

North East Scotland Pension Fund

2024/25 Annual Audit Report



Prepared for North East Scotland Pension Fund and the Controller of Audit
September 2025

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Key messages

Audit of the annual accounts

- 1 Our audit opinions on the annual report and accounts of North East Scotland Pension Fund were unmodified and confirmed that the accounts were free from material misstatement.
- 2 Audit adjustments required to correct the financial statements have been properly reflected in the audited annual report and accounts.

Wider scope and Best Value audit

- 3 The Fund has broadly effective and appropriate arrangements in place to secure best value and cover the wider scope audit areas i.e. Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
 - 4 Governance could be further strengthened if the administering authority's political groups worked together to fill the long-term vacancies in the membership of the Pensions Committee.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of North East Scotland Pension Fund's Annual Report and Accounts and the wider scope areas specified in the Code of Audit Practice (2021).
2. The Annual Audit Report is addressed to North East Scotland Pension Fund (the Fund) and the Controller of Audit and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. We have been appointed by the Accounts Commission as auditors of the Fund for the 5-year period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, we are independent of the Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on our continued independence from the Fund.

Acknowledgements

4. We would like to thank the Fund and its staff, particularly those involved in preparation of the Annual Report and Accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Conclusions on the Fund's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.

Reporting on the Fund's arrangements for securing Best Value.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the Fund and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on the Fund's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the Fund from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The Fund's responsibilities

10. The Fund has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements for the Fund that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the annual accounts

Main judgements

Our audit opinions on the annual report and accounts of North East Scotland Pension Fund were unmodified and confirmed that the accounts were free from material misstatement.

Audit adjustments required to correct the financial statements have been properly reflected in the audited annual report and accounts.

Audit opinions on the annual accounts

11. The Fund’s annual report and accounts were approved by the Pensions Committee on 12 September 2025 and signed by the auditor thereafter. As reported in the Independent Auditor’s Report, the financial statements give a true and fair view and, in our opinion, are free from material misstatement.

Audit timetable

12. The unaudited annual report and accounts and supporting working papers were received by 1 July 2025 in accordance with the agreed audit timetable.

Audit Fee

13. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £52,250. There have been no developments that impacted on our planned audit work required, therefore the audit fee remains unchanged.

Materiality

14. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

15. Materiality levels for the audit of the Fund were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan. These were reassessed on receipt of the unaudited annual accounts and are set out in [Exhibit 1](#).

Exhibit 1 2024/25 Materiality levels for the Fund

Materiality

Materiality – set at 2% of net assets

£125 million

Materiality

Performance materiality – set at 65% of materiality and acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required. £81 million

Reporting threshold – set at 3% of materiality. £3.75 million

Source: Audit Scotland

Significant findings and key audit matters

16. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the Fund is the Pensions Committee.

17. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

18. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

19. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
1. Fair value classification of investments As set out in Note 18 to the accounts, the valuations of investments require to be classified into three levels according to the quality and reliability of information used to determine fair value. Our review of the classifications identified that the following Level 1 investments should be identified as Level 3 investments: • Insurance buy-in contract £122.4m • Aviva infrastructure income unit trust £84.7m The insurance buy-in is calculated by the actuary using a range of complex assumptions. Aviva's investments are also more restricted and are not based on observable market data as required for Level 1.	There is no impact on the primary statements. Note 16 Financial and Non-Financial Instruments and Note 18 Valuation of Financial and Non-Financial Instruments carried at Fair Value have been amended to reflect the revised classifications.

Significant findings and key audit matters	Outcome
2. Investment balances in the primary statements did not agree with the supporting notes to the accounts. There were differences in the investment balances in the Net Assets Statement and the change in market value of investments reported in the Fund Account when compared with the respective supporting notes to the accounts. The main differences, £40.807 million in the Net Assets Statement and £14.780 million on the Fund Account, existed in the accounts provided for audit which had also been open for public inspection. While these amounts are below our materiality level, it would have been inappropriate to conclude financial statements which do not agree with the supporting notes. Until the matter was investigated, we were uncertain whether the differences were totals or net amounts which might have masked more significant misstatements.	During the preparation of the unaudited accounts, different versions of the financial ledger were used to prepare the primary statements and the notes respectively. The finance team had experienced some difficulties when correcting entries related to prior year issues. While these issues were still being resolved, an extract of the ledger was used to prepare the notes to the accounts which was different to that used to produce the primary statements. The matter has been resolved and an adjustment made to reconcile the ledger and the accounts. This increased Investment assets in the Net Assets Statement and the Profit on Disposal of Investments and Changes in Market Value of Investments in the Pension Fund Account by £42.475 million.

Source: Audit Scotland

Qualitative aspects of accounting practices

20. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the Fund's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

21. The appropriateness of accounting policies adopted by the Fund was assessed as part of the audit. These were appropriate to the circumstances of the Fund, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

22. Accounting estimates are used in number of areas in the Fund's financial statements. Audit work considered the process management of the Fund has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

23. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in [Exhibit 4, \(page 11\)](#).

Disclosures in the financial statements

24. The adequacy of disclosures in the financial statements was assessed as part of the audit. Additional narrative was included in the audited management commentary in relation to the Fund's first Task Force on Climate-Related Financial Disclosures (TCFD) report.

25. Overall, the quality of disclosures was satisfactory but the quality control checks around the preparation of the accounts needs improvement. The significant differences between the primary statements and the notes to the accounts should have been rectified before the accounts were submitted for audit and made available for public inspection. ([Also, refer Financial Management, para 33, page14](#))

Audit adjustments

26. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £3.75 million are outlined in [Exhibit 3](#). There are no uncorrected misstatements to report.

Exhibit 3

Audit adjustments to financial statements

Details	Fund Account		Net Assets Statement	
	Dr	Cr	Dr	Cr
Audit adjustments	£m	£m	£m	£m
1. Adjustment to reconcile the accounts with the financial ledger and correct misstatements arising from the use of different versions of the ledger. (Refer Exhibit 2, Number 2)		(42.475)	42.475	
2. Adjustment to include Q4 actual private equity valuations. (The value in the unaudited accounts is routinely a best estimate, actual valuations are not available until August each year.)	22.700			(22.700)
Net impact – reduction in closing net assets at 31 March 2025		(19.775)	19.775	
Account lines affected - Changes in market value of investments and Investment Assets				

Prior year recommendations

27. The body has made limited progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the Fund and are outlined in [Appendix 1, page 18](#).

Significant risks of material misstatement identified in the Annual Audit Plan

28. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 4](#).

Exhibit 4 Significant risks of material misstatement to the financial statements

Risk of material misstatement	Audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	- Assessed the design and implementation of controls over journal entry processing and tested a sample of journals with a focus on higher risk areas. - Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. - Evaluated significant transactions outside the normal course of business. - Reviewed the arrangements for identifying related parties and associated transactions. - Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.	Based on audit work undertaken, there was no evidence of management override of controls.

Risk of material misstatement	Audit response	Outcome of audit work
Valuation of unquoted investments The Fund holds approx. £6 billion of investments of which £1 billion is held in unquoted private equity/debt and infrastructure assets. These investments are classified as Level 3 financial instruments where at least one input that could have a significant effect on the valuation is not based on observable market data. These investments are independently valued by the appointed fund manager using various valuation techniques that require significant judgement in determining appropriate assumptions.	• Unquoted investment values reported in the accounts were compared with capital statements provided by fund managers to ensure there was no material misstatement. • Changes in the value of investments throughout the year were agreed with Custodian records. • For material investments, the competence, capabilities, and objectivity of the fund managers as management experts were evaluated and their work was assessed as being appropriate audit evidence. • The controls in place between the Fund and the custodian were considered appropriate to provide assurance on the operation of the custodian as a service organisation.	Based on the audit work undertaken, the valuation of unquoted investments is not materially misstated.
Valuation of the promised retirement benefits The Fund's promised retirement benefits under IAS 26 are £4.2 billion at 31 March 2025. There is a significant degree of subjectivity in the estimation of the pension liability as the it is based on the actuary's methodology and specialist assumptions. During the year, the Fund appointed a new actuary and arranged for the transfer of Fund data between the outgoing and incoming actuaries. Any gaps in the data transfer and/or changes in the assumptions used by the incoming actuary could result in material changes to the estimation.	• Review management assurances covering the completeness and accuracy of the data transfer between the outgoing and incoming actuaries. • Evaluate the competence, capabilities, and objectivity of the actuary. • Review the appropriateness of the key data and assumptions used by management for the estimation of the pension liability, and challenge these where required. • Audit Scotland uses PwC as an auditor's expert to inform the planned audit procedures outlined above. The information provided by PwC will be reviewed by the audit team and where required, reflected in planned audit procedures.	Based on the audit work undertaken the estimation of the pension liability is considered to be reasonable.

Wider scope and Best Value audit

Conclusion

The Fund has broadly effective and appropriate arrangements in place to secure best value and cover the wider scope audit areas i.e. Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.

Governance could be further strengthened if the administering authority's political groups worked together to fill the long-term vacancies in the membership of the Pensions Committee.

Audit approach to wider scope and Best Value

Wider scope

29. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

30. Audit work is undertaken across these four areas and a conclusion on the effectiveness and appropriateness of arrangements the Fund has in place for each of these is reported in this section.

Best Value

31. North East Scotland Pension Fund is administered by Aberdeen City Council. As pension funds are not local authorities or separate bodies that fall within section 106 of the Local Government (Scotland) Act 1973, the statutory responsibility for securing their Best Value lies with the administering authority, Aberdeen City Council. A conclusion on the Fund's arrangements is reported in this chapter.

Significant wider scope risks

32. Audit work has been performed in response to the significant wider scope and Best Value risks identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 5](#).

Exhibit 5**Significant wider scope risks**

Significant risk	Planned audit response	Outcome of audit work
Governance At 31 March 2024, there were two long standing vacancies on the committee which continue to exist with no immediate resolution expected as a result of political differences. Members of the committee effectively act as trustees for the benefit of members of the pension fund. There is a risk the vacancies on the committee place significant pressure on its ability to operate effectively and ensure there is appropriate scrutiny of complex activities.	The audit team will: Review the operation of the Pensions Committee, assess the level of scrutiny and challenge undertaken and consider any implications for the governance statements.	- There have been changes in membership during the year due to changes within political groups but the two long standing vacancies still exist. - The committee's business has continued, meetings have been quorate and there has been appropriate scrutiny. With the ongoing vacancies however, the committee is not operating as intended. Steps should be taken to consider other alternatives to strengthen the scrutiny of the committee. (Appendix 1, Follow-up Action Plan, Number 1)

Source: Audit Scotland

Conclusions on wider scope audit**Financial Management**

33. Since August 2024, the Fund has had interim arrangements in place to cover the vacant Accounting Manager role. While there is continuity in terms of officer involvement, the quality of the accounts provided for audit were of a lower standard than in previous years. The main issue identified, as set out at [Exhibit 2, number 2 and para 25](#), took time to resolve and impacted on the time and resources available to complete the audit. We also noted that the quarterly budget update on management expenses is no longer presented to the Pensions Committee.

34. We understand that steps will shortly be taken to commence recruitment to fill the Accounting Manager role on a permanent basis. More widely the structure of the pension fund team will be reviewed in the year ahead with a view to updating job roles and giving greater focus to succession planning. We welcome these plans and will monitor developments during the 2025/26 audit, especially with regard to the support and training needs for a new Accounting Manager.

35. Other than the above matter, we concluded that the Fund's arrangements for financial management are effective and appropriate. Our judgement is evidenced by our findings on the arrangements the Fund has in place. These include:

- a system of internal control that is operating effectively and has no significant weaknesses or deficiencies.

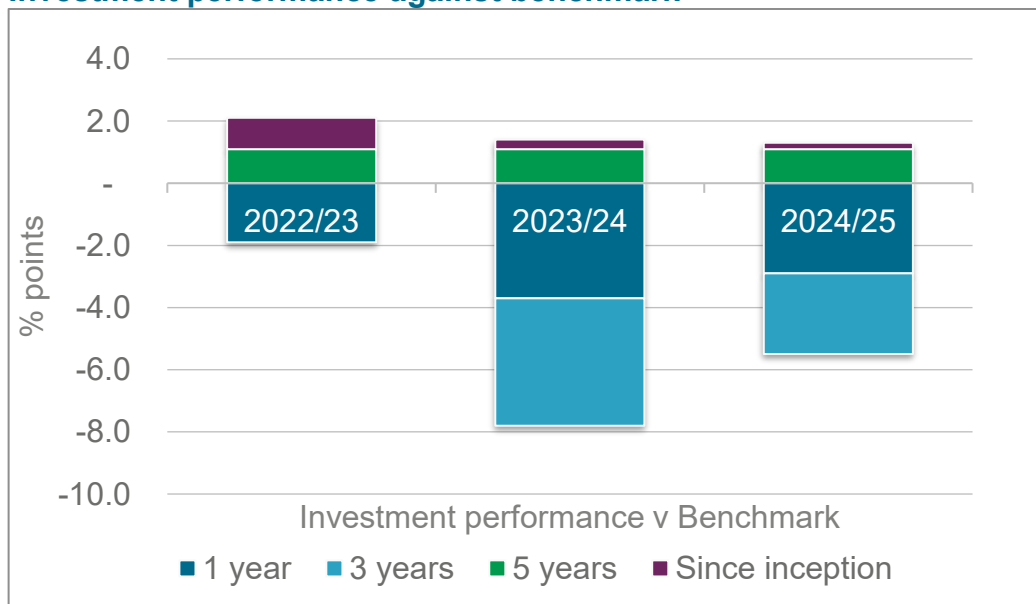
- clear and up-to-date policies and procedures, such as financial regulations and a scheme of delegation.
- counter fraud arrangements and participation in fraud prevention and detection activities such as the National Fraud Initiative.
- effective arrangements for the scrutiny of quarterly investment performance reports by the Pensions Committee.

Financial Sustainability

36. As shown in [Exhibit 6](#), the performance of investments against benchmarks in the short to medium term, i.e., 1 to 3 years has improved since last year while the performance for over 5 years remains the same in the last three years. However, the performance since inception, while still above the benchmark, continues to decline year on year. The Fund monitors its investment structure and rebalances as appropriate to ensure that funds are managed in line with its investment strategy.

Exhibit 6

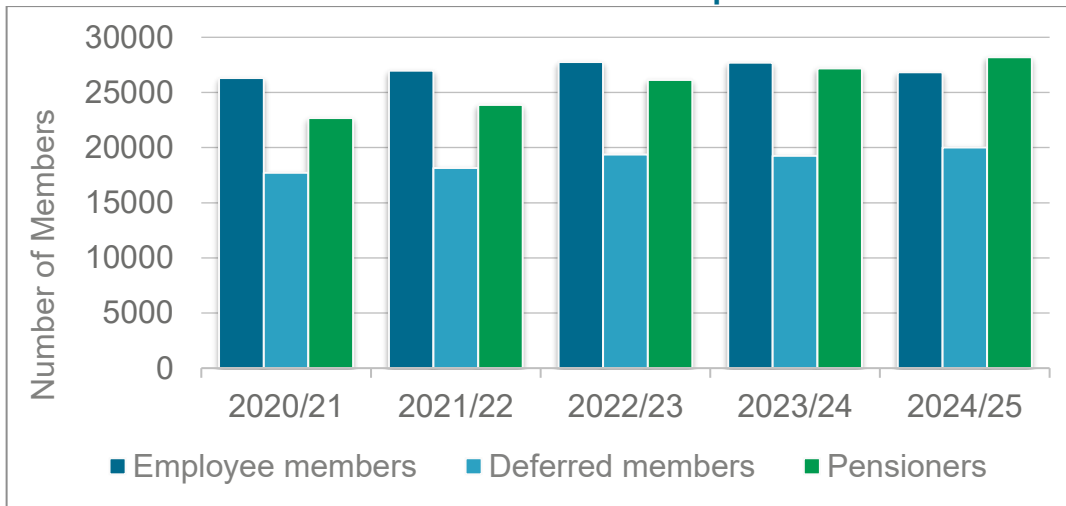
Investment performance against benchmark



Source: North East Scotland Pension Fund Annual Reports and Accounts for FY 2022-25

37. A pension fund provides its members with a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each member's life. It is therefore important that the fund has the capacity and funds to meet its current and future pension obligations to its members.

38. The number of pensioners has been steadily increasing in the last five years while employee membership has shown signs of falling numbers in the last three years. This is reflected in [Exhibit 7](#). In 2024/25, the number of pensioners outweighed active members for the first time. There is a difference of 1,355 or 5.05 per cent. Included in these figures is the impact of the five employers who exited from the fund during the year. This included the Scottish Fire and Rescue Service who decided to combine its pensions interests in one local authority fund and resulted in a transfer of its members and pensioners from North East Scotland Pension Fund to Strathclyde Pension Fund.

Exhibit 7**North East Scotland Pension Fund membership**

Source: 2024/25 North East Scotland Pension Fund annual report and accounts

39. Net cash flow from dealings with members continues to be negative with more paid out in benefits than is received from contributions. In 2024/25, the deficit was £129.5m compared to £78.6m in 2023/24 or a 64.8% increase (in 2022/23 the deficit was £34.3m or a 29.2% increase).

40. The growing gap between the level of contributions coming in and the amount of pensions being paid out is in line with decisions taken following the latest triennial valuation. The 2023 valuation reported that the fund is 126% funded and is therefore in surplus. As a result, fund employers generally agreed a reduction in the level of employer contributions they would be required to pay to the fund for the three years to 31 March 2027. In addition, the fund approved a new funding strategy for the three-year period setting out the approach to be undertaken to increase the level of income-generating investments to cover the increasing gap created by falling contributions.

41. Overall, we concluded that the Fund has effective arrangements in place to secure the financial sustainability of the fund. This judgement is supported by our consideration of the Fund's approach to delivering a full actuarial valuation every three years and the decisions made thereafter, as outlined above, to ensure income levels will be sufficient to meet the liabilities of the fund.

Vision, Leadership and Governance

42. Our conclusions on the Fund's arrangements to provide Vision, Leadership and Governance were reached having reflected on the following factors:

- the Fund has a Service Plan in place covering 2023-26 which is supported by key priorities at Teams level that set out its vision, objectives and the actions required to deliver that vision.
- a six-monthly review is undertaken of the fund's compliance with the Public Service Pensions Act 2013 ("PSPA") and the Pensions Regulator's ("tPR") requirements and related assurances are provided to the Pensions Committee on an annual basis.

- an annual review of the activities of the Pension Board is undertaken.
- effective governance arrangements are in place as reflected in the Fund's Annual Governance Statement.

43. The 2024/25 tPR review was positive and highlighted a number of further improvements which could be made. The findings were in line with the outcome from the Fund's internal governance review activities. For example,

- continuing to develop and utilise Insights Reporting to improve the Fund's analysis and reporting capabilities, facilitating improved monitoring of casework and supporting regulatory compliance.
- continue to review and develop the Fund's Cyber Security controls including further development of its Cyber Incident Response Plan and related training for staff.
- a wider review of the Fund's training policy and best methods of learning and support in consultation with Board members.

44. While we concluded that the Fund has effective arrangements in place, governance would be strengthened if the membership vacancy issue on the Pensions Committee could be resolved.

Use of Resources to Improve Outcomes

45. The Fund has effective arrangements in place to demonstrate its Use of Resources to Improve Outcomes. Earlier in the report, we've commented on the decisions taken by the Fund in response to the triennial valuation. In addition, our judgment has been influenced by:

- the Fund's arrangements to monitor and benchmark its investment performance and hold external fund managers to account.
- regular monitoring and reporting of key pension administration tasks and data quality information against targets.
- Internal audit reviews are generally positive with no major findings.

Appendix 1

Action plan 2024/25

No new actions have been raised in respect of the 2024/25 audit. There are some ongoing issues covered by prior year recommendations.

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
1. Membership of Pensions Committee As a result of political differences, there are two long standing vacancies on the committee with no immediate resolution expected. As trustees, members have fiduciary duties with responsibilities to all fund employers and members and should therefore be operating a politically neutral scrutiny committee.	Aberdeen City Council, as administering authority, should fill the vacancies on the Pensions Committee and members need to work together for the benefit of the fund. Chief Officer Finance and Pension Manager to raise the issues with the relevant parties. December 2024	No change in outcome to report. Chief Officer Finance and Pension Manager to consider other alternatives in consultation with relevant parties. Chief Officer – Finance and Pension Manager December 2025
2. Elected member mandatory training With vacancies on the committee and the need for more engagement in training events, there is a risk the committee is not undertaking appropriate scrutiny of the pension fund's activities.	The programme of mandatory training should be refreshed and sanctions agreed and implemented where agreed training is not undertaken within reasonable timescales. Pension Manager to review mandatory training and agree and remind members of possible sanctions. December 2024	Ongoing Members are regularly reminded of their training requirements. There has been improvement in the year but there are still instances of non-compliance. Pension Manager to explore alternative training options. December 2025

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
3. Monitoring progress against priorities The service business plan does not set out an agreed mechanism for monitoring and reporting progress against key priorities either at fund or service level. There is a risk the fund is not appropriately delivering its priorities.	There is scope to formally track progress against priorities at both fund and service level. Pension Manager to progress Operating Model Review and update service business plan to include a process to formally track performance. 2024/2025	Work in progress The Operating Model Review is subject to review. The intention is to streamline existing plans and develop a single action plan. Pension Manager December 2025
4. Future annual reports The fund will report on its approach to climate risk in its first Task Force on Climate-related Financial Disclosures (TCFD) report due for publication in 2024/25. This provides an opportunity for a more focused consideration of the fund's approach to climate change and related future plans. There is a risk that the Annual Report and Accounts is not transparent about the fund's current activities in this area.	There is scope to review and improve the content of future annual reports where appropriate e.g. approach to climate change. Pension Manager to review content/style of the annual report to ensure capturing changing approaches across the industry. March 2025	Implemented The Fund published its first TCFD report in 2024/25 and included a reference in the Management Commentary within the Annual Report and Accounts.

North East Scotland Pension Fund

2024/25 Annual Audit Report



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