



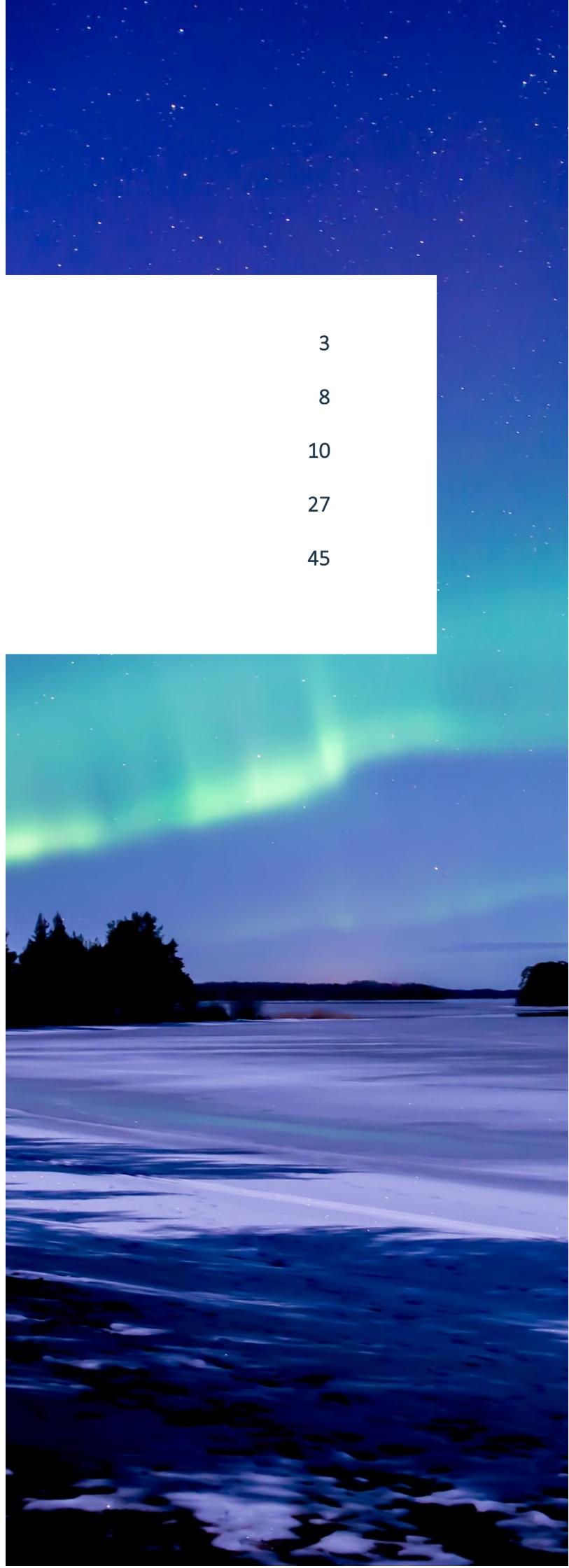
Fife Pension Fund

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

March 2026

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Key messages

This report concludes our audit of Fife Pension Fund (“the Fund”) 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 | <p>Our audit approach has been based on gaining an understanding of the Fund’s control environment and is risk based. It includes:</p> <ul style="list-style-type: none"> • An evaluation of the Fund’s internal control environment, including the IT systems and controls; and • Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to our significant audit risks. <p>We have not altered our audit plan following receipt of the unaudited financial statements.</p> |
| Key audit findings | <p>The Fund had mature administrative processes in place to prepare the financial statements.</p> <p>We obtained sufficient and appropriate evidence in relation to the significant audit risks identified in our audit plan.</p> <p>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.</p> |
| Audit adjustments | <p>We did not identify any material errors requiring adjustment.</p> <p>The Pension Fund updated the financial statements for the following</p> <ol style="list-style-type: none"> 1. Adjustment made to investment management expenses following late receipt of information. |

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| | <p>2. Adjustment to VAT.</p> <p>The adjustments had decreased the closing net assets of the scheme disclosed in the Fund Account by £0.164 million.</p> <p>We did not identify any unadjusted misstatements.</p> |
| Internal controls | <p>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.</p> <p>Our audit is, therefore, not designed to identify all control weaknesses.</p> <p>No material weaknesses or significant deficiencies were noted.</p> |

Wider scope of public audit

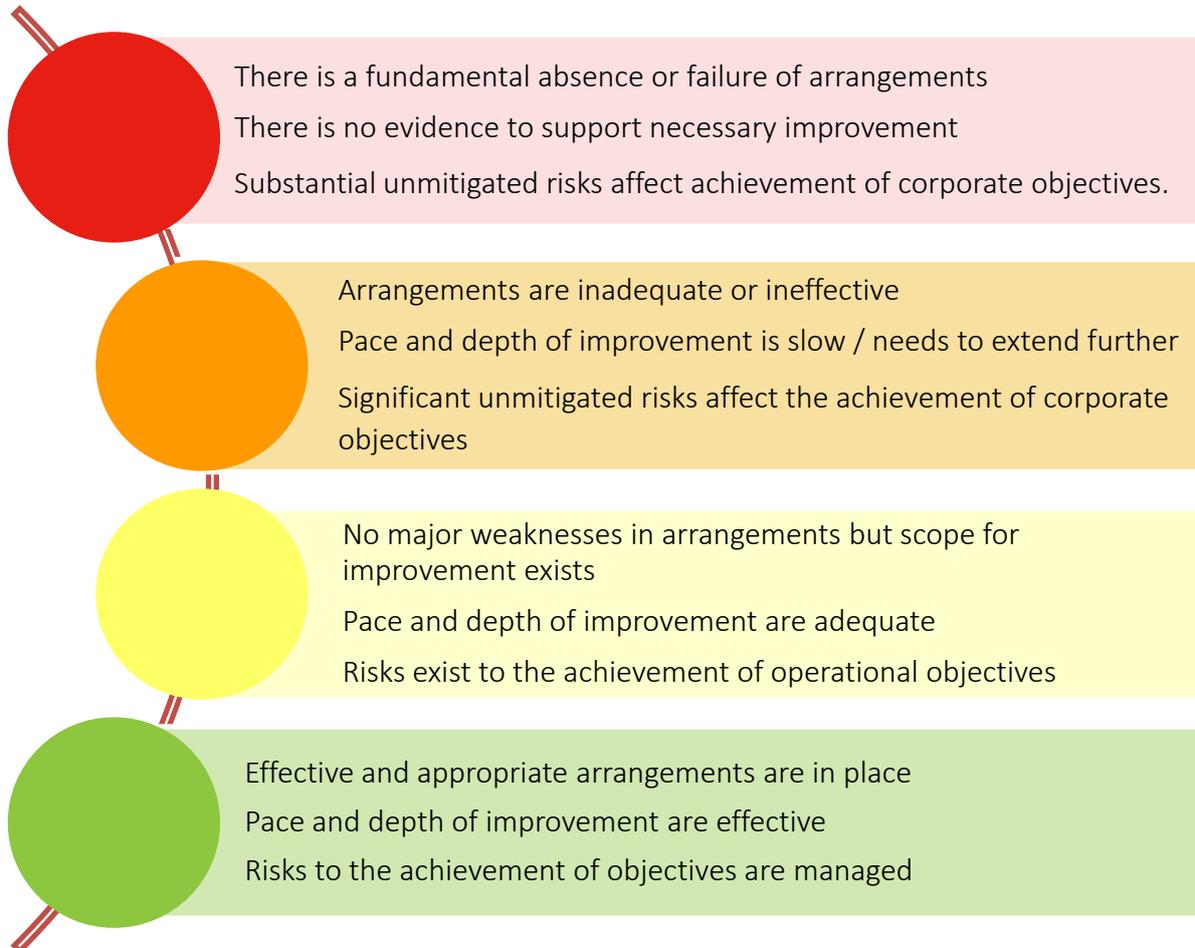
| | |
|--|---|
| <p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p> | <p>Auditor judgement</p> <p>Appropriate arrangements are in place</p> <hr/> <p>Fife Pension Fund has effective arrangements for financial management and the use of resources.</p> <p>In 2024/25, the value of the Fund’s net assets increased to £3.782billion; an increase of £123million on 2023/24. The most significant impact on the outturn position was a favourable change in the market value of investments and higher than expected returns on investments.</p> <p>In 2024/25 Scottish Fire and Rescue Services, a scheduled body, exited the Fund, resulting in a transfer out of £12.8million to Strathclyde Pension Fund.</p> |
| <p>Financial Sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver services and the way in which they should be delivered.</p> | <p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place</p> <hr/> <p>Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability.</p> <p>The triennial valuation as at 31 March 2023 describes a comfortable funding position of 151%. The valuation also sets out that it is 94% likely that the Fund will be 100% funded by the next triennial valuation in 2026.</p> <p>The funding levels reported at the interim valuation in September 2024 were 164%.</p> <p>A significant factor which has affected the funding strategy is better than expected investment returns. This has had a material positive impact on the funding position. Investments returns have been significantly above expected returns.</p> |

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| <p>Vision, Leadership and Governance</p> <p>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.</p> | <p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place</p> <hr/> <p>Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Pension Board and Pensions Committee continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.</p> |  |
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| | | |
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| <p>Use of Resources to Improve Outcomes</p> <p>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.</p> | <p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place</p> <hr/> <p>The Fund has appropriate performance management processes in place that support the achievement of value for money in the use of resources.</p> <p>Annual investment performance to March 2025 was stronger than the benchmark and amongst top two Local Government Pension Schemes (LGPS) in Scotland. Longer term returns over 5 and 10 years are also strong and demonstrate that the Fund has outperformed its benchmark over longer time periods.</p> <p>In pension administration two out of 10 KPIs were met in the year. The relative performance has been increasing when compared to the prior year: six indicators have improved, one remained the same (100% meeting the target) and three have declined.</p> |  |
|---|---|--|

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 Pensions Committee at the outset of our audit.

Responsibilities

The Fund is responsible for preparing its annual report and accounts, including financial statements, 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 | <p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual audit report.</p> | <p>The annual report and accounts were considered and approved for signature by the Pensions Committee on 30 September 2025.</p> <p>We issued unqualified opinions in our independent auditor’s report.</p> |
| Going concern basis of accounting | <p>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.</p> <p>We assess whether there are plans to discontinue or privatise the Fund’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Fund.</p> | <p>We have assessed the going concern assumption. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Fund will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.</p> |
| <p>Opinions prescribed by the Accounts Commission:</p> <ul style="list-style-type: none"> • Management Commentary | <p>We plan and perform audit procedures to gain assurance that the Management Commentary, Annual Governance Statement and the Governance Compliance Statement are prepared in accordance with:</p> | <p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the information given in the Management Commentary is |

| Opinion | Basis for opinion | Conclusions |
|---|--|---|
| <ul style="list-style-type: none"> • Annual Governance Statement • Governance Compliance Statement • | <ul style="list-style-type: none"> • statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary); • the Delivering Good Governance in Local Government: Framework (Annual Governance Statement); and • The Local Government Pension Scheme (Scotland) Regulations 2018 (Governance Compliance Statement). | <p>consistent with the financial statements and has been prepared in accordance with relevant statutory guidance;</p> <ul style="list-style-type: none"> • 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. |
| <p>Matters reported by exception</p> | <p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; • the financial statements are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit. | <p>We have no matters to report.</p> |

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Pensions Committee in March 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 Fund. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

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

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

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

Quality indicators

We have applied a suite of quality indicators to assess the reliability of the Fund’s 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 financial statements 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. |

| Metric | Grading (Mature / developing / significant improvement required) | Commentary |
|---|--|--|
| Timing and quality of key accounting judgements | Mature | We did not identify any issues with the timing and quality of key accounting judgements. |
| Access to finance team and other key personnel | Mature | We had access to all key personnel at Fife Council. All audit queries and requests were responded to in a timely manner. |
| <p>Quality and timeliness of the:</p> <ul style="list-style-type: none"> • Management Commentary • Annual Governance Statement • Governance Compliance Statement <p>As well as the quality and timeliness of supporting working papers for those statements.</p> | Mature | We did not identify any issues with the timeliness or quality of the information provided in support of those statements. |
| Volume and magnitude of identified errors | Mature | There were two trivial adjustments noted through the audit period. These were due to updated late information, rather than indicative of error by management. We have no additional concerns as a result of these. |

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

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

The table below summarises 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 | Risk of material misstatement | Outcome of work |
|---|--|------------|---|-------------------------------|--|
| Management override of controls | Financial statement | Yes | Assess design & implementation | Very High | Satisfactory |
| Fraud in revenue and expenditure recognition | Assertion level | Yes | Income recognised in the Fund's financial statements relates to contributions received from member bodies, investment | Low | We perform separate tailored testing on benefits payable and rebutted this risk. |

| Risk area | Financial statement / Assertion level risk | Fraud risk | Planned approach to controls | Risk of material misstatement | Outcome of work |
|---|--|------------|---|-------------------------------|-----------------|
| | | | <p>income and transfers in from other pension Fund. Given the nature of this income, we rebutted this risk.</p> <p>Expenditure recognised in the Fund’s financial statements relates to benefits payable, payments to and on account of leavers and management expenses. We have assessed benefits payable to be the Fund’s only material expenditure stream.</p> | | |
| Investments valuations of level 2 and 3 investments | Assertion level | No | Assess design & implementation | High | Satisfactory |

| Risk area | Financial statement / Assertion level risk | Fraud risk | Planned approach to controls | Risk of material misstatement | Outcome of work |
|---|--|------------|--------------------------------|-------------------------------|-----------------|
| Disclosure of present value of retirement obligations | Assertion level | No | Assess design & implementation | High | Satisfactory |

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 | <p>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.</p> <p>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.</p> <p>Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Risk of material misstatement: Very High</p> |

| Risk area | Management override of controls |
|--|---|
| <p>How the scope of our audit responded to the significant risk</p> | <p>Key judgement</p> <p>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.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • 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 Fund’s 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. |
| <p>Key observations</p> | <p>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.</p> |

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

| Risk area | Fraud in revenue and expenditure recognition (rebutted) |
|--|---|
| <p>Significant risk description</p> | <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a rebuttable presumed risk in ISA (UK) 240. Income recognised in the Fund’s accounts relates to contributions received from member bodies, transfers in from other pension funds and dividend and interest income from investments.</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Expenditure recognised in the Fund’s accounts relates to benefits payable, payments to and on account of leavers and management expenses. We have assessed that all of those expenditure streams are expected to be material expenditure streams.</p> <p>We do not consider the revenue and expenditure recognition risk to be significant due to a lack of incentive and opportunity to manipulate income and expenditure of this nature and therefore have rebutted this risk.</p> |

| Key risk area | Valuation of level 2 and 3 investments (key accounting estimate) |
|--|--|
| <p>Significant risk description</p> | <p>The Fund held investments of £3.790billion as at 31 March 2025, of which 47% (£1.770 billion) were classified as level 2 or level 3 financial instruments. These level 2 and 3 financial instruments are generally gilts and investment in infrastructure, which are more subjective in their valuation. Valuations of such investments are not based on unadjusted quoted prices in active markets, rather estimation produced by Investment Managers commissioned by management as experts.</p> <p>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</p> |

| Key risk area | Valuation of level 2 and 3 investments (key accounting estimate) |
|--|---|
| | <p>nature of this balance means that any error in judgement could result in a material valuation error.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <p>Investments (valuation/existence): High</p> |
| <p>How the scope of our audit responded to the significant risk</p> | <p>Key judgements</p> <p>The Fund is required to ensure investments are held at a fair value at 31 March, alongside appropriate additional disclosures.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • 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 investments existence is confirmed by third party documentation. • Substantively tested a sample of level 2 and 3 investments to confirm their values to supporting documentation. • Ensured that the year-end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct. |
| <p>Key observations</p> | <p>We have gained reasonable assurance over the valuation of investments at year end and are satisfied that investments and investment transactions are fairly stated in the financial statements.</p> <p>The Fund performed a reconciliation of the year end value of the investments between Northern Trust (the Custodian) report and individual fund managers returns. This identified a difference of £3.7m. The difference relates to timing of when information was received. The Fund confirms that the valuation included in the accounts is materially in line with the internal exercise and that the</p> |

| Key risk area | Valuation of level 2 and 3 investments (key accounting estimate) |
|---------------|---|
| | <p>Custodian’s valuation is appropriate to be used for the preparation of the financial statements on 31 March 2025. As this is a judgment on the use of information to arrive at a best estimate of the valuation of investments, we do not treat the difference as a misstatement.</p> <p>When the financial statements are prepared the level 3 assets valuations at 31 March are not always available and the Fund uses most recent information accessible then. As a part of our work, we identified differences between information used for preparation of the financial statements and more up-to-date information available when the audit was performed. While the extrapolated difference was below trivial threshold we would recommend implementation of post year assessment of such differences by the Fund for all level 3 assets. This is to ensure that no material difference exists at the end of the financial year based on most up to date information.</p> <p>Recommendation 1</p> |

| Key risk area | Disclosure of present value of retirement obligations (key accounting estimate) |
|--|--|
| <p>Significant risk description</p> | <p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the Fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>There is a risk that the data and assumptions used by management’s expert are not appropriate in producing their estimate of the pension obligations, which results in an increased risk of material misstatement of this disclosure.</p> <p>Inherent risk of material misstatement:</p> <p>Retirement obligations (valuation): High</p> |

| Key risk area | Disclosure of present value of retirement obligations (key accounting estimate) |
|--|--|
| <p>How the scope of our audit responded to the significant risk</p> | <p>Key judgements</p> <p>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.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Reviewed the controls in place to ensure that the data provided to the actuary was complete and accurate. • Considered the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreed the disclosures in the financial statements to information provided by the actuary. |
| <p>Key observations</p> | <p>The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 26 assumptions, is estimated to be £2.6 billion.</p> <p>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.</p> |

Materiality

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

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

Fund’s overall materiality

Our initial assessment of materiality for the Fund’s financial statements was £54.80million. On receipt of the 2024/25 unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment.

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

| | Materiality £million |
|---|---------------------------------|
| Overall materiality for the financial statements | 54.800 |
| Performance materiality (75% of materiality) | 41.100 |
| Trivial threshold | 2.740 |

| | |
|--------------------------------|--|
| Materiality | Our assessment is based on approximately 1.5% of the Fund’s net assets as disclosed in the prior year financial statements. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Fund. As set out above, we have not considered it necessary to update this based on current year results. |
| Performance materiality | <p>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.</p> <p>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.</p> |
| 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 was £7.50million. On receipt of the 2024/25 unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment.

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

| | Materiality £m |
|--|-------------------|
| Overall materiality for the financial statements | 7.500 |
| Performance materiality (75% of materiality) | 5.625 |
| Trivial threshold | 0.375 |

Materiality We apply lower materiality for dealings with members, based on the fact these transactions are significant to the Fund’s activities, and it would not be appropriate to apply the assets-based materiality to them. Our assessment is based on approximately 5% of the Fund’s prior year gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance of the Fund. As set out above, we have not considered it necessary to update this based on current year results.

Performance materiality Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

Audit differences

We did not identify any adjustments.

The Fund made two trivial adjustments to the unaudited financial statements. These were in relation to investment management expenses and VAT.

The adjustments are detailed in Appendix 2.

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

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these

in this report. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We did not identify any significant control weaknesses during our audit.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 4.

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 financial statements for signature | There were no other significant management judgements which required additional audit work in addition to those reflected in this report. |
| Prior year adjustments identified | No prior year adjustments were identified. |
| Concerns identified in the following: <ul style="list-style-type: none"> • 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 the appropriateness of the accounting policies adopted by the Fund.

The accounting policies, which are disclosed in the financial statements, are in line with the CIPFA LASAAC Code Practice on Local Authority Accounting in the UK 2024/25 (the 'CIPFA Code') 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 and retirement obligations actuarial assumptions. We determined these estimates to be key accounting estimates. See the section above on "Significant risks at the assertion level for classes of transaction, account balances and disclosures" for detailed findings in relation to key accounting estimates.

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 Pensions Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

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

Non-compliance with laws and regulations

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

The Local Authority Accounts (Scotland) Regulations 2014

As part of our audit we reviewed the Fund's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10¹ as they relate to the financial statements.

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

Written representations

We received a letter of representation from the Executive Director Finance and Corporate Services signed at the same time as the financial statements were signed.

Related parties

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

Confirmations from third parties

All requested third party confirmations have been received.

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

Wider scope of public audit

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

Appropriate arrangements are in place



Financial performance 2024/25

The Fund 's value increased by £123.2million represented by an increase in value of investments of £94.8million (2023/24 increase of £203.9million) coupled with income from dividends and interest of £62.6million (£55.1million in 2023/24).

The Fund recorded a net deficit of £19.3million (£2.9million in 2023/24) from dealings with members. The movement is a result of reduced employer contributions rates, employers exiting the scheme, increased number of pensioners, increased pension payments and an exit payment in relation to Scottish Fire and Rescue Service transfer to Strathclyde Pension Fund.

Exhibit 1 – Financial position

| | £m |
|--|----------------|
| 2023/24 Net Assets | 3,659.2 |
| Movement: | |
| Net deficit from dealings with members | (19.3) |
| Management expenses | (14.3) |
| Income from dividends and interest | 62.6 |
| Taxes on income | (0.5) |
| Gain on capital value of investments | 94.8 |
| 2024/25 Net Assets | 3,782.5 |
| Movement (%) | 3.4% |

Source: Fife Pension Fund Annual Report & Accounts 2024/25

The Fund’s Investment Strategy was revised and updated in March 2024 to reflect the results of the triennial actuarial valuation in 2023. Throughout 2024-25, the Fund made some changes to the investment allocation as it continued to make steady progress on the implementation of the agreed investment strategy towards lower risk equity exposure. Over the course of the financial year the Fund reduced exposure to Blackrock UK (£265million) and State Street RAFI (£62million) and funded the new global Stable Multi-factor (SMuRV) mandate managed by LPFI.

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

The actual investments allocations were within the permitted range at the end of the financial year, with a decrease in Credit and increase in Cash categories noted between the years. Other movements were not significant.

Exhibit 2 – Fife Pension Fund Investment Strategy

| | Revised Strategy March 2024 % | Permitted Range | Actual allocation 31 March 2024 % | Actual allocation 31 March 2025 % |
|-------------------------------|-------------------------------------|-----------------|---|---|
| Equities | 50 | 40-60 | 49.2 | 48.5 |
| Real Assets | 20 | 10-30 | 21.7 | 23.9 |
| Credit (non-government bonds) | 13 | 5-25 | 13.3 | 9.0 |
| Sovereigns (government bonds) | 15 | 5-25 | 14.2 | 16.2 |
| Cash | 2 | 0-15 | 1.6 | 2.4 |
| Total | 100 | | 100 | 100 |

Performance of the Fund for 2024/25 resulted in a net increase in asset value of £123.2million, with the Fund generating returns of 4% and outperforming against its benchmark of 0.8% over the 12-month period.

Longer term returns over 5 and 10 years and from inception demonstrates that the Fund has outperformed its benchmark over longer time periods.

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

Exhibit 3: Investment markets

For the 12 months to 31 March 2025, global equities, as measured by the MSCI ACWI index, returned 4.9% in sterling terms (source: MSCI) with the period characterised by bouts of heightened market volatility. In early August, equities sold off after the Bank of Japan (BoJ) unexpectedly raised rates, with the Japanese index experiencing a 20% fall in a matter of days. Markets subsequently recovered to perform strongly through to the end of the year, following Donald Trump's election to the US presidency in early November. Equity markets remained buoyant into February 2025, before concerns over US trade policy and the potential for stagflation (rising inflation accompanied by weak economic growth) led to notable declines, particularly among technology stocks that had benefited from positive sentiment around AI.

2024 was also a busy year for elections, with plenty of focus on political developments. In early June, the surprise announcement of a French general election unsettled European markets, amid concern around the possibility of strong support for some of the country's more extreme factions. An upset to the status quo was also heralded in the US as Donald Trump became the Republican nominee and subsequently won the US presidential election. In the UK, the near certainty of the outcome made the general election campaign a relatively benign event for UK markets, although the Autumn budget was less well-received. The timing and pace of anticipated interest rate cuts also remained in focus with most major central banks, other than the BoJ, cutting rates over the year.

Government bond prices fell over the year to 31 March 2025 amid rising rates, as UK inflation remained within a narrower range relative to recent history but above the Bank of England's 2% target. The 10-year gilt yield rose from 3.9% to 4.7% amid significant rate volatility, with yields exceeding the levels (4.5%+) experienced during the UK's mini-budget crisis of 2022. The return on the FTSE Gilts All Stocks index return for the year was -1.2%, as coupon income was insufficient to offset the impact of higher yields. Corporate bond credit spreads (the difference in yields between bonds of differing quality) ended the period slightly narrower, having tightened to historic lows in the latter half of 2024 before widening in early 2025, alongside increased equity volatility; UK investment grade credit (iBoxx Sterling Non-Gilts) returned +2.4% over the year (source: Bloomberg). Meanwhile, valuations for unlisted infrastructure and commercial real estate were stable to modestly negative, with positive total returns over the year (+3-5%) driven primarily by income yields.

Looking ahead, investor attention remains focused firmly on US policy, with the ongoing back-and-forth on tariffs leading to elevated uncertainty and accompanying falls in consumer and business sentiment. The US dollar has sold off sharply since trade tensions have escalated with its status as global reserve currency coming under scrutiny, and the oil price has also weakened. Unsurprisingly, the risk of global recession appears to have increased. However, the potential for higher inflation from tariffs means the likelihood of a lower rate environment over the near term remains uncertain. At the same time, US discussions with Ukraine and Russia provide some small level of encouragement that the multi-year conflict there may yet be resolved. As ever, there remain ongoing macroeconomic and geopolitical challenges for market participants to navigate.

Source: Fife Pension Fund Annual Report & Accounts 2024/5; Investment Commentary as provided by LPFI Ltd.

Financial monitoring

The 2024/25 indicative budget and business plan was approved by the Pensions Committee in March 2024. The budget showed a net decrease of £8.2million from dealings with members and a net return on investments of £123.1million, resulting in a projected net increase in the value of the Fund of £162.6million.

As at September 2024, the projected outturn was that the Fund would have a net decrease to the Fund of £26.4million from dealings with members and a net return on investments of £82.3million, resulting in a projected net increase in the value of the Fund of £82.3million.

The year-end financial outturn showed a net increase in the value of the Fund of £123.4million. The most significant impact on the year end position was from gains and increases to market value of the investments and income from dividends. In total these income items were 9.3% below the budgeted estimates, however these are subject to high levels of unpredictability as they depend on market fluctuations.

Net withdrawals from dealings with the members of £19.3million were significantly different from the budgeted position of +£9.7million. Part of it was due to the bulk transfer out of £12.8million which was not known until later in the year and therefore could not have been included in the budget preparation. Another unpredictable part of it was lump sum payments which were £9million higher than budget. After disregarding the above items, the adverse budget variance was £7.2million. From the Pension Fund budgetary control report presented to the Pensions Committee we understand that part of the variance was due to lower contribution levels not being known when the budget was drafted. We recommend that the budget estimates and inputs for the predictable income and expenditure streams are re-examined and improved to allow the members scrutiny of the best possible estimate at the time when the budget is presented.

Recommendation 2

Exhibit 4 – Financial Outturn

| | 2024/25 Budget | 2024/25 Outturn | 2024/25 Variance favourable / (adverse) |
|---|----------------|-----------------|---|
| | £m | £m | £m |
| 2023/24 Net Assets | 3,501.9(*) | 3,659.2 | - |
| Movement: | | | |
| Net additions / (withdrawals) from dealing with members | 9.7 | (19.3) | (29.0) |
| Management expenses | (18.0) | (12.5) | 5.5 |
| Income from dividends and interest | 48.0 | 62.6 | 14.6 |
| Taxes on income | (0.3) | (0.5) | (0.2) |
| Profit / (Loss) in capital value of investments | 123.1 | 93.1 | (30.0) |
| Net increase / (decrease) in the Fund | 162.6 | 123.4 | (39.2) |
| 2024/25 Net Assets | 3,664.6 | 3,782.6 | 118.0 |

(*) At the time of the preparation of the budget the year end position for prior year is only estimated hence the difference to the accounts which had £3,659million. Using the latter figure as a starting point would result in an adverse Net Asset variance of £38.5million as compared to the favourable variance of £118million.

Transfers out

Following Ministerial agreement, Scottish Fire and Rescue Service (SFRS) members were transferred out from all relevant Scottish LGPS Funds to Strathclyde Pension Fund who will manage the pension arrangements for all SFRS employees across Scotland. This transfer was effective from 31st October 2024 with the cash transfer value of £12.8million reflected in the Fund accounts. The outflow is representative of the share of the Fund attributable to those employers, meaning the overall funding position as per above remains at 151%.

There were no other bulk transfers out during the year, and the level of individual transfers in the year was at £5.6million and 20% higher than 2023/24 figure.

Retirement benefits obligations

The present value of the retirement obligations is presented as a note to the financial statements. The liabilities have been projected using a roll forward from the latest formal

fund triennial valuation at 31 March 2023, with no allowance for future unfunded benefits. This movement in the present value of retirement obligations is shown in Exhibit 5. The decrease in the obligation is attributable to the increase in the discount rate between the years which has risen from 4.8% to 5.8%.

Exhibit 5 – retirement benefits

| | Present Value of Retirement Benefits |
|---------------|--------------------------------------|
| 2024/25 (£bn) | 2.648 |
| 2023/24 (£bn) | 2.955 |
| Movement (%) | 10% |

Source: Fife Pension Fund Annual Report & Accounts 2024-25

Systems of internal control

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

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

Prevention and detection of fraud and irregularity

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

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Fund is 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 primary objective of the Fund is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. The Funding Strategy Statement expresses the funding objective, which informs the investment strategy. The Funding Strategy Statement is reviewed at least triennially and last reviewed in March 2024.

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

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

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

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

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

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

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

Indicative budget for 2025/26

An indicative budget has been developed for 2025/26 (Exhibit 6). The budget has been developed using previous years trends of expenditure which have been adjusted to reflect the revised employers' contribution rates, estimated levels of pay awards and estimated levels of pension increases. The return on investments were set at levels as per the 2024/25 indicative budget.

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

| Exhibit 6: 2025/26 Indicative Budget | 2025/26 Budget £m |
|--|----------------------|
| 2024/25 Net Assets | 3,694.0 |
| Movement: | |
| Net additions/ (withdrawals) from dealing with members | 5.0 |
| Management expenses | (18.0) |
| Income from dividends and interest | 69.0 |
| Taxes on income | (0.3) |
| Profit / (Loss) in capital value of investments | 131.7 |
| Net increase / (decrease) in the Fund | 187.3 |
| 2025/26 Net Assets | 3,881.3 |

Source: Fife Pension Fund – Business Plan 2025-26

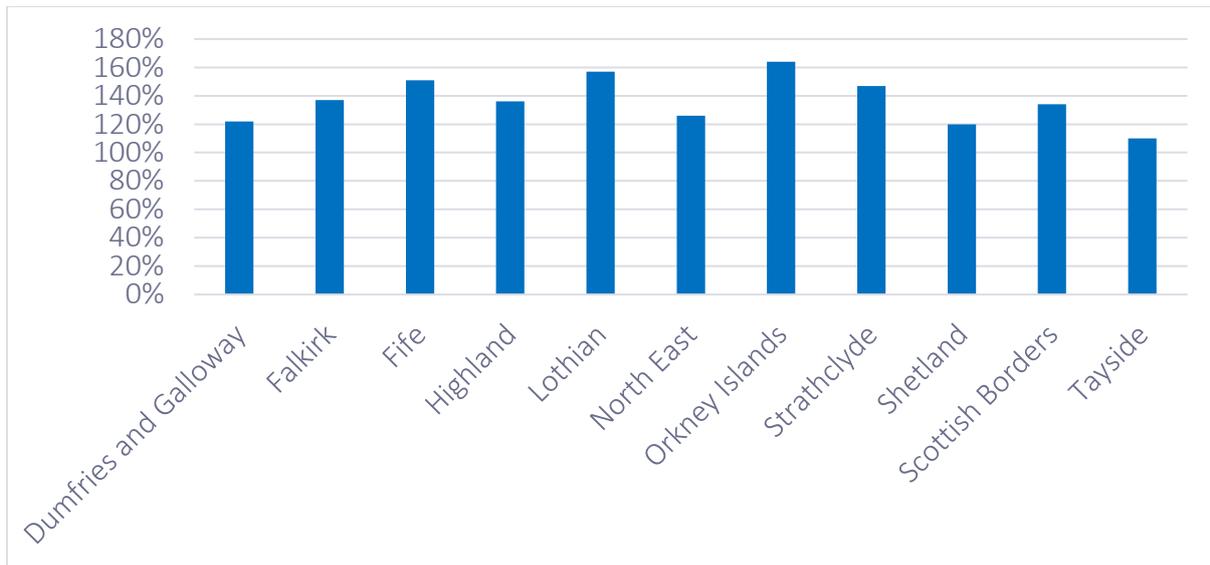
Long term funding - actuarial funding levels

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

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

Fife Pension Fund had the third highest funding level in LGPS in Scotland at 2023 triennial valuation as shown in the Exhibit 7 below.

Exhibit 7: Scottish LGPS funding levels at 31 March 2023 triennial valuation



Source: Pension Funds Annual Report & Accounts

The primary contribution rates as per the triennial valuation have decreased from 25.6% to 22.1% due to a combination of higher prudence in funding plans and higher future inflation expectations for 2023, compared to 2020. Secondary rates have also reduced to -0.8% due to strong investment performance since the last valuation. Both rates combined give the total contribution level at 21.3%.

The funding levels reported at the interim valuation in September 2024 were 164%.

Vision, leadership and governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Auditor judgement

Effective and appropriate arrangements are in place



Strategy and business model

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

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

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

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

Governance arrangements

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

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

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

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

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

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

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

Meetings of those charged with governance

Throughout 2024/25, the Fund has maintained all aspects of fund governance including its regular schedule of meetings.

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

Governance compliance

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

In its 2024/25 Governance Compliance Statement, the Council, as Administering Authority, reported that it is compliant with all principles with the exception of training where partial compliance is recorded. Partial compliance is recorded because not all members of the committee have complied with the policy and completed the minimum training requirement required by the policy.

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

Internal audit

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

During 2024/25 the following assurance reviews were undertaken:

- Follow up Review of Governance, Oversight and Scrutiny.
- Stakeholder Communication.
- Business Continuity Planning.

The annual internal audit report was presented to the Pension Committee in June 2025. This report confirmed that the annual programme of internal audit work had been completed and that reasonable assurance can be placed upon the adequacy and effectiveness of Fife

Pension Fund's framework of governance, risk management and control for the year to 31
March 2025.

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



Monitoring investment performance

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

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

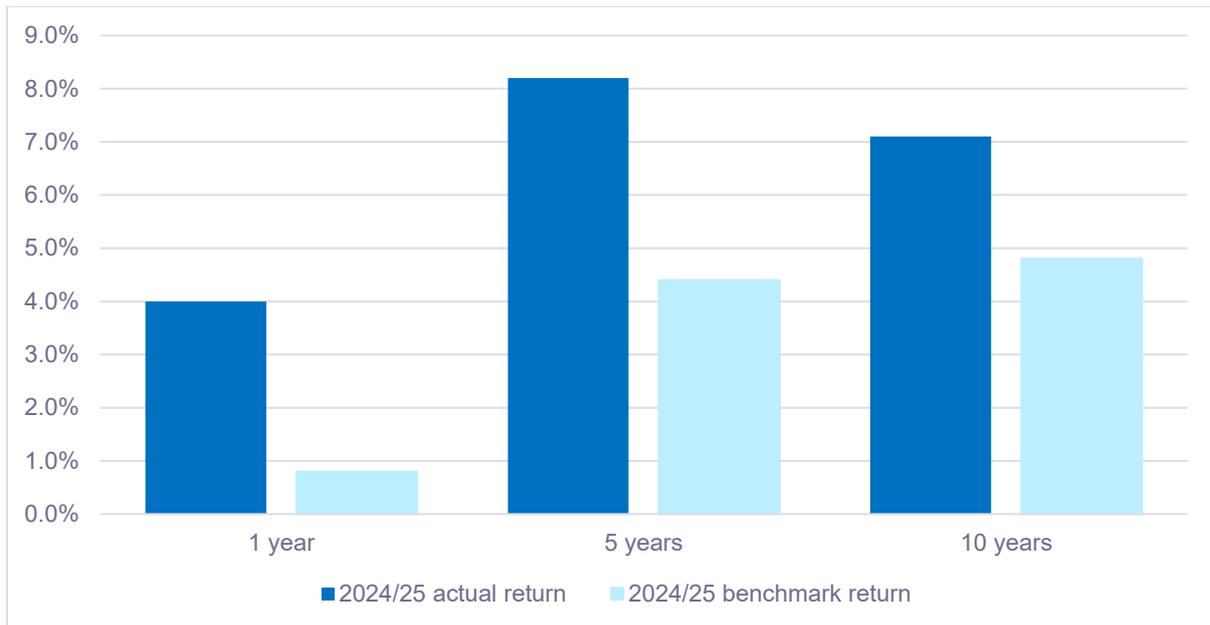
Through our review of committee papers, we are satisfied that there continue to be effective scrutiny, challenge and informed decision making through the year.

Fund performance

Fife Pension Fund annual performance

Annual return on investment to March 2025 was 4.0% and above the benchmark for the year of 0.8% and below the prior year's performance of 7.2%. Medium- and long-term returns over 5 and 10 years demonstrate that the Fund has outperformed its benchmark over longer time periods. Long-term performance is the key measure of the Fund's main objective and of its financial sustainability. The Fund's performance against benchmarks are given at Exhibit 8.

Exhibit 8: Performance of the Fund against benchmarks

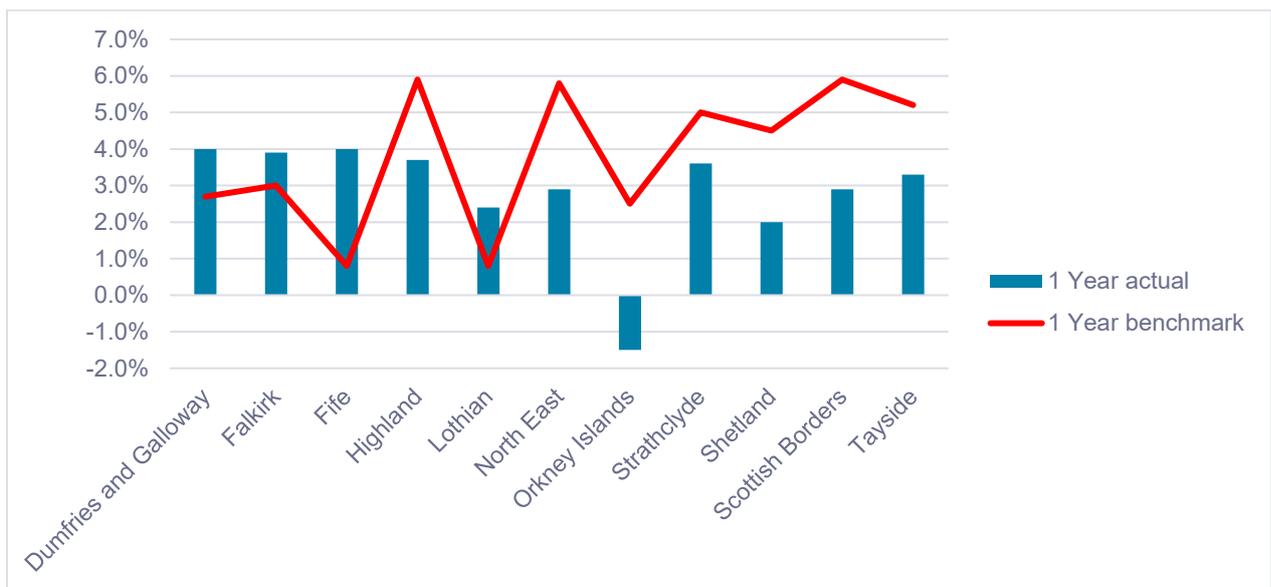


Source: Fife Pension Fund Annual Report & Accounts 2024/25

Annual returns comparison

The Fund was one of the two funds in Scotland achieving the highest annual return in Scotland in 2025 and it exceeded its benchmark target. See Exhibit 9 for Fife Pension Fund’s annual performance against other Scottish LGPS.

Exhibit 9: Annual return across LGPS Scotland Funds against benchmark

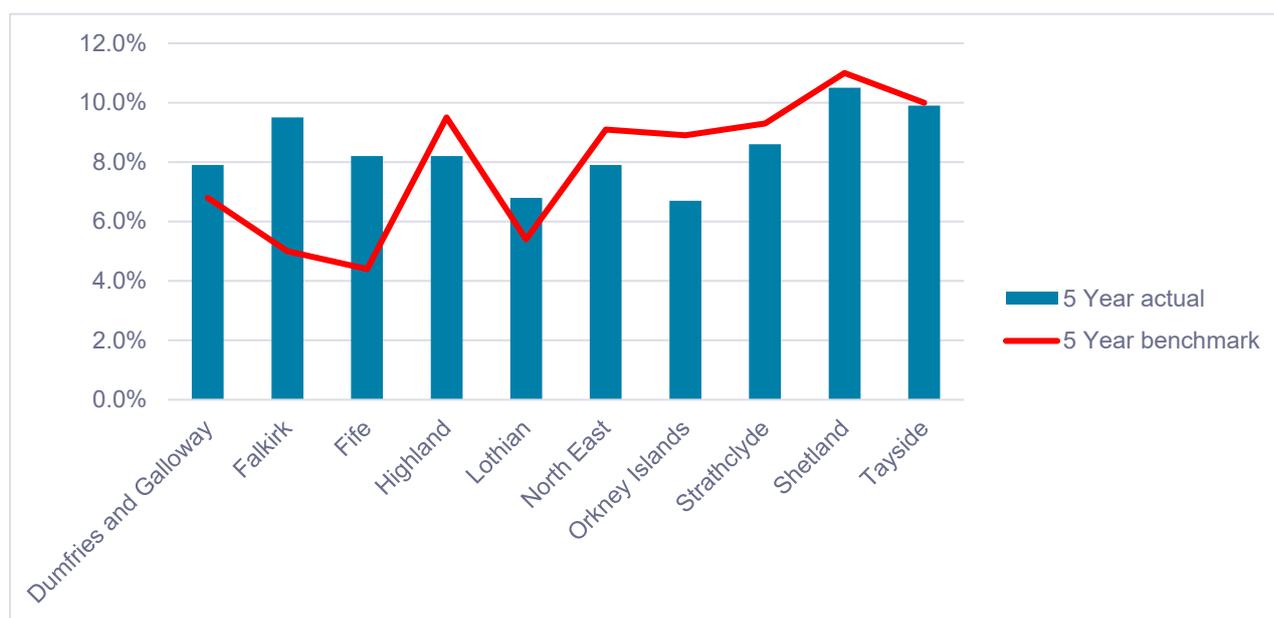


Source: Unaudited Annual Report and Accounts for LGPS Funds

5 year returns comparison

Comparison of the Fund’s performance against other Scottish LGPS Schemes is shown in Exhibit 10. Compared to the other LGPS, was the equal fifth highest in terms of absolute returns in the 5 year rolling period. Fife Pension Fund exceeded its benchmark, similar to around the half of the LGPS in Scotland.

Exhibit 10: Annualised 5 year returns across LGPS Scotland Funds against benchmark²



Source: Unaudited Annual Report and Accounts for LGPS Funds

Management expenses

The Fund reported management expenses of £14.3million in 2024/25, a decrease of 13% or £2.2million on the prior year. Management expenses are split into three main categories: administrative costs, investment management expenses, and oversight and governance costs. Investment management expenses account for 82% of total management expenses.

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

To demonstrate its continued commitment to ensuring value for money, the Fund also took part in CEM Benchmarking exercise for 2023-24 and the results were reported to Committee in March 2025. CEM highlighted that Fife has both a lower cost implementation style and

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

paid less than our peers for similar assets. The results also demonstrated a net 5-year return equal to LGPS median.

The Fund undertakes an annual benchmarking exercise using externally provided data, covering 38 funds including 5 LGPS funds. Analysis of investment costs is carried out by an independent provider, CEM Benchmarking Inc.

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

- Fife Pension Fund's actual costs to 31 March 2024 of approximately 0.32% of average assets were below the benchmark cost of 0.59%. Costs fell from 0.48% in 2019-20 to 0.32% in 2023/24.
- Fife had both a lower cost implementation style and paid less than our peers for similar assets.
- The analysis indicated that Fife Pension Fund had a net total 5-year return of 6.6% which was equal to the LGPS median of 6.6% per annum. The 5-year benchmark return was 5.4% which was below the LGPS median of 6.3%.
- CEM concludes that the Fife Pension Fund strategic asset allocation suggests that it takes less risk relative to the LGPS peer group.
- In terms of value added, the analysis indicated the 5-year net value added was 1.2% compared to the LGPS median of 0.4%. The cumulative 5-year net value added has increased the funding of Fife Pension Fund by £178m. The 5-year performance indicates that the Fund has added value at a lower cost.

Administration performance

The Fund has an Administration Strategy and suite of key performance indicators (KPIs) which are reported to the Pensions Committee on a quarterly basis. Two out of 10 KPIs targets were met in the year. The relative performance has been increasing when compared to the prior year, six indicators have improved, one remained the same (100% meeting the target) and three have declined. Results of performance against KPI targets in 2024/25 are shown below in Exhibit 11.

Exhibit 11: Key Performance Indicators 2024/25

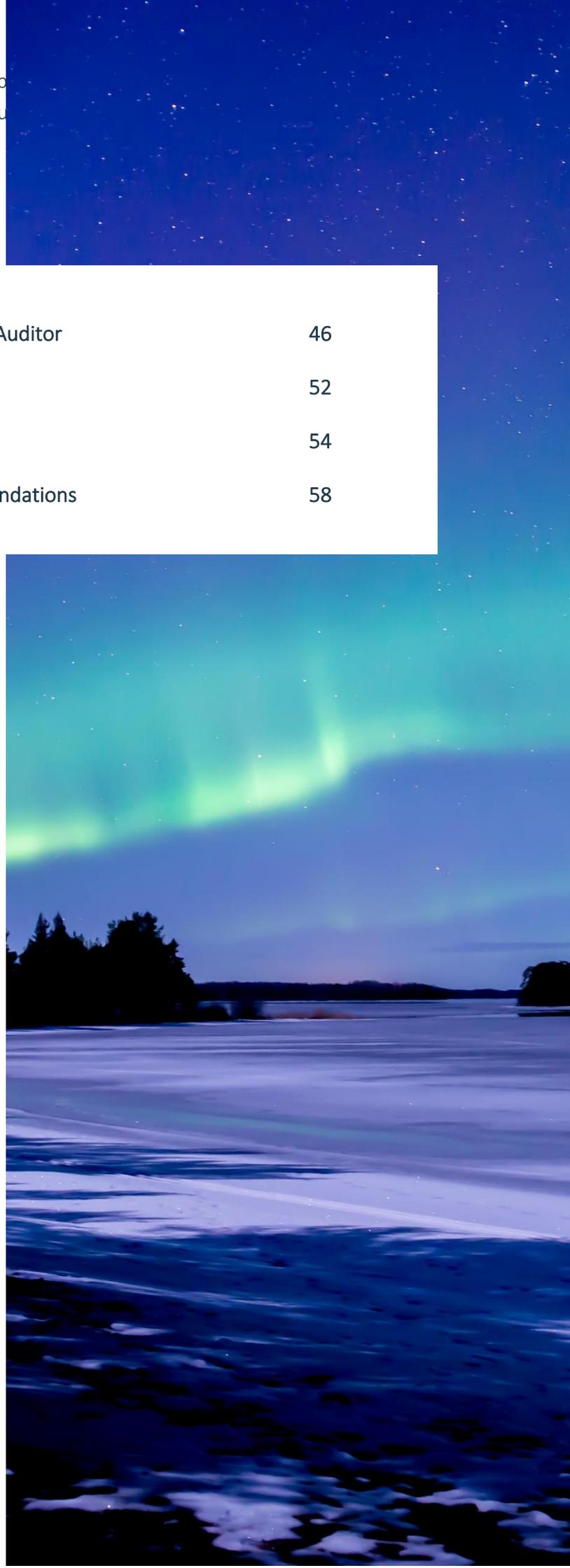
| Membership Transactions | Target Days | Completed within target in 2024/25 | Completed within target in 2023/24 |
|-------------------------|-------------|------------------------------------|------------------------------------|
| New Members | 30 | 100% | 100% |
| Retirals | 7 | 87% | 84% |
| Deaths | 7 | 81% | 85% |
| Refunds | 10 | 97% | 95% |
| Correspondence | 10 | 100% | 99% |
| Transfers out | 10 | 23% | 31% |
| Ill Health Estimates | 15 | 64% | 38% |
| Divorce | 10 | 36% | 48% |
| Transfers in | 10 | 65% | 15% |
| Redundancy Estimates | 12 | 94% | 81% |

Source: Fife Pension Fund Annual Report & Accounts 2024/25

Performance in some areas is less than the target due to, training requirements, delays in receiving paperwork and feedback while the tasks remain open in the system. Performance on all Transfers was impacted by the delay in receiving new factors from Government Actuary Department, coupled with training needs of the team. To address the backlog Hymans Robertson has been engaged to assist, once this is completed training will be provided along with procedures and updated letters. Performance has been reported on a quarterly basis and reviewed and discussed by the Pensions Committee and Board.

Appendices

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Appendix 1: Responsibilities of Fund and the Auditor

Responsibilities of the Fund

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

| Area | Fund responsibilities |
|--|---|
| <p>Corporate governance</p> | <p>The Fund is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> |
| <p>Financial statements and related reports</p> | <p>The Fund has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the financial position of the Fund and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. The management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the Fund. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the Fund and its financial performance, including providing adequate disclosures in accordance with the applicable financial framework. The relevant information should be communicated clearly and concisely.</p> |

| Area | Fund responsibilities |
|--|--|
| | <p>The Fund is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Fund is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p> |
| <p>Standards of conduct for prevention and detection of fraud and error</p> | <p>The Fund is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p> |
| <p>Financial position</p> | <p>The Fund is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • 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. |
| <p>Best value</p> | <p>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 Best Value for pension funds lies with the administering local authority, Fife Council.</p> <p>Fife Council has responsibility for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.</p> |

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

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

Wider scope audit work

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

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

Financial management



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

Auditor considerations

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

Financial sustainability



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

Auditor considerations

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

Vision, leadership and governance



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

Auditor considerations

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

Use of resources to improve outcomes



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

Auditor considerations

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

Best Value

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

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

Audit quality

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

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

The most recent audit quality report can be found at [Quality of public audit in Scotland: Annual report 2024/25 | Audit Scotland](#)

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. 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.

In particular:

Non-audit fees: Azets has not provided any non-audit services to the Fund.

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

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

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

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

Audit fees

Our 2024/25 audit fee has been agreed with management as £49,290

| Fee element | 2024/25 | 2023/24 |
|--|----------------|----------------|
| Auditor remuneration (expected fee level) | £62,680 | £60,340 |
| Auditor remuneration (above expected fee level for risk areas noted below) | £3,860 | £3,600 |
| Pooled costs | £1,580 | £2,200 |
| Sectoral cap adjustment | (£18,830) | (£17,770) |
| Total fee | £49,290 | £48,370 |

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. The Pension Fund made two adjustments to the unaudited accounts.

Adjusted misstatements

We identified no adjusted misstatements during our audit.

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

| No | Detail | Fund Account | Fund Account | Net Asset Statement | Net Asset Statement |
|----|---|--------------|--------------|---------------------|---------------------|
| | | Dr £m | (Cr) £m | Dr £m | (Cr) £m |
| 1. | Being adjustment to investment management expenses following receipt of updated information provided by the fund managers. DR Management Expenses CR Profit and Loss on Disposal of Investments | 1.606 | 1.606 | | |
| 2. | Being adjustment to VAT DR Management Expenses CR Debtors | 0.164 | | | 0.164 |
| | Net impact on net assets | | | - | 0.164 |

Misclassification and disclosure changes

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

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

| No | Detail |
|----|--|
| 1. | Note 16 sensitivity analysis and assumptions were updated to reflect information provided by the actuary in IAS 26 report. |

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our 2024/25 audit, which we feel are of sufficient importance to merit reporting.

The recommendations are categorised into three risk ratings:

Key:

- Significant deficiency
- Other deficiency
- Other observation

| 1. Level 3 assets valuation | | Other observation |
|-----------------------------|--|-------------------|
| Observation | When the financial statements are prepared the level 3 assets valuations at 31 March are not always available and the Fund uses most recent information accessible then. As a part of our work, we identified differences between information used for preparation of the financial statements and more up-to-date information available when the audit was performed. | |
| Implication | Risk of material misstatement exists. | |
| Recommendation | While the extrapolated difference was below trivial threshold we would recommend implementation of post year assessment of such differences by the Fund for all level 3 assets. This is to ensure that no material difference exists at the end of the financial year based on most up to date information. | |

| 1. Level 3 assets valuation | Other observation |
|-----------------------------------|--|
| <p>Management response</p> | <p>The fund undertakes a quarterly reconciliation of fund managers statements to custodian valuations which has highlighted that there are timing differences.</p> <p>There can be a time lag of up to 90 days before the fund managers statements are available. This lag could mean that the statements are not received until June which is not feasible given the statutory deadlines for completion of the financial accounts. Therefore, the accounts are based on the custodian valuations at 31 March.</p> <p>Year-end processes are carried out to reconcile the fund values per the Custodian and the fund managers statements.</p> <p>The implementation of changing any values will be discussed with the Custodian to establish if this will have any unintended consequences.</p> <p>Given the time-lag, any adjustments will be made during the audit process rather than prior to the publication of the draft accounts should the difference be material.</p> <p>Responsible officer: Pensions Service Manager</p> <p>Implementation date: 31 August 2026</p> |

| 2. Budget preparation | Other observation |
|-----------------------|--|
| Observation | <p>Net withdrawals from dealings with the members of £19.3million were significantly different from the budgeted position of +£9.7million. Part of it was due to the bulk transfer out of £12.8million which was not known until later in the year and therefore could not have been included in the budget preparation. Another unpredictable part of it was lump sum payments which were £9million higher than budget. After disregarding the above items, the adverse budget variance was £7.2million. From the Pension Fund budgetary control report presented to the Pensions Committee we understand that part of the variance was due to lower contribution levels not being known when the budget was drafted.</p> |
| Implication | <p>Budget estimates which are not supported by most up-to-date information might lead to inefficient decision making and ineffective scrutiny by the members.</p> |
| Recommendation | <p>We recommend that the budget estimates and inputs for the predictable income and expenditure streams are re-examined and improved to allow the members scrutiny of the best possible estimate at the time when the budget is presented.</p> |

| 2. Budget preparation | Other observation |
|----------------------------|---|
| Management response | <p>For 2024/25 the budget was based on most up to date information as the decision to revise contribution rates had not been made at the time of preparing the budget.</p> <p>The 2024/25 budget was prepared in January 2024 whilst the valuation process was still ongoing. This has been reflected in all budgetary control reports presented and revised in 2025/26.</p> <p>The budget process for Pension Fund is more complex as some items are difficult to predict as are dependent on decisions of individual members and employers.</p> <p>The budget process continues to evolve and will be refined to reflect these observations where appropriate.</p> <p>Responsible officer: Pensions Service Manager</p> <p>Implementation date: 31 March 2026</p> |

Appendix 4: Follow up of prior year recommendations

We have followed up on the progress the Fund has made in implementing outstanding recommendations as reported in our 2023/24 Annual Audit Report.

| 1. Administration Costs | |
|----------------------------|--|
| Recommendation | Consider the inclusion of unit costs for administration in budget monitoring and administration reports. |
| Implementation date | Initial implementation date: 31 March 2024 Revised implementation date: 31 March 2025 |
| Complete | The indicative cost per member is now included in the reporting. The Fund has also committed to the CEM admin benchmarking to improve our transparency in this area. |

| 2. Service organisation control reports and complementary user entity controls | |
|--|---|
| Recommendation | <p>Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the governance assurance framework. A review of service organisation control reports has been included in the 2023/24 annual report and accounts.</p> <p>Audit observation: As in 2022/23 we noted that LPFI do not currently commission and publish a service internal control report as prepared by an independent reporting accountant. In 2023/24, the Fund received a controls letter from LPFI as alternative assurance to a controls report. We continue to encourage the Fund to obtain from LPFI an internal control report.</p> <p>Audit observation 2024/25: LPFI provided a controls letter however it does not cover the year subject to audit, but only to the prior year.</p> |
| Implementation date | Initial implementation date: 31 December 2024 Revised implementation date: 31 March 2025 |

2. Service organisation control reports and complementary user entity controls

In progress

Discussion continues with LPFI on the provision of SOC report, however, it should be noted that there is a different relationship in place in that there is a shared services agreement. Fund officers have access to the LPFI team, including the Chief Investment Officer and Chief Risk Officer, the Joint Investment Forum and independent advisers. We continue to receive a controls letter from LPFI. In addition, Investment Controls and Compliance is a standing item on the agenda for the quarterly Joint Investment Forum (JIF), with compliance summaries being presented.

The request for a controls letter is included in the year end processes and has been followed up.



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