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 2024/25 are presented in the Funds' Management Commentary.

Overall LPF has seen a significant improvement in the administration performance.

Performance increased from 2023/24 in all 14 indicators. Relative to target, performance was above the target for 9 indicators and below the target for 5, which represents a reversal of last year's declining performance.

Exhibit 10 Administration performance

2023/24		Target	2024/25
89.4%	Proportion of pensions administration work completed within standards – individual performance within this indicator is shown below	Greater than 92%	94.7%
64.6%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	91%	84.0%
97.5%	Acknowledgement of the notification of the death of a member to next of kin within five working days	96%	99.9%
83.7%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	96%	96.4%
86.7%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service	91%	91.3%
100.0%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	96%	100.0%
24.9%	Notification of dependant's benefits within ten working days of receiving all necessary paperwork	96%	78.7%
83.5%	Payment of CETV within 20 working days of receiving all completed transfer-out forms	96%	99.3%
98.9%	Provide new members with scheme information within 20 working days of receiving notification from the employer	96%	99.6%
52.9%	Provide a transfer-in quote within 10 working days of receiving the CETV from member's previous pension provider	96%	79.6%
84.0%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form	91%	84.7%
86.7%	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%	94.0%
82.7%	Produce estimate requested by employer of retirement benefits within 10 working days	91%	93.9%
78.8%	Pay any lump sum death grant within seven working days of receipt of the appropriate documentation	96%	80.2%

Source: Unaudited Report and Accounts 2024/25

Last year we reported on a decline in performance which was attributed 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. The Funds were successful in reversing the challenging position via combination of strong recruitment and continued training and development, introduction of members services coaches, and introduction of Clever Nelly, an AI-powered platform that delivers regular, bite-sized questions based on an individual's training history.

The administration team has also continued to work on the backlog of non-key work, particularly aggregations and retirement recalculations, completing over 2,500 of these cases during the year and reducing the backlog of aggregation cases by almost 40%.

Best Value

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

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Appendix 1: Responsibilities of Funds and Auditors

Funds responsibilities

The Code of Audit Practice (2021) sets out the following responsibilities:

Area	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 LPF 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 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

Area	Funds responsibilities
	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 Code outlines the responsibilities of external auditors and it is a condition of our appointment that we follow it.

Our responsibilities

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

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the 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.

Best Value

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

Audit quality

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

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at [Quality of public audit in Scotland: Annual report 2025](#)

Independence and ethics

The Ethical Standards and ISA (UK) 260 require us to report full and fair disclosure of matters relating to our independence.

In particular, 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.

Non-audit services:

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 2024/25 non-audit fees are estimated to be c.£8,800 (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.

Non-audit service	Service provided to	Type of threat	Safeguard
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.

All tax services are provided by an independent tax partner and staff who have no involvement in the audit of the financial statements. The accounts are prepared from trial balances provided by LPFE Ltd and LPFI Ltd and no significant policies, disclosures, adjustments or estimates are decided by Azets. In addition, Azets also iXBRL tag the financial statements for submission to HMRC along with the corporation tax return. This tagging exercise is performed by an individual who is not involved in the audit of the financial statements and involves no management decisions.

We have considered our integrity, independence and objectivity in respect of non-audit services provided and we do not believe there are any significant threats or matters which should be brought to your attention.

We consider an objective, reasonable and informed third party would take the same view.

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.

Contingent fees: No contingent fee arrangements are in place for any services provided.

Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the Funds, senior management or staff.

Relationships: We have no other relationships with the Funds, its directors, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control related areas.

Our period of total uninterrupted appointment as at the end of 31 March 2025 was nine years.

Audit fees

Our 2024/25 audit fee has been agreed with management as £64,930.

Fee element	2024/25	2023/24
Auditor remuneration	£101,380	£88,450
Pooled costs	£2,310	£3,220
Contribution to PABV costs	-	-
Audit support costs	-	-
Sectoral cap adjustment	-£38,760	-£36,990
Total fee	64,930	54,680

We negotiate the audit fee during the planning process. The fee may be varied above the expected fee level by up to 10% to reflect the circumstances and local risks within the body.

The key factors we took into account when setting the 2024/25 audit fee were:

- New ledger migration audit
- Update to ISA 600 Group requirements assessment
- Responses and provision of information to other external auditors in relation to their employer bodies audits
- Additional work for governance arrangements.

The audit fees charged reconcile to the fees disclosed in the financial statements.

Appendix 2: Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management.

Adjusted misstatements

We identified no adjusted misstatements during our audit.

Unadjusted misstatements

From our work completed, we have not identified any unadjusted misstatements over our reporting threshold which require reporting.

Misclassification and disclosure changes

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

We identified some minor disclosure and presentational adjustments during our audit, mainly the completeness of the related parties disclosures which management amended in the final set of financial statements.

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit, which we feel are of sufficient importance to merit reporting.

The recommendations are categorised into three risk ratings:

- Significant deficiency
- Other deficiency
- Other observation

1. Ledger completeness		Other observation
Observation	During our work on reconciling the accounts to the closing trial balances we noted that, similar to the previous ledger system (Oracle), the investments and related movements are not recorded on the new ledger (Xledger) and come from Northern Trust reports, reconciled by management. While we have not identified issues with this external information during our audit, we recommend all balances and transactions are recorded in the new ledger going forward.	
Implication	Additional, off-ledger reconciliation and workings might lead to errors and differences in the accounts. Also, having all information recorded in the ledger will make the preparation of annual accounts more efficient.	
Recommendation	The Funds should record all transactions and balances in the ledger.	

1. Ledger completeness	Other observation
Management response	Although balances from both Northern Trust (NT) and the Funds' direct property mandate are not included within Xledger the information held is an ABOR (Accounting Book of Record) generated on behalf of the Fund. Custom reporting has been produced by NT and JLL (Direct property administrators) facilitating the consolidation of these records with the financial information in Xledger. Specialist software is required to fully record investment transactions within a ledger, this and the additional administrative burden of replicating information provided by NT and JLL means this is not an option actively being pursued by the Fund. However, a review is currently taking place of the best way to manage the year end consolidation process, including the possible submission of high level information from NT and JLL into Xledger so reporting is run directly from the system rather than manipulated in excel. Responsible officer: Jason Koumides Implementation date: 31 March 2026

2. Code of Conduct		Other observation
Observation	We established that the there are no significant differences between the administering council's and LPF's codes of conduct and noted that the latter is due for a review as it was last updated in 2019.	
Implication	The lack of regular reviews of the Code of Conduct can lead to instances of non-compliance with the latest guidance.	
Recommendation	The Funds should review and update the Code of Conduct on a regular basis.	
Management response	Work is currently underway to carry out an LPF Governance Review, which shall (amongst other considerations) consider the Code of Conduct. Recommendations from the Governance Review are expected by 31 December 2025. In any event, a review of the Code of Conduct shall be undertaken and a regular review cadence established. Responsible officer: Kimberley Russell Implementation date: 31 June 2026	

Appendix 4: Follow up of prior year recommendations

As part of our audit work we have followed up on control weaknesses and recommendations either raised in last year's Annual Audit Report or carried forward from prior years.

1. Cybersecurity overview (2023/24 point)	
Recommendation	Our review of cyber security has 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 the security incident response plan.
Implementation date	Initial target date: 31 December 2024 Revised target date: TBC
Status: In progress	Minor points in relation to IT arrangements remain to be addressed.

2.	Members training (2022/23 point)
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 and 2024/25– the same issue was identified.
Implementation date	Initial target date 31 December 2023
Complete	The Fund continues to provide training to its Committee and Board members. A new Knowledge and Development Strategy and revised Training and Attendance Policy were introduced in April 2025 which set out clear expectations on training requirements and, amongst other matters, includes steps to address non-compliance with the minimum training hours requirement. Additional delivery methods have also been introduced (such as a digital learning platform) to support greater flexible opportunities for training.



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