

A decorative graphic on the left side of the page consists of a large blue triangle pointing right, and a larger, fainter geometric pattern of overlapping triangles in shades of grey, green, and blue, creating a sense of depth and movement.

Lothian Pension Fund

External Audit Annual Plan

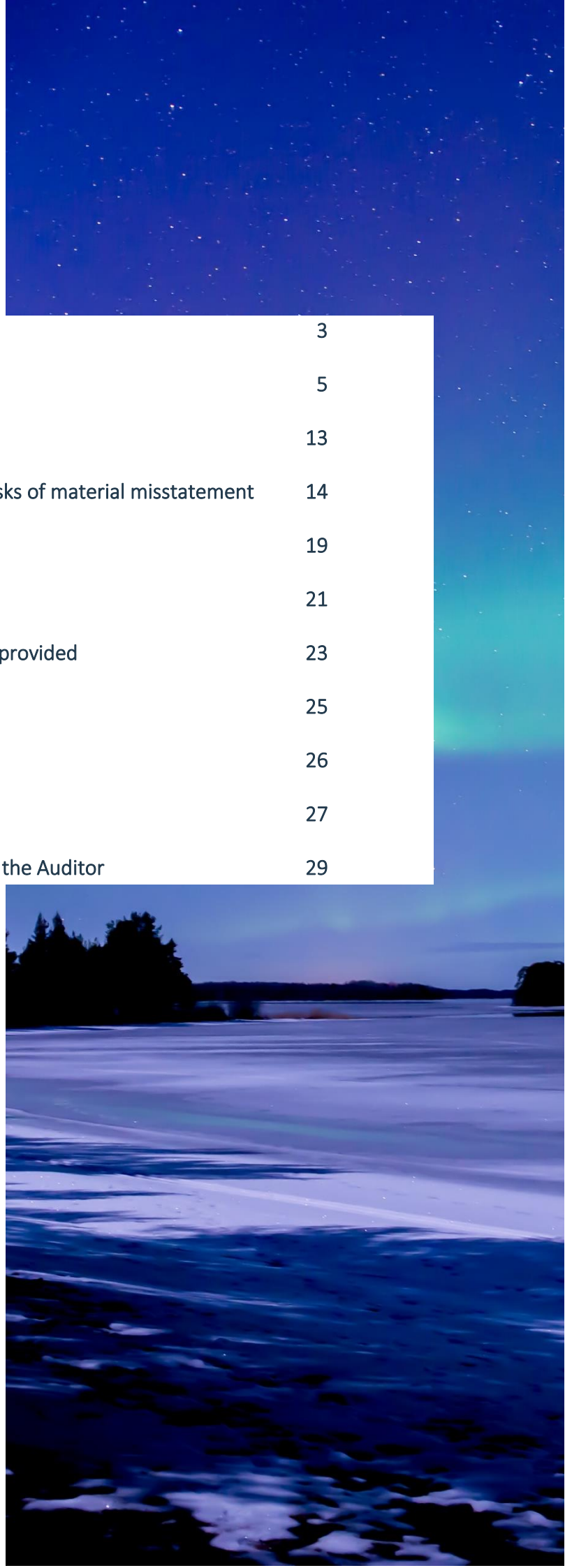
Year ended 31 March 2026

March 2026

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Introduction

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Lothian Pension Fund and Scottish Homes Pension Fund (“the Funds”) for the year ended 31 March 2026.

Our audit work will cover:

- 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 audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary, Annual Governance Statement, and the Governance Compliance Statement;
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes;
- any other work requested by Audit Scotland.

Responsibilities of the auditor and the Funds

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Accounts Commission for Scotland and it is a condition of our appointment that we follow it.

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

The Funds have primary responsibility for ensuring the proper financial stewardship of public money. This includes preparing an annual report and accounts that are in accordance with proper accounting practices. The Funds are also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

[Appendix 2](#) provides further details of our respective responsibilities.

Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Adding Value through the Audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Funds through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Funds promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

Any comments you may have on the service we provide, the quality of our work, and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

This plan has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Openness and transparency

This report will be published on Audit Scotland's website <http://www.audit-scotland.gov.uk/>

Audit scope and general approach

Risk-based audit approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an independent auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- perform risk assessment procedures including updating our understanding of the Funds, including their environment, the financial reporting framework and their system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Pensions Committee. We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the Funds arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which the Fund's use the national performance reports as a means to help improve performance at the local level.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the Funds is used as efficiently and effectively as possible.

Delivering the audit

Hybrid audit approach

We intend to adopt a hybrid approach to our audit which combines on-site visits with remote working.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information. All of our

staff are fully contactable by email, phone call and video-conferencing. Meetings can be held over Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Materiality

We apply the concept of materiality in planning and performing the audit, and in evaluating the effect of misstatements within the financial statements identified during the audit.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

Our determination of materiality:

- Informs the scope of our audit and audit procedures
- Informs the sample sizes required for substantive testing
- Informs our consideration in evaluation the effect of actual and projected misstatements in the financial statements

Any identified errors greater than the thresholds below will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us:

Main materiality

	Group £million	Lothian Pension Fund £million	Scottish Homes Pension Fund £million
Overall materiality for the financial statements	185.800	185.700	2.000
Performance materiality (75% of materiality)	139.350	139.200	1.500

Trivial threshold	9.290	9.200	0.100
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- **Planning Materiality:** We have set our materiality at 1.8% of the Funds net investments based on the annual accounts for 2024/25. We have increased this level from 1.5% used in the prior years due to overall low inherent risk assessment of the Funds accounts and low level of errors encountered in the past.
- **Performance Materiality:** Using our professional judgement, we have assessed performance materiality at 75% of planning materiality
- **Trivial threshold:** We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have set this at approximately 5% of planning materiality.

Specific materiality – dealings with members

	Group £million	Lothian Pension Fund £million	Scottish Homes Pension Fund £million
Dealings with members materiality	20.600	20.580	0.347
Performance materiality (75% of materiality)	15.450	15.430	0.260
Trivial threshold	1.030	1.025	0.017

- **Specific Materiality:** We also consider whether any specific items of account require a separate, lower materiality. We have determined specific materiality levels for dealings with members set at 5% of gross expenditure.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning. The basis for our assessment of materiality is set out in [Appendix 1](#).

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the annual accounts such that we are able to design appropriate audit procedures. However, this work will not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If we identify significant deficiencies in controls, we will report these to you in writing.

Going Concern

Management responsibility

Management is required to make and document an assessment of whether the Funds are a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management is also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the Funds' ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in Practice Note 10 (PN10) and the Code of Practice on Local Authority Accounting in the UK, which focuses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

Group audit scope and risk assessment

As Group auditor, under ISA (UK) 600 (Revised September 2022) we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Group audit scope

Based on the initial assessment the Group consists of the following entities:

Component	Nature and extent of further audit procedures	Level of response required
Lothian Pension Fund	Full Scope	Full scope statutory audit, as set out in this audit plan.
LPFE Ltd	None	No procedures planned (*).
LPFI Ltd	None	No procedures planned (*).

(*) Azets Audit Services perform separate statutory audits of these accounts which are not related to the group accounts audit.

Definitions:

Full Scope Design and perform further audit procedures on the entire financial information of the component, beyond procedures completed to review the consolidation.

Specific Scope Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures, beyond procedures completed to review the consolidation.

None No further audit procedures required, beyond procedures completed to review the consolidation.

Risks at the component-level

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

Note that a component may require a statutory audit under UK or overseas company law irrespective of whether an audit is required for group reporting purposes. Management should therefore satisfy themselves that all UK and overseas company law requirements are adhered to on a company-by-company basis.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control and;
- are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

We require the Funds to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Wider audit scope 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.

[Appendix 2](#) provides detail of the wider scope areas of public sector audit work.

Our initial risk assessment and scope of work planned for 2025/26 is outlined in the “Wider scope of public audit” section of this plan.

National risk assessment

Where particular areas of national or sectoral risk have been identified by the Auditor General, they will request auditors to consider and report on those risks as they apply at a local level. For 2025/26 no such risks have been specified.

Best Value

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

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, the City of Edinburgh Council.

We will review the outputs of the City of Edinburgh Council audit and assess the impact on our Best Value and wider scope reporting arrangements for the Pension Funds.

Reporting our findings

At the conclusion of the audit we will issue:

- an independent auditor’s report setting out our formal audit opinions within the annual report and accounts, and;
- an annual audit report describing our audit findings, conclusions on key audit risks, judgements on the pace and depth of improvement on the wider scope areas, and any recommendations.

Definitions

We will 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.



IT Audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those walkthrough key controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them.

Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

We will consult internally with our Technology Risk team for them to support the audit team by assessing the information technology general controls (ITGC) of the following systems:

IT Application	Audit area	Planned level of IT audit assessment
Financial ledger (Xledger)	Financial Reporting	ITGC assessment (design and implementation effectiveness only)
Active directory	Network Access	ITGC assessment (design and implementation effectiveness only).

Financial statements - significant and other risks of material misstatement

Significant risks are defined as risks that require special audit consideration and include risks of material misstatement that are close to the upper range of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement, or are required to be treated as significant risks due to requirements of auditing standards.

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

Significant risk	Financial Statement/Assertion Level Risk	Fraud Risk	Approach to controls	Level of judgement / estimation uncertainty
Management override of controls	Financial Statement Level	Yes	Assess design and implementation	Low
Valuation of level 2 and 3 investments (key accounting estimate)	Assertion Level	No	Assess design and implementation	High
Disclosure of present value of retirement obligations (key accounting estimate)	Assertion Level	No	Assess design and implementation	High
Fraud in revenue recognition (Rebutted)	Assertion Level	Yes	Income recognised in the Funds' accounts relates to contributions received from member bodies, investment income and transfers in from other pension funds.	Given the nature of this income, we rebutted this risk.

Significant risk	Financial Statement/Assertion Level Risk	Fraud Risk	Approach to controls	Level of judgement / estimation uncertainty
Fraud in expenditure recognition (Rebutted)	Assertion Level	Yes	Expenditure recognised in the Funds' accounts relates to benefits payable, payments to and on account of leavers and management expenses.	Given the nature of this expenditure, we rebutted this risk.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified 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.

Identified risk of material misstatement	Audit approach
<p>Management override of controls (Lothian Pension Fund, Scottish Homes Pension Fund and Group)</p> <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</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals; • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals; • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for

Identified risk of material misstatement	Audit approach
<p>material misstatement due to fraud and thus a significant risk. Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>Risk of material misstatement: Very High</p>	<p>appropriateness, corroboration and to ensure approval has been undertaken in line with the Funds' journals policy;</p> <ul style="list-style-type: none"> • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud; and • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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

Identified risk of material misstatement	Audit approach
<p>Valuation of level 2 and 3 investments (key accounting estimate) (Lothian Pension Fund and Group)</p> <p>The Funds held investments of £10.275 billion as at 31 March 2025, of which 25% (£2.569 billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets.</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 nature of this balance means that any error in judgement could result in a material valuation error.</p> <p>Inherent risk of material misstatement: Investments (Valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the investment managers and the scope of their work; • Evaluating the competence, capabilities and objectivity of the investment managers; • Considering the competence, capability and objectiveness of the investment properties valuer in line with ISA (UK) 500 Audit Evidence. • Considering the basis on which the valuation is carried out and the challenge in the key assumptions applied; • Testing the information used by the investment managers to ensure it is complete and consistent with our understanding; and • Ensuring that the year end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct.

Identified risk of material misstatement	Audit approach
<p>Disclosure of present value of retirement obligations (key accounting estimate) (Lothian Pension Fund, Scottish Homes Pension Fund and Group)</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 Funds and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate, which may result in material misstatement of this disclosure note.</p> <p>Inherent risk of material misstatement: Retirement obligations (Valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing the controls in place to ensure that the data provided to the actuary is complete and accurate; • Considering the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data; and • Agreeing the disclosures in the financial statements to information provided by the actuary.

Other material balances and transactions

Under International Standards on Auditing, “irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure”. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as those adopted for the risks identified in this report.

Wider scope of public audit

Introduction

The Code of Audit Practice frames a significant part of our responsibilities in terms of four wider scope audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our planned audit work is risk based and proportionate. Our initial assessment builds upon our understanding of the Funds' key priorities and risks along with discussions with management and review of Fund minutes and key strategy documents.

Our audit approach to the wider scope audit areas

Appointed auditors are required to consider the wider scope areas when:

- identifying significant audit risks at the planning stage of the audit
- reaching conclusions on those risks
- making recommendations for improvement
- where appropriate, setting out conclusions on the audited body's performance.

Appendix 2 provides further detail on the definition, scope and audit considerations under each wider scope area.

Wider scope significant risk

At this stage, we have not identified any significant risks in relation to the wider scope areas. Audit planning is a continuous process, and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report.

Audit planning is a continuous process, and we will report any identified significant risks, as they relate to our wider scope audit, in our annual audit report.

Further wider scope considerations

In formulating our audit plan, we identified areas of further focus for our work in other wider scope areas:

Financial sustainability

- Whether preparations to the next triennial valuation are on track and impact on financial sustainability is considered and monitored.

Financial management

- Whether the quality of the financial performance information presented to the Pensions Committee allows appropriate scrutiny of Lothian Pension Fund's performance and supports effective decision making.

Vision, leadership and governance

- How are the Funds demonstrating sufficient assurance over their controls in place for their investment manager activities.
- Whether recommendations from any governance reviews were considered and appropriately actioned and/or progressed.

Use of resources to improve outcomes

- Whether the Funds can evidence the achievement of value for money in the use of resources.
- How the Funds demonstrate a focus for improvement in the context of continuing financial challenge.
- How the Funds have managed the onerous lease provision.
- How the Funds provide a clear link between investment decisions and actual performance achieved.

Audit team and Timetable

Audit Team

Our audit team will be as follows:

Key Audit Partner

Rebecca Lister

Rebecca.Lister@azets.co.uk

Rebecca is the key contact for senior management and has overall responsibility for audit quality and the audit opinion.

Engagement Manager

Adrian Kolodziej

Adrian.Kolodziej@azets.co.uk

Adrian is responsible for the overall management of the audit and quality assurance of audit work. He is the key contact for the finance team management.

Engagement Senior

Michaela Opoku Asare

Michaela.Opoku.Asare@azets.co.uk

Michaela leads the on and off-site audit visits. Ava is the key day-to-day contact for the finance team.

Audit Timetable

Please find below confirmation of our proposed timetable for the audit as previously discussed with management:

Audit work/output	Target month/s
Audit planning work, including planning meetings	January-February 2026

Pension Committee to consider audit plan	25 March 2026
Interim audit	March 2026
Pension Committee to consider accounts	24 June 2026
Receipt of draft accounts	30 June 2026
Commencement audit fieldwork	1 July 2026
Independent auditor's report	15 September 2026
Annual Audit Report to the Pension Committee and the Controller of Audit	15 September 2026

Our Requirements

The audit process is underpinned by effective project management to co-ordinate and apply our resources efficiently to meet your deadlines. It is essential that the audit team and the Funds' finance team work closely together to achieve the above timetable.

In order for us to be able to complete our work in line with the agreed fee and timetable, we require the following:

- Draft financial statements of a good quality by the deadlines you have agreed with us. These should be complete including all notes, the performance report and the accountability report;
- Good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- Ensuring staff are available and on site (as agreed) during the period of the audit; and
- Prompt and sufficient responses to audit queries to minimise delays.

Independence, objectivity and other services provided

The Ethical Standards and ISA (UK) 260 require us to give you full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical requirements and further to our audit plan issued confirming audit arrangements we confirm that there are no further facts or matters that impact on our integrity, objectivity and independence as auditors that we are required or wish to draw to your attention. We consider an objective, reasonable and informed third party would take the same view.

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

In particular:

Non-audit services: Azets provides accounts preparation, corporation tax services and ad hoc VAT advice to LPFE Ltd and LPFI Ltd which are subsidiaries of Lothian Pension Fund. In 2025/26 non-audit fees are estimated to be c.£9,500. We have considered the following threats to independence could be present as a result of non-audit services: self-review, self-interest, management. Accounts preparation services is a straightforward process of the client trial balances being imported and statutory accounts being produced. Any adjustments will be put forward to the client's management for approval before they are made. Accounts are prepared using client's trial balances, any adjustments are agreed with management before posting and second manager review of accounts will be undertaken.

We assess the risk of management, self-interest and self-review mitigated due to the fact that the:

- audit of subsidiaries is performed by separate audit team led by a different responsible individual; preparation of the accounts is an admin task with no judgement applied and adjustment approved by management;
- impact on group audit of individual subsidiaries is close to our trivial levels and therefore the LPF group audit team does limited number of procedures on the subsidiaries when auditing consolidation; and
- the fees for preparation of the accounts are significantly lower than audit fees.

We assess the risk of management, self-interest and self-review mitigated due to the fact that the separate team members work on the tax computation and audit which is reviewed by separate manager/partner/director. Tax fees are substantially lower than the audit fees.

Based on the above we judge that an objective, reasonable and informed third party would

come to the same conclusion and therefore the above non-audit services do not impact on our independence as external auditors.

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

- **Contingent fees:** No contingent fee arrangements are in place for any services provided.
- **Gifts and hospitality:** We have not identified any gifts or hospitality provided to, or received from, any member of the Funds, senior management or staff.
- **Relationships:** We have no other relationships with the Funds, its directors, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control related areas.

Audit Fees

Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year with a typical risk profile, prepares comprehensive and accurate unaudited accounts and meets the agreed timetable for audit.

The expected fee is reviewed by Audit Scotland each year, based on Audit Scotland's overall budget proposals and audit fees have increased by 4.3% on average. The budget proposal and fee levels for the 2025/26 audits have been developed in the context of employee NI increases and the difficult financial environment and the challenges facing public services, and public audit's role in helping meet them via delivery of high quality, independent public audit which is a key foundation of effective scrutiny, governance and improvement in Scotland.

As auditors we negotiate a fee with the Funds during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

We propose and increase above the expected auditor remuneration level by 10% to allow for additional work on more complex level 2 and 3 investments, issuing and requesting information on the contributions to/and from other auditors and to meet heightened expectations of public sector audits from the external regulators.

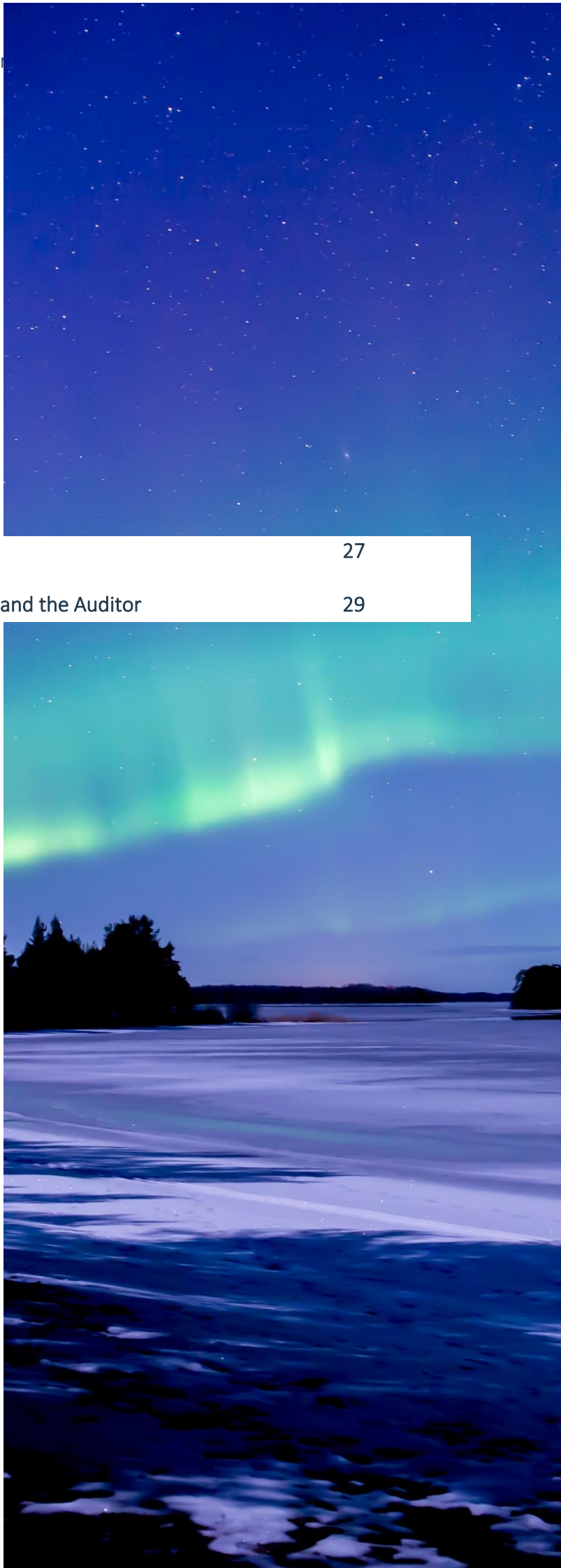
The breakdown of the fee for 2025/26 is shown in the table below.

	2025/26	2024/25
Auditor remuneration (expected level)	£95,670	£92,170
Auditor remuneration (above the expected level)	9,560	9,210
Pooled costs	£3,300	£2,310
Sectoral cap adjustment	-£40,830	£-38,760
Total fee	£67,700	£64,930

We will take account of the risk exposure of the Funds and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant work not within our planned audit activity.

Appendices

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Appendix 1: Materiality

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Funds and Group and the needs of the users.

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

Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2026 was calculated as follows.

Group and Funds Materiality

	Group £million	Lothian Pension Fund £million	Scottish Homes Pension Fund £million
Overall materiality for the financial statements	185.800	185.700	2.000
Performance materiality (75% of materiality)	139.350	139.200	1.500
Trivial threshold	9.290	9.200	0.100
Materiality	Our initial assessment is based on approximately 1.8% of the group and Funds' net assets as at 2024/25. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Funds' and the group.		
Performance materiality	75% of materiality Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine		

Trivial misstatements	<p>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> <p>5% of overall materiality</p> <p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> <p>In accordance with Azets methodology we have set a trivial threshold at 5% of the overall materiality level. We will consider appropriateness of this level during the audit.</p> <p>Individual errors above this threshold are communicated to those charged with governance.</p>
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Special materiality for dealings with members

	Group £million	Lothian Pension Fund £million	Scottish Homes Pension Fund £million
Dealings with members materiality	20.600	20.580	0.347
Performance materiality (75% of materiality)	15.450	15.430	0.260
Trivial threshold	1.030	1.025	0.017

Materiality	<p>We apply lower materiality for dealings with members, based on the fact these transactions are significant to the Funds’ activities and it would not be appropriate to use the assets-based materiality to audit them. Our initial assessment is based on approximately 5% of the group and Funds’ 2024/25 gross expenditure as disclosed in the 2024/25 audited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Funds and its group. We have set our trivial threshold at 5% of overall materiality as explained above.</p>
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Appendix 2: Responsibilities of the Funds and the Auditor

Funds' responsibilities

The Funds have primary responsibility for ensuring the 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 the following:

Area	Funds responsibilities
Corporate governance	The Funds are responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	<p>The Funds have responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the financial position 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; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. <p>Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting</p>

	<p>framework. The relevant information should be communicated clearly and concisely.</p> <p>The Funds are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Funds are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct for prevention and detection of fraud and error	<p>The Funds are responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
Financial position	<p>The Funds are responsible for putting in place proper arrangements to ensure the 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.
Best value	<p>The Funds have a specific responsibility to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:</p> <ul style="list-style-type: none"> • The quality of its performance of its functions. • The cost to the body of that performance. • The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis. <p>In maintaining that balance, the Funds shall have regard to:</p> <ul style="list-style-type: none"> • Efficiency • Effectiveness • Economy • The need to meet the equal opportunity requirements.

The Funds should discharge its duties in a way which contributes to the achievement of sustainable development.

In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.

The Scottish Government's Statutory Guidance on Best Value (2020) requires bodies to demonstrate that they are delivering Best Value in respect of seven themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality.

Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.

The Accounts Commission and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Code of Audit Practice

The Code of Audit Practice (the [2021 Code](#)) describes the high-level, principles-based purpose and scope of public audit in Scotland.

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

Our responsibilities

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

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

	<p>Vision, leadership and governance</p> <p>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.</p> <p>Auditor considerations</p> <p>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.</p>
	<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 considerations</p> <p>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.</p>

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

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, the City of Edinburgh Council.

We will review the outputs of the City of Edinburgh Council audit and assess the impact on our Best Value and wider scope reporting arrangements for the Pension Funds.

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 \(audit-scotland.gov.uk\)](#)



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