



Fife Pension Fund

**2022/23 Annual Audit Report to the
Members of the Pensions Committee and
the Controller of Audit**

September 2023



Table of Contents



Key messages	3
Introduction	7
Annual report and accounts audit	9
Wider Scope	22
Appendices	42



Key messages

Financial statements audit

Audit opinion	<p>Our independent auditor's report is unqualified in all regards.</p>
Key audit findings	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>Fife Council, as Administering Authority, had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
Audit adjustments	<p>One adjustment was made to the unaudited financial statements. This adjustment was following receipt of updated information on investment management expenses. This adjustment did not impact on the reported closing net assets of the scheme.</p> <p>No unadjusted differences were identified.</p> <p>Some disclosure and presentational adjustments were made to the unaudited annual report and accounts.</p>
Accounting systems and internal controls	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Fund's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report. No material weaknesses or significant deficiencies were noted.</p>

Wider scope

<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>Effective and 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 2022/23, the value of the Fund’s net assets decreased to £3.420billion; a decrease of £111million on 2021/22. The most significant impact on the outturn position was due to the changes in market value of investments.</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 its services and the way in which they should be delivered.</p>	<p>Auditor judgement</p> <p>Risks exist to the achievement of operational objectives </p> <hr/> <p>Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability.</p> <p>Over the coming year, two significant pieces of work will be carried out. The Fund will be working on the valuation process and the results throughout the calendar year. The work on the valuation will be carried out in tandem, alongside the Investment Strategy, as there are synergies between the two.</p> <p>It is anticipated that the funding level of the Fund will be higher than reported at the 31 March 2020 funding valuation due partly to the significant rise in interest rates which reduces the value placed on the Fund’s liabilities.</p>

<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>
<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 2023 was weaker than in previous year. Performance, however, was above the benchmark. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods.</p>

Definition

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

The annual audit comprises the audit of the annual report and accounts, and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Pensions Committee at the outset of our audit. We have not made any subsequent changes to the risks outlined in that plan.

Responsibilities

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

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.



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

Openness and transparency

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

Annual report and accounts audit

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 report.</p>	<p>The annual report and accounts were approved by the Pensions Committee on 28 September 2023.</p> <p>Our independent auditor's report is unqualified in all regards.</p> <p>One adjustment was made to the unaudited financial statements. This adjustment was following receipt of updated information on investment management expenses. This adjustment did not impact on the reported closing net assets of the scheme.</p> <p>We received the unaudited annual report and accounts and supporting papers of a good standard in line with our audit timetable. Further information and revisions were provided promptly where required.</p> <p>Our thanks go to the Fife Council staff for their assistance with our work.</p>

Opinion	Basis for opinion	Conclusions
<p>Going concern basis of accounting</p>	<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 reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Fund will continue to operate for at least 12 months from the signing date. Our audit opinion is unqualified in this respect.</p>
<p>Opinions prescribed by the Accounts Commission:</p> <ul style="list-style-type: none"> • Management Commentary • Annual Governance Statement • Governance Compliance Statement 	<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> <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 	<p>We have concluded that:</p> <ul style="list-style-type: none"> • the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with relevant statutory guidance. • the information given in the Annual Governance Statement is consistent with 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

Opinion	Basis for opinion	Conclusions
	2018 (Governance Compliance Statement)	Government Pension Scheme (Scotland) Regulations 2018.
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept; or 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. 	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Pensions Committee in March 2023. 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.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the ‘Key Audit Matters’), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the 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.

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
<p>Significant risk description</p>	<p>Management of any entity is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement: Very High</p>
<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"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals.

Risk area	Management override of controls
	<ul style="list-style-type: none"> • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and appropriate processing in line with the Fund’s journals policy. • Gaining an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.
<p>Key observations</p>	<p>We did not identify any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.</p>

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

Key risk area	Fraud in revenue recognition
<p>Significant risk description</p>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted.</p> <p>The presumption is that the Fund could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Income recognised in the Fund’s accounts relates to contributions received from member bodies and transfers in from other pension funds. Given the nature of this income we rebutted this risk.</p>

Key risk area	Fraud in non-pay expenditure
<p>Significant risk description</p>	<p>As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated 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 benefits payable to be the Fund’s only material expenditure stream.</p> <p>We perform separate tailored testing on benefits payable and therefore rebutted this risk.</p>

Key risk area	Investment valuations (key accounting estimate)
<p>Significant risk description</p>	<p>The Funds held net investments of £3.534billion as at 31 March 2022, of which 45% (£1.595billion) 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:</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>There is the potential for management to use their judgement to influence the values within the financial statements.</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 fund managers and the scope of their work. • Evaluated the competence, capabilities and objectivity of the fund managers. • Considered the basis on which the valuation is carried out and the challenge in the key assumptions applied. • Tested the information used by the fund managers to ensure it is complete and consistent with our understanding. • 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 gained reasonable assurance over the valuation of investments at year end and are satisfied that investments</p>

Key risk area	Investment valuations (key accounting estimate)
	and investment transactions are fairly stated in the financial statements.
Key risk area	Present Value of Retirement Obligations (key accounting estimate)
Significant risk description	<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. There is a risk that the assumptions used are not appropriate.</p> <p>Inherent risk of material misstatement: Retirement obligations (valuation): High</p>
How the scope of our audit responded to the significant risk	<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 is 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.
Key observations	We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness.

Key risk area	Present Value of Retirement Obligations (key accounting estimate)
	<p>We have considered the competence, capability and objectivity of the actuary in line with the requirements of <i>ISA (UK) 500 Audit Evidence</i>. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.</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 to the Fund and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality was £53 million. On receipt of the 2022/23 unaudited financial statements, we reassessed materiality and updated it to £51.3million. We consider that our updated assessment has remained appropriate throughout our audit.

	Materiality £million
Overall materiality for the financial statements	51.300
Performance materiality	38.475
Trivial threshold	0.250

Materiality	<p>Our initial assessment is based on approximately 1.5% of the Fund’s net assets as disclosed in the unaudited financial statements. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Fund.</p>
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	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In accordance with Audit Scotland’s planning guidance this should not exceed £250,000.</p>

Special materiality for dealings with members

Our initial assessment of materiality for dealing with members was £5.7million. On receipt of the 2022/23 unaudited financial statements, we reassessed materiality and updated it to £5.65 million. We consider that our updated assessment has remained appropriate throughout our audit.

	Materiality £million
Dealings with members materiality	5.700
Performance materiality	4.2375
Trivial threshold	0.250
Materiality	We apply a 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 use the asset-based materiality to them. Our initial assessment is based on approximately 5% of the Fund’s 2022/23 gross expenditure as disclosed in the unaudited financial statements. We consider this to be the principal consideration for the users of the annual accounts when assessing the Fund’s dealings with members.
Performance materiality	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

Audit differences

One adjustment was made to the unaudited financial statements. This adjustment was following receipt of updated information on investment management expenses. This adjustment did not impact on the reported closing net assets of the scheme. This adjustment is disclosed in Appendix 2.

No unadjusted differences were identified.

Disclosure and presentational adjustments during our 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 Appendix 3 to 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 by the predecessor auditor 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

Accounting policies

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

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

The accounting policies, which are disclosed in the financial statements, are considered appropriate.

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.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall we concluded that for those key accounting estimates they were balanced and 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 annual report and accounts.

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

Written representations

We will present the final letter of representation to the Executive Director of Finance and Corporate Services to sign at the same time as the financial statements are approved.

Related parties



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



Confirmations from third parties

All requested third party confirmations have been received.

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

<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>Effective and 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 2022/23, the value of the Fund's net assets decreased to £3.420billion; a decrease of £111million on 2021/22. The most significant impact on the outturn position was due to the changes in market value of investments.</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 its services and the way in which they should be delivered.</p>	<p>Auditor judgement</p> <p>Risks exist to the achievement of operational objectives </p> <hr/> <p>Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability.</p> <p>Over the coming year, two significant pieces of work will be carried out. The Fund will be working on the valuation process and the results throughout the calendar year. The work on the valuation will be carried out in tandem, alongside the Investment Strategy, as there are synergies between the two.</p> <p>It is anticipated that the funding level of the Fund will be higher than reported at the 31 March 2020 funding valuation due partly to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.</p>

<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>
<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 2023 was weaker than in previous year. Performance, however, was above the benchmark. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods.</p>

Financial management

Financial performance

In 2022/23, the value of the Fund's net assets decreased to £3.420billion; a decrease of £111million on 2021/22. The Fund experienced a change in value of £111.189million represented by a loss in capital value of investments of £157.042million coupled with income from dividends and interest of £45.286million. The Fund also experienced a net surplus of £18.610million from dealings with members (Exhibit 1).

Exhibit 1 – Financial position

	£'million
2021/22 Net Assets	3,531.319
Movement:	
Net surplus from dealings with members	18.610
Management expenses	(17.614)
Income from dividends and interest	45.286
Taxes on income	(0.429)
Loss in capital value of investments	(157.042)
2022/23 Net Assets	3,420.129
Movement (%)	(3.1%)

Source: Fife Pension Fund Annual Report & Accounts 2022-23

The Fund's Investment Strategy was revised and updated to reflect the results of the actuarial valuation in 2020. An interim Investment Strategy was approved in June 2021 in recognition that the Real Asset Policy Group target would take time to reach the intended level. Following successful progress in this area and in consultation with the Joint Investment Strategy Panel (JISP) the target allocations were subsequently revised in September 2022 (Exhibit 2). The investment Strategy was updated at this time and implementation has continued throughout the year.

Exhibit 2 – Fife Pension Fund Investment Strategy

	Interim Strategy (June 2021) %	Final Strategy (September 2022) %	Permitted Range	Actual allocation 31 March 2023 %
Equities	55	50	40 -60	49.7
Real Assets	15	20	10-30	21
Non-Gilt Debt	15	15	5-25	13.6
LDI (formerly Gilts)	15	15	5-25	12.2
Cash	0	0	0-15	3.5
Total	100	100		100

Throughout the year, the Fund undertook changes to the investment allocation as it continued to progress the implementation of its approved Investment Strategy. The Fund divested £443million from Equities, Diversified Growth Fund and Other Policy Groups with the proceeds being invested in Equities and LDI.

In addition, by working with Lothian Pension Fund Investment (LPFI), the Fund was able to participate in new Infrastructure Investment opportunities. These infrastructure investments reflect the continued implementation of the investment strategy with the Real Asset allocation now broadly in line with the strategic allocation contained in the strategy.

The Fund invests in a 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.

Exhibit 3: Investment markets

For the 12 months to 31 March 2023, global equities, as measured by the MSCI ACWI index, returned -1.4% in sterling terms (source: MSCI). However, the weaker pound masked a more pronounced decline of -7.4% in US dollar terms (source: MSCI). It was a year almost as extraordinary as 2020, when Covid emerged, and returns for most asset classes were curtailed by the challenging conditions.

Soaring inflation and central banks' policy response dominated the backdrop for financial markets. The mounting pace of inflation was worsened by the supply shock brought about by the war in Ukraine, with UK consumer price inflation reaching 40-year highs. The reaction from most major central banks was to aggressively tighten monetary policy, marking a dramatic shift from the extremely low interest rates that had been in place since the financial crisis of 2008. This is an environment that many had become unaccustomed to and the unfamiliar conditions exposed frailties in the financial system, contributing in some part to the LDI crisis in the UK and the failure of two large US banks.

Government bond prices fell over the year, due to rising base rates and higher inflation, with the political crisis in the UK causing forced sales of long-dated gilts by some pension funds. 10-year gilt yields rose from 1.61% to 3.49% (reaching as high as 4.6%), giving an annual return of -10.9%. Although corporate bond credit spreads (the difference in yields between bonds of differing quality) widened over the year, it was the sharp rise in underlying government bond yields that caused most of the damage, with sterling investment grade credit returning -10.2% over the year. Commercial real estate returns were also strained by falling capital values as property owners, many of which are highly leveraged, contended with rising borrowing costs. However, some of the most eye-catching falls were among 'growth' stocks where valuations were severely marked down as sentiment for this part of the market soured.

Source: Fife Pension Fund Annual Report & Accounts 2022-23; Investment Commentary as provided by LPFI Ltd.

Financial monitoring

An indicative budget for 2022/23 was presented to the Pensions Committee in September 2022. The budget showed a net increase of £1.2million from dealings with members and a net return on investments of £152.960million, resulting in a projected net increase in the value of the Fund of £154.160million.

As at 30 September 2022, the 2022/23 projected outturn was that the Fund would remain cash-flow positive with a net increase to the Fund of £4.567million from dealings with members and a net decrease on investments of £81.678million, resulting in a projected net decrease in the value of the Fund of £77.111million.

The financial outturn for the year showed a net decrease in the value of the Fund of £111.189million. The most significant impact on the outturn position was due to the changes in market value of investments (Exhibit 4).

Exhibit 4: Financial Outturn	2022-23 Budget	2022-23 Outturn	2022-23 Variance favourable / (adverse)
	£'million	£'million	£'million
2021/22 Net Assets	3,531.319	3,531.319	-
Movement:			
Net additions / (withdrawals) from dealing with members	17.650	18.610	0.960
Management expenses	(16.450)	(17.164)	(0.714)
Income from dividends and interest	26.090	45.286	19.196
Taxes on income	(0.230)	(0.429)	(0.199)
Profit / (Loss) in capital value of investments	127.100	(157.042)	(284.142)
Net increase / (decrease) in the Fund	154.160	(111.189)	(265.349)
2022/23 Net Assets	3,685.479	3,420.129	(265.349)

Actuarial valuation

The present value of the retirement benefit obligations are presented as a note to the accounts. A significant increase in the discount rate has resulted in a lower obligation. This movement in the present value of retirement obligations is shown in Exhibit 5.

Exhibit 5 – Actuarial valuation

	Present Value of Retirement Benefits
2022/23 (£billion)	2.701
2021/22 (£billion)	4.000
Movement (%)	(48%)

Source: Fife Pension Fund Annual Report & Accounts 2022-23

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

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.

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 an independent investment adviser 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 Strategy Panel collaborative arrangement with Lothian Pension Fund and Falkirk Pension Fund.

Indicative budget for 2023/24

An indicative budget has been developed for 2023/24 (Exhibit 6). The budget was developed using previous years trends of expenditure which have been adjusted to reflect the estimated levels of pay awards and estimated levels of pension increases. The return on investments were set at levels as per the 2022/23 indicative budget.

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

Exhibit 6: 2023/24 Indicative Budget	2023/24 Budget
	£'million
Opening net assets of the scheme at 1 April 2023	3,250.255
Movement:	
Net additions/ (withdrawals) from dealing with members	18.220
Management expenses	(16.500)
Income from dividends and interest	26.090
Taxes on income	(0.230)
Profit / (Loss) in capital value of investments	127.100
Net increase / (decrease) in the Fund	154.680
Closing net assets of the scheme at 31 March 2024	3,404.935

Source: Fife Pension Fund – Business Plan 2023-24

Actuarial funding levels

Funding position as at the last formal funding valuation

The most recent actuarial valuation was as at 31 March 2020. This valuation reported that the Fund's assets, which as at 31 March 2020, were valued at £2.356billion, were sufficient to meet 97% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2020 valuation was £72million.

Experience over the period since 31 March 2022

Markets were severely disrupted by the pandemic at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered strongly in 2020 and 2021. Markets have continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience) have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The Fund will be working on the valuation process and the results throughout the calendar year. The work on the valuation will be carried out in tandem, alongside the Investment Strategy, as there are synergies between the two.

Vision, leadership and governance

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 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 reviewed every 3 years and sets out the strategic allocation to various types of investments. 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.

A Business Plan has been developed for the first time in 2023/24. The Plan sets out the day-to-day business of the Fund as well as the proposed improvements and development work being undertaken. It is intended that the Business Plan will inform the basis for various reports presented to the Pensions Committee throughout the year. This means that reports on the quarterly performance reporting, update on team activity and budget monitoring should be consistent with the approved Business Plan.

As the first Business plan developed for the Fund it is intended that this will be used as a basis for developing future business plans and the process will evolve over time. It is intended that documents will become streamlined and that various aspects of reporting will be aligned to avoid duplication.

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 the 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 Strategy Panel (JISP).
- Finance & Corporate Services Directorate and the Pensions Governance Group (PGG).

In September 2021, Fife Council appointed an Independent Professional Observer (IPO) to provide support and guidance to both members of the Pensions Committee and Pensions Board to assist them in discharging their duties in relation to the Pension Fund.

The Pensions Committee is responsible for setting the high-level investment strategy and delegates the implementation of that strategy to the Executive Director Finance and Corporate services, who delegates this to the Head of Finance.

In March 2023, the Pension Board's Constitution was revised. The main changes to the constitution included:

- Fife Council providing administrative support to facilitate Pension Board meetings;
- Clarification on conflicts of Interest, substitutes and training requirements;
- The quorum for a meeting shall be 4, comprising a minimum of 2 employer representatives and 2 member representatives; and
- The Pension Board will produce an annual report to be included in the Fund's annual report.

The Pensions Team, responsible for ensuring that benefits are paid accurately and on time and to provide clear information on the benefit options available to help members plan for retirement, is accountable to the Pensions Committee, Pension Board, scheme employers and members.

Both the Pensions Committee and Head of Finance receive advice from the Joint Investment Strategy Panel (JISP) which comprises FCA qualified investment professionals from the Lothian Pension Fund as well as two independent advisors. This arrangement supports the collaborative relationship between Fife, Falkirk and Lothian Pension Funds, which entails the Lothian Fund, through its investment vehicle, LPFI Limited to provide investment support.

Throughout 2022/23 the relationship with LPFI Limited expanded 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 PGG is an officer's group, chaired by the Head of Finance, with primary purpose to provide assurance to the Pensions Committee and Pensions Board through the monitoring of the requirements measured by the Pensions Regulator's Code of Practice No.14 and reviewing and managing risk. A risk register is maintained by the PGG with quarterly updates presented to the Pensions Committee.

Meetings of those charged with governance

Throughout 2022/23, 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.

Administration review

In 2021, the Fund initiated a review of its scheme administration. An internal review was followed by an independent review carried out by Hymans Robertson. The aim of the review was to ensure that the Pensions Team continues to meet its service requirements to members and employers. The Fund recognised that service delivery is set against a backdrop of LGPS complexity, increased governance and reporting requirements, and the impact of legal cases such as the McCloud ruling on pension administration functions.

The key findings and recommendations of both the internal and independent review covered areas such as the role of team members, work processes, Fund policies and whether the current team structure is fit for purpose given the increasing levels of service demands. An action plan is being developed with a view to addressing these areas over the coming 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 2022/23 Governance Compliance Statement, the Council, as Administering Authority, reported that it is compliant with all principles with the exception of training where partial compliance was recorded. Partial compliance was reported as not all members of the Pensions Committee had complied with the policy and completed the minimum training hours requirement as outlined in the policy.

A training policy was agreed by Committee which formalises the training arrangements for Committee and Pension Board members. The policy sets out the training required to ensure members have the appropriate skills to adequately carry out their roles. Induction training is provided to all new Committee and Board members.

During 2022 an assessment of training needs was carried out with new members of the Committee and the Board asked to assess their current knowledge and understanding of all relevant topics. The results of the assessment are being used as a basis for arranging future training and development sessions.

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 2022/23 the following assurance reviews were undertaken:

- Risk management
- Cyber security
- Follow up review (Training and Resources)
- Post Audit Reviews

The annual internal audit report was presented to the Pensions Committee in June 2023. 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 2023".

Use of resources to improve outcomes

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 quarterly meeting of the JISP and the Pensions Committee.

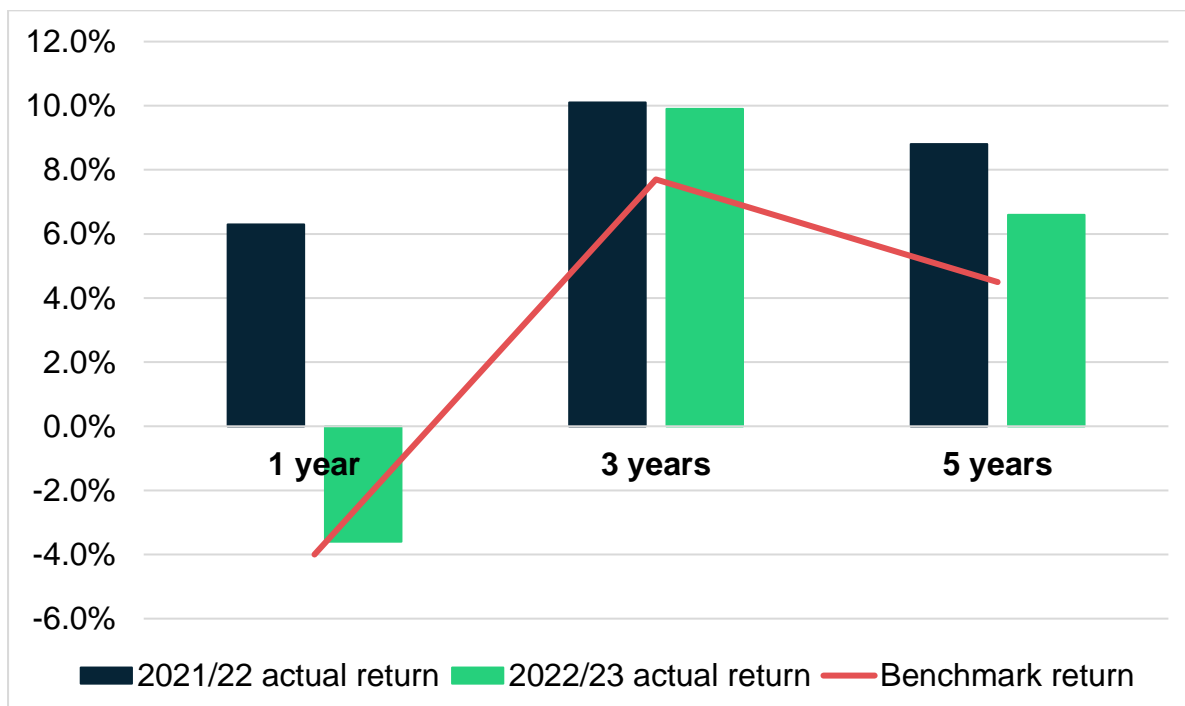
Through our review of committee papers, we are satisfied that there continued to be effective scrutiny, challenge and informed decision making through the year.

Fund performance

Fife Pension Fund annual performance

Annual performance to March 2023 was weaker than in previous year, with overall annual returns of -3.62% (2022: +6.29%). Performance, however, was above the 2023 benchmark of -4.0%. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods. The Fund's performance against benchmarks and prior year are given at Exhibit 7.

Exhibit 7: Performance of the Fund against benchmarks and prior year



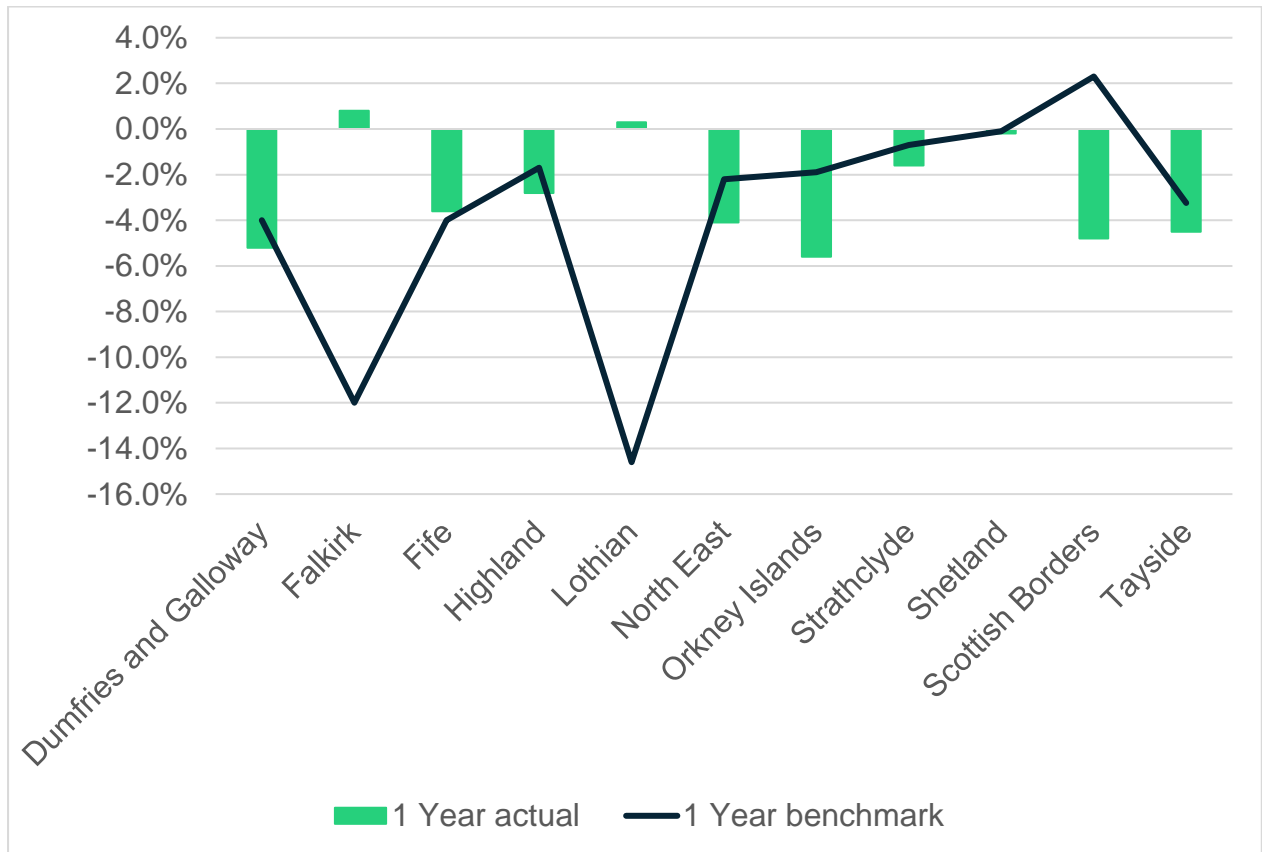
Source: Fife Pension Fund Annual Report & Accounts 2022-23

The impact of uncertain market conditions can be seen on the returns. Despite absolute performance being significantly lower than in 2021/22, the Fund’s market positioning helped the Fund outperform the annual benchmark.

Annual returns comparison

The Fund was one of only three LGPS to exceed annual benchmark returns. See Exhibit 8 for the Fund’s annual performance against other Scottish LGPS Schemes.

Exhibit 8: Annual return across LGPS Scotland Funds against benchmark

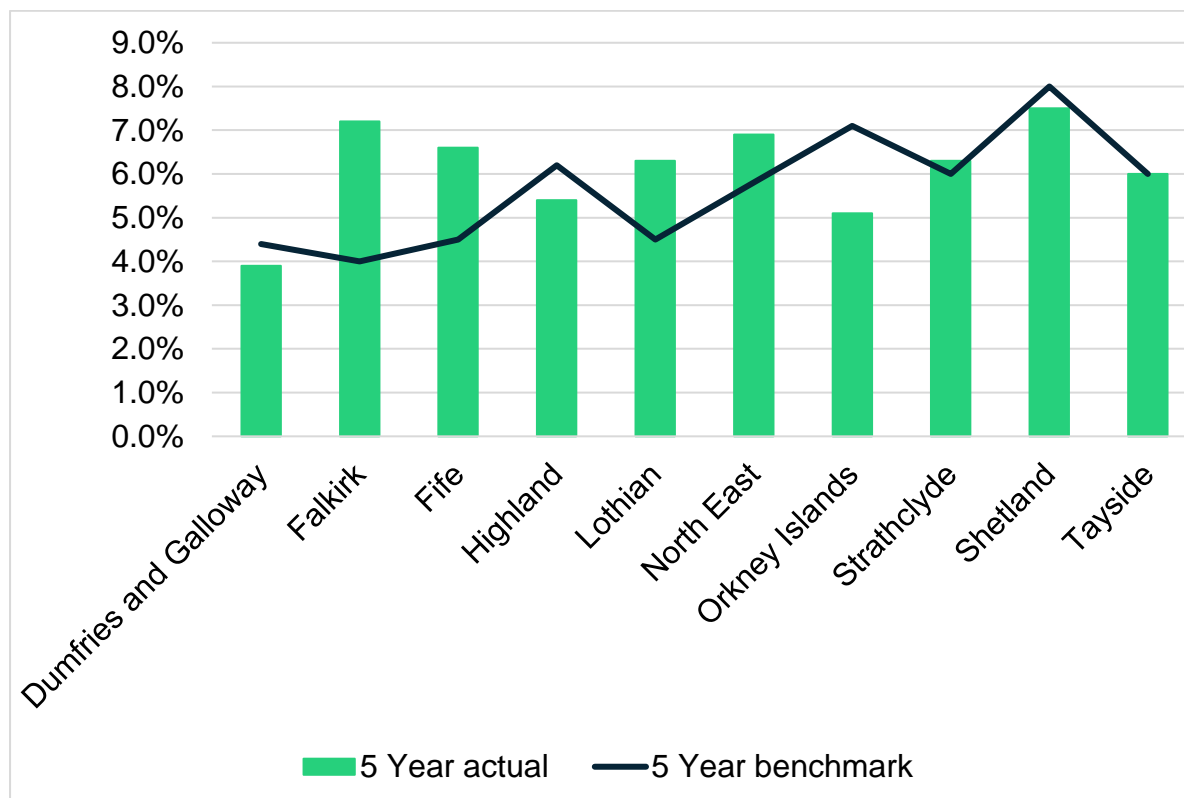


Source: Unaudited Annual Report and Accounts for LGPS Funds

5 year returns comparison

Comparison of the Fund’s performance against other Scottish LGPS Schemes is given in Exhibit 9.

Exhibit 9: Annualised 5 year returns across LGPS Scotland Funds against benchmark²



Source: Unaudited Annual Report and Accounts for LGPS Funds

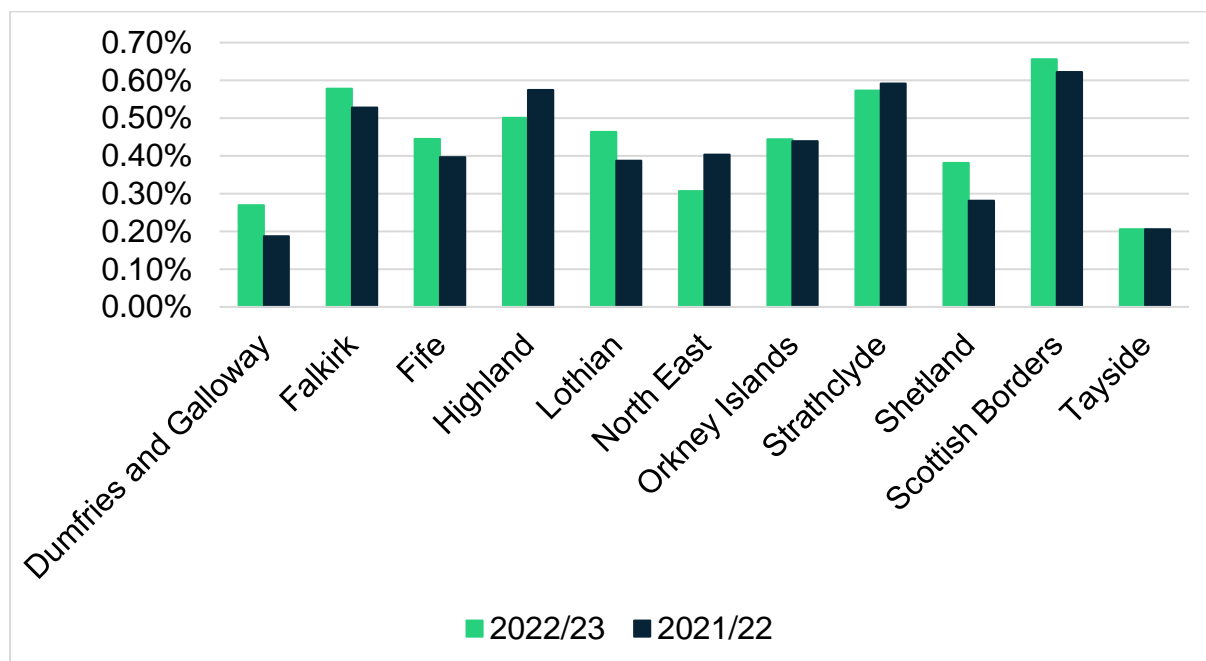
Management expenses

The Fund reported management expenses of £17.614 million in 2022/23, an increase of 7.9% 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 86% 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. The position across the Local Government Pension Funds varied as shown in Exhibit 10.

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.

Exhibit 10 – Investment management expenses as a proportion of net assets



Source: Unaudited Annual Report and Accounts for LGPS Funds

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

The Fund took part in a CEM Benchmarking exercise in 2021/22. The benchmarking analysis undertaken by CEM aims to provide comprehensive, like-for-like comparisons with similar funds. Investment costs are compared with other pension funds and other asset owners, inside and outside the LGPS. As well as costs, CEM also compare investment performance, asset mix, risk and funding to produce a report about how Fife Pension Fund compares with others and why the investment outcomes compare as they do.

The results for Fife are compared with 9 other LGPS Funds and 8 other funds with total assets ranging from £1.9 billion to £6.5 billion. The median size in the peer group is £3.1 billion compared with Fife Pension Fund assets of £3.4 billion as at 31 March 2022. Fife Pension Fund’s actual costs to 31 March 2022 of approximately 0.41% of average assets were below the benchmark cost of 0.48%. The difference amounts to costs below benchmark of £2.0m for the year to 31 March 2022.

CEM concluded that Fife’s investment costs were below benchmark primarily due to paying less for private market assets, offsetting the greater expense of investing in more fund of funds vehicles than peers.

The analysis indicated that Fife Pension Fund had a net total 8-year return of 9.1% which was above the LGPS median of 8.8% per annum, and in the 68th percentile of the CEM LGPS fund universe of 30 funds.

CEM results were reported to the March Joint Investment Strategy Panel where comparison with risk was considered. In the context of risk, Fife's 8-year net return was achieved with a higher level of risk (10.8%) than the median LGPS return which was achieved with an annualised standard deviation of 10.0%.

Given the aforementioned 8-year return and risk figures, Fife's 8-year return/risk ratio (units of return generated per unit of risk) was 0.84 close to LGPS median 8-year return/risk ratio of 0.88.

Costs for the year to 31 March 2022 of 0.41% have fallen since 2014/15 from 0.68%. CEM concludes the movement of 0.27% is as a result of changes to asset mix and implementation approach. CEM also report that the median cost of the CEM LGPS universe of 30 funds for the year to 31 March 2022 is 0.83%. These points suggest that the Fund is delivering its investment returns at good value for money relative to the CEM LGPS universe.

Whilst Cost Transparency and Benchmarking against peer groups is beneficial and helps employers and Pension Committees investigate and understand their respective fees and costs, care should be taken in deriving conclusions from the headline data. CEM states that "being high or low is neither good nor bad". What matters is whether a pension fund is receiving sufficient value for the costs incurred.

This is reflected in the long term returns of pension funds, net of costs.

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 (Exhibit 11).

Exhibit 11: Key Performance Indicators 2022/23

Membership Transactions	Target Days	Target	Within Target
Correspondence	10	100%	100%
Refunds	5	98%	87%
New Members	20	80%	99%
Provide ill Health Estimates	13	97%	25%
Provide Redundancy Estimates	13	97%	100%
Retirals	5	95%	94%
Transfer in	10	92%	36%

Source: Fife Pension Fund Annual Report & Accounts 2022-23

Departure of experienced team members impacted performance during the year for the processing of refunds, retirals and transfer in cases. New team members were recruited and some promotions meant a requirement for training to be provided for new and promoted employees. The current KPI for processing ill health estimates does not reflect the time required by scheme employers to provide actual pensionable pay figures, including the Assumed Pensionable Pay figure, for the team to calculate enhanced ill health benefits.

The Administration Strategy was updated and approved by the Pensions Committee in September 2022. Following the approval of the updated Administration Strategy, a review of the KPIs has been carried out. This involved a review and understanding of the range of KPIs reported by other Funds, ensuring consistency of targets with the Administration Strategy, and reflecting updated target days based on experience to date. This determined that the team should expand its KPI suite to include reporting on the processing of death benefits, transfers out and divorce cases, and several additional indicators.

Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 percent reduction in greenhouse gas emissions by 2030.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. All public bodies need to reduce their direct and indirect emissions and should have plans to do so. Many public bodies also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change.

The Auditor General and Accounts Commission are developing a national programme of audit work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, external auditors were required to gather basic information on the arrangements for responding to climate change in each body through completion of a questionnaire.

In 2021/22 the Pensions Committee approved a Statement of Responsible Investment Principles (SRIP), with an updated in March 2023. The SRIP sets out to clarify the Fund's agreed approach to Responsible Investment. It is intended that the statement will be used as a guide for investment decision making. Although not a signatory to the Principles of Responsible Investment (PRI), the Fund supports the six PRI principles. Since approval of the SRIP the Fund has joined Climate Action 100 as well as continuing to participate in the Scottish Responsible Investment Group adopting a collective approach.

Consideration and monitoring of carbon efficiency is reported to the JISP and working with Lothian has enabled details of the measures of carbon efficiency to be reported.

Although no commitment has been made to the Taskforce for Climate Related Financial Disclosure (TCFD) in Scotland to date, the Fund anticipates that there will be continued interest in climate change and that there will be requirements in Scotland to report in a similar way to that already introduced in England & Wales. The Fund intend to carry out work to research and prepare for this happening in the future.

Appendices



Appendix 1: Responsibilities of the Fund and the Auditor	43
Appendix 2: Audit differences identified during the audit	49
Appendix 3: Action plan	51
Appendix 4: Follow up of prior year recommendations	54

.....

Appendix 1: Responsibilities of the 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
Corporate governance	<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>
Financial statements and related reports	<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) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. The management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the 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</p>

Area	Fund responsibilities
	<p>reporting framework. The relevant information should be communicated clearly and concisely.</p> <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.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

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

Our responsibilities

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

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

Audit quality

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

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

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223>

Independence

The Ethical Standards and ISA (UK) 260 require us to give the Fund full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

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

Our period of total uninterrupted appointment as at the end of 31 March 2023 was one year.

Audit and non-audit services

The total fees charged to the Fund for the provision of services in 2022/23 were as follows. Prior year charges for the predecessor auditor are also shown for comparative purposes:

	Current year £	Prior year £
Audit of Fife Pension Fund (Auditor remuneration)	£60,915	£32,240
Total audit	£60,915	£32,240
Non-audit services	-	-
Total fees	£60,915	£32,240

The FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services have been provided to the Fund.

Appendix 2: Audit differences identified during the audit

We are required to inform the Fund of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. The material misstatement discovered during the course of our audit and which has been adjusted for is summarised in the table below.

Adjusted misstatements

Details of the item corrected following discussions with management is 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 Return on investments	6.5	(6.5)		
	Net impact on net assets			-	-

Unadjusted misstatements

We identified no unadjusted misstatements during our audit.

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.	<p>Note 11a (Reconciliation of movements in investments and derivatives)</p> <p>Under the Purchases (at cost) and derivative payments heading, Pooled Property investments has been increased by £9.386million.</p> <p>Under the Sales proceeds and derivative receipts has been decreased by £9.386million.</p>
2.	<p>Note 11a (Reconciliation of movements in investments and derivatives)</p> <p>The narrative at the foot of the note was updated to reflect the adjustment in investment management expenses.</p>

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist the Fund in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated as follows:

Rating	Assessment rationale
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.

Working papers in preparation of the annual accounts	Medium
Observation	<p>Management, in the preparation of the financial statements place reliance on reports and information from its Custodian, Northern Trust. During the course of the audit we requested further information from management, who in turn requested this from Northern Trust, to support the disclosures in the notes to the accounts (in particular note 11 (Reconciliation of movements in investments and derivatives). This led to a change in the disclosures within this note.</p>
Implication	<p>There is a risk that management does not obtain / challenge all information provided by Northern Trust and that this could lead to a misstatement in the financial statements.</p>
Recommendation	<p>We would encourage management to request and challenge all information provided by Northern Trust which is required in the preparation of the annual report and accounts.</p>
Management response	<p>Northern Trust is relied on to produce reports and information due to the nature of the accounting for Pension Funds, the complexities, the timing of accounts and the structure of the team. A number of checks and reconciliations are carried out to ensure the information received agrees with the ledger and is as anticipated. Over the last few years, further dialogue and discussion has taken place with Northern Trust to increase fund officers understanding and ability to challenge information provided, particularly around the classification of assets.</p> <p>Procedures will be enhanced to include an increased level of challenge into the year-end consolidation process.</p> <p>Responsible officer: Finance Operations Manager</p> <p>Implementation date: 30 June 2024</p>

Assurance Reports on Controls at a Service Organisation	Medium
Observation	<p>Fife Pension Fund utilise the Altair pension administration software platform as provided by Heywood Pension Technologies. We noted during our audit that the Pension Fund does not seek assurance that the relevant internal controls are in place at this organisation; through for example the organisation’s internal control report and associated audit report.</p>
Implication	<p>There is a risk that should appropriate controls be absent at this organisation that this could lead to a misstatement in the Pension Fund’s financial statements.</p>
Recommendation	<p>We would encourage management to obtain and review the internal control report and associated audit report as it relates to Heywood Pension Technologies and the provision of the Altair pension administration software platform.</p>
Management response	<p>Various reports and assurances are sought from Heywood Pension Technologies in respect of Cyber certificates and compliance with various standards. Our requests will be extended to include internal control reports and associated audit reports and these will be reviewed upon receipt.</p> <p>Responsible officer: Pensions Team Leader</p> <p>Implementation date: 31 March 2024</p>

Appendix 4: Follow up of prior year recommendations

We have followed up on the progress the Fund has made in implementing the recommendations raised by the previous auditor last year.

1. Member benefit statements notifications	
Recommendation	Consider the need to notify the availability of member benefit statements by letter where email addresses are not held.
Implementation date	31 August 2023
Complete	Members not using MSS have been written to advising to register and access statement.

2. Lump Sum accruals	
Recommendation	Ensure that appropriate accruals for lump sums are made.
Implementation date	31 March 2023
Complete	Year end procedures were updated

3. Reconciliations	
Recommendation	Ensure that all key reconciliations are undertaken and reviewed on a timely basis.
Implementation date	31 March 2023
Complete	All reconciliations up to date

4. Administration costs	
Recommendation	Consider the inclusion of unit costs for administration in budget monitoring and administration reports.
Implementation date	31 March 2023
Ongoing	Not yet actioned – consider in review of KPIs which has just concluded phase 1 Revised implementation date: 31 March 2024

5. Service organisation control reports and complementary user entity controls	
Recommendation	Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the governance assurance framework.
Implementation date	30 June 2023
Ongoing	A review of service organisation control reports has been included in the 2022/23 annual report and accounts. Audit observation: we did however note that LPFI do not currently commission and publish a service internal control report as prepared by an independent reporting accountant. In 2022/23, the Fund received a controls letter in the absence of such a report. We would encourage the Fund to request from LPFI an internal control report as provided by all other fund managers. Implementation date: 31 March 2024



© Azets 2023. All rights reserved. Azets refers to Azets Audit Services Limited. Registered in England & Wales Registered No. 09652677. VAT Registration No. 219 0608 22. Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.

Accounting | Tax | Audit | Advisory | Technology
