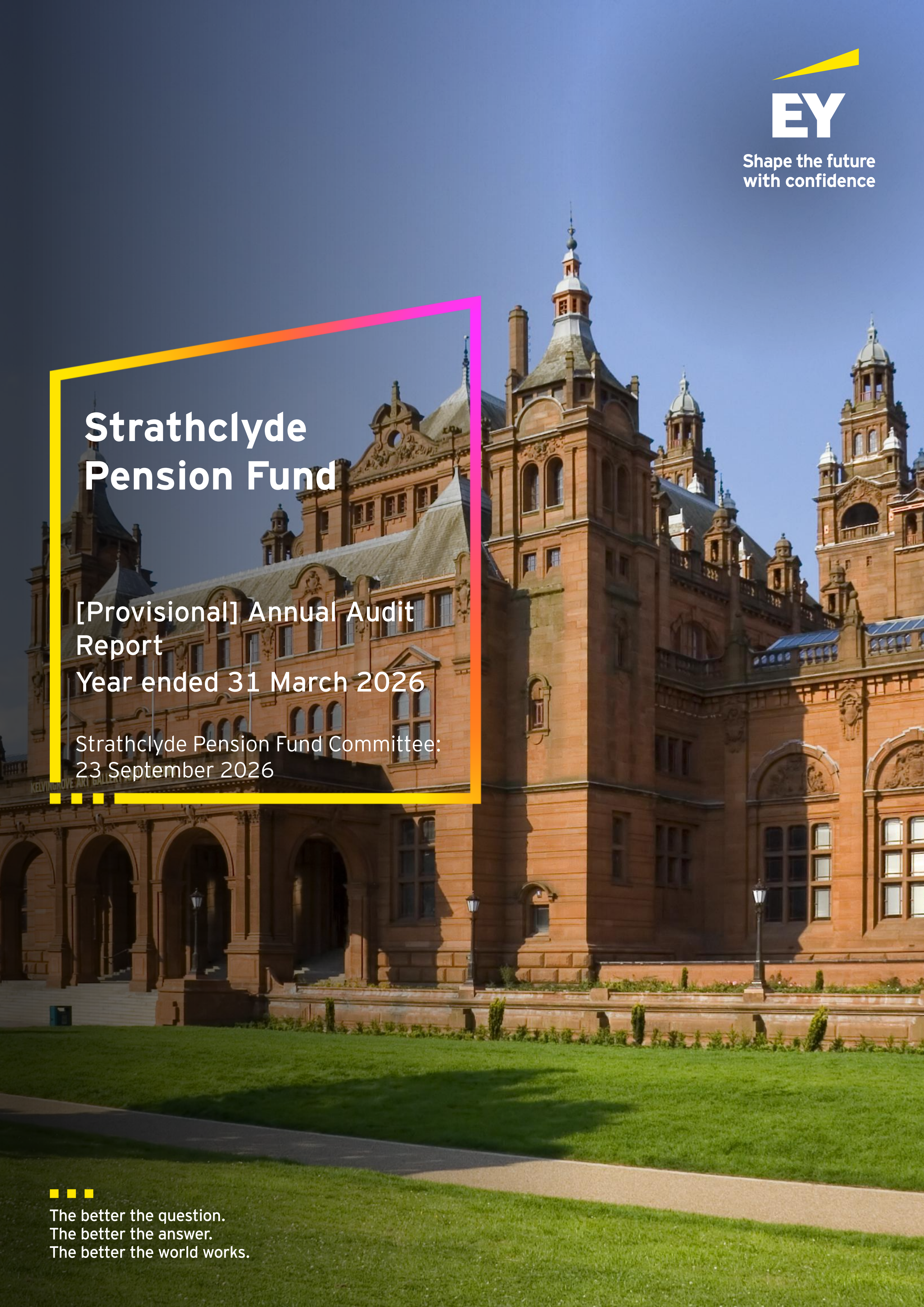

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Strathclyde Pension Fund

[Provisional] Annual Audit Report
Year ended 31 March 2026

Strathclyde Pension Fund Committee:
23 September 2026

The better the question.
The better the answer.
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Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter, through which the Accounts Commission has appointed us as external auditor of Strathclyde Pension Fund for financial years 2022/23 to 2026/27.

This report is for the benefit of the Pension Fund and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Accessibility

Our Report may be available on Audit Scotland's website, and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018. Responsibility rests with the publishing organisation to ensure that standards are met.

Executive summary

This report summarises the findings of the 2025/26 annual audit of Strathclyde Pension Fund ('the Pension Fund'). The scope of the audit was set out in our Annual Audit Plan, which was presented to the Pension Fund Committee on 18 March 2026. The report summarises:

- Our conclusions arising from the audit of the Pension Fund's financial statements; and
- A summary of significant matters and conclusions on the wider scope areas that frame public audit as set out in the Audit Scotland Code of Audit Practice 2021 (the Code).

Financial statements Our assessment: Green	[We have substantially completed our audit procedures for the Strathclyde Pension Fund financial statements for the year ended 31 March 2026, subject to the completion of ongoing manager and partner reviews and receipt of the outstanding information as outlined in Appendix I.] The draft financial statements and supporting working papers were of a sufficient quality to allow us to complete our audit procedures. We identified [3] unadjusted differences arising from the audit, as well as a number of misstatements in disclosures and other minor disclosure amendments, which were processed within the financial statements as part of the audit process. We were satisfied that the Annual Governance Statement, reflects the requirements of CIPFA's updated Delivering Good Governance Framework, including the identification and disclosure of relevant areas for improvement.
Going concern Our assessment: Green	In accordance with the CIPFA Code of Practice on Local Government Accounting, the Pension Fund prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. Under auditing standard ISA 570 and Practice Note 10, we are required to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting, with our assessment focused on the continuity of the Pension Fund's services and functions within the statutory local government framework rather than its financial viability as a separate entity. The Pension Fund has concluded that there are no material uncertainties around its going concern status considering that the Fund will continue to provide the services required to carry out its statutory responsibilities.
Best Value Pension Funds have a statutory duty to have arrangements to secure Best Value. The Pension Fund should have effective processes for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.	The outcome of audit work on the administering authority's Best Value arrangements is reported in the Glasgow City Council annual audit report. No findings directly applicable to the Fund have been communicated to us by the auditor of Glasgow City Council that will be reported in the 2025/26 annual audit report of the council.

Executive summary: Wider Scope responsibilities

Financial management Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Our assessment: Green	The Pension Fund has established financial management arrangements, and we are satisfied that these are adequate for the management of its financial position. No significant matters for improvement in financial management arrangements have been identified by internal audit activity in 2025/26 or as a result of our own audit procedures. We have no outstanding audit recommendations from 2024/25 with the 2023/24 recommendation relating to approval of journal postings having been resolved in 2025/26. See Appendix E for details.
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered. Our assessment: **Green**	The value of the Fund increased by 6.9% to £33.4 billion during 2025/26, with investment performance at 9.2%, slightly below the benchmark return set for the year of 11.8%. The 2023 valuation funding level was 147%, evidencing that the Fund is well-funded. The Pension Fund has begun to see movements in its' member bodies as a result of consolidations and exit credits, with further movements expected. However, these changes are not expected to have a significant impact on the overall position of the Pension Fund.
Vision, Leadership and Governance The effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Our assessment: **Green**	The Pension Fund had appropriate Governance arrangements in place throughout 2025/26 and ensured governance activities were held on a routine and timely basis. We consider the Governance Statement to be consistent with our findings from our audit. There were no identified weaknesses in governance or internal control that were required to be reported within the Annual Governance Statement, and no recommendations were given from Internal Audit.
Use of Resources to improve outcomes The Pension Fund's approach to demonstrating economy, efficiency, and effectiveness through the use of resources and reporting outcomes. Our assessment: **Green**	The Pension Fund has a well-developed approach in place to monitor and report on investment performance. The Pension Fund underperformed against benchmark, however, continues to perform above the LGPS average across both three and five-year periods. Robust arrangements are in place to scrutinise the performance of managers.

Introduction

Purpose of our report

The Accounts Commission for Scotland appointed EY as the external auditor of Strathclyde Pension Fund ('Pension Fund') for the five-year period to 2026/27.

We undertake our audit in accordance with the Code of Audit Practice (June 2021); Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other relevant guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise the key findings and conclusions from our audit work. It is addressed to both the Pension Fund and the Accounts Commission and presented to those charged with governance. This report is provided to Audit Scotland and is published on their website.

A key objective of audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Pension Fund employs best practice and where practices can be improved, and how risks facing the Pension Fund can be mitigated. We use these insights to form audit recommendations to support the Pension Fund.

Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations as set out in Appendix E. Our audit was not designed to identify all matters that may be relevant to the Pension Fund. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

Scope and responsibilities

The Code sets out the responsibilities of both the Pension Fund and the auditor (summarised in Appendix A). These were outlined in our Annual Audit Plan which was presented to the Pension Fund Committee on 18 March 2026.

Our review and assessment of materiality

In our Annual Audit Plan, we communicated that our audit procedures would be performed using an overall materiality of £312.7 million. We considered the impact of the reported net assets within the 2025/26 unaudited financial statements, and we updated this amount to £334.3 million due to the increase in net assets. Exhibit 1 confirms the updated level of materiality.

Performance materiality remains at 75% of overall materiality with the amount at year end set at £250.7 million given the revised materiality.

Exhibit 1: Updated assessment of materiality

Planning materiality

£334.3m

Within our Annual Audit Plan, we reported our preliminary assessment that materiality would be set at £312.7 million for the Pension Fund (2024/25: £312.7 million).

In light of the net assets in 2025/26, following receipt of the unaudited accounts, we updated the materiality to £334.3 million (2024/25: £312.7 million).

Performance materiality

£250.7m

Within our Annual Audit Plan, we reported our preliminary assessment that performance materiality would be set at £234.5 million.

Performance materiality has been updated at year-end to £250.7 million, which represents 75% of materiality (2024/25: £234.5 million).

We outlined our intention to report on misstatements that exceeded £15.6 million for the Pension Fund within our Annual Audit Plan. We have updated our reporting materiality from £15.6 million in our Annual Planning Report to £16.7 million in this report. There were [3] adjustments identified to date in the current year that breached this threshold for the Pension Fund. Our consideration of these adjustments is set out in Appendix F.

Based on our understanding of the expectations of financial statement users, we apply a lower materiality level to key management personnel disclosure. We also apply professional judgement to consider the materiality of related party transactions to both parties.

Financial Statements audit

We are responsible for conducting an audit of the Pension Fund's financial statements. We provide an opinion as to:

- Whether they give a true and fair view of the financial transactions of the fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2025/26 CIPFA Code of Accounting Practice; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

We outlined the significant risks and other focus areas for the 2025/26 audit in our Annual Audit Plan, presented to the Pension Fund Committee on 18 March 2026.

Three significant risks, including fraud risks, and key audit matters were identified within our Annual Audit Plan impacting the audit of the financial statements. The three significant risks and key audit matters are:

1. The risk of fraud through management override of control (fraud risk);
2. Valuation of complex investments (significant risk);
3. Valuation of property, plant and equipment (significant risk);

One inherent risk impacting the audit of the financial statements was identified, relating to IAS 26 Reporting.

Our findings in these areas are summarised in Section 2 of this report.

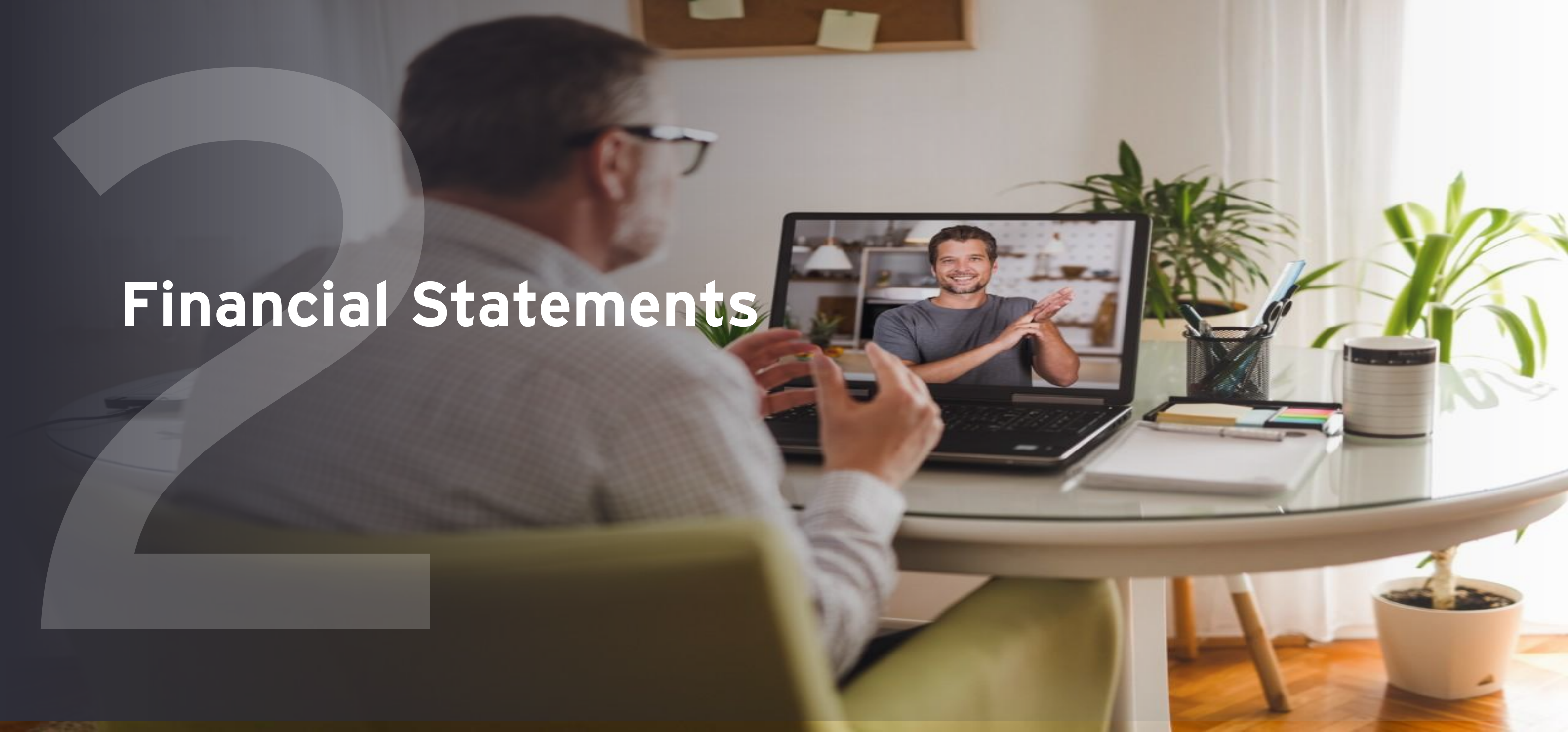
Wider Scope and Best Value audit

Under the Code, our responsibilities extend beyond the audit of the financial statements. Due to the nature of the Pension Fund, our wider scope work requires significant allocation of resources in the audit. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- The Pension Fund's arrangements to secure sound financial management.
- The regard shown to financial sustainability.
- Clarity of plans to implement the vision, strategy and priorities of the Pension Fund, and the effectiveness of governance arrangements for delivery.
- The use of resources to improve outcomes.

Our annual assessment of the Pension Fund's arrangements to secure best value is integrated within our wider scope annual audit work.

Our wider scope and Best Value findings are summarised in Section 3 of this report. [The Wider Scope and Best Value findings remain subject to ongoing manager and partner review. Accordingly, the conclusions presented in this report are preliminary and may be updated following completion of the review process].



Financial Statements

Introduction

The annual financial statements allow the Pension Fund to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

Compliance with regulations

The financial statements were prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2025/26. The draft financial statements and supporting working papers were submitted for audit by 30th June 2026, following the consideration by the Pension Fund Committee. We were satisfied that the Pension Fund made the financial statements available for public inspection in accordance with Regulation 9 of The Local Authority Accounts (Scotland) Regulations 2014.

As part of our oversight of the Pension Fund's financial reporting process, we consider key aspects of the Pension Fund's preparation of the financial statements and supporting documentation, predominantly by the finance team, to support the audit. We also reviewed the financial statements and made comments aimed at improving the compliance with the Code of Accounting Practice, or to enhance the understanding of the financial statements. The key qualitative aspects that we consider in relation to the preparation of the financial statements, along with our conclusions, are set out within Exhibit 2, overleaf.

Our assessment of the quality of the financial statements preparation and support is summarised in Exhibit 2.

Exhibit 2: Factors impacting the execution of the audit

Area	Status	Explanation
Timeliness of the unaudited financial statements	Effective	• The financial statements were presented to the Pension Fund Committee on 26th June 2026, and draft accounts were shared with the audit team on the same date.
Quality and completeness of the draft financial statements	Effective	• Our review of the financial statements identified minor presentational and disclosure changes and minimal internal inconsistencies.
Delivery of working papers in accordance with agreed client assistance schedule	Effective	• The working papers to support the audit were provided prior to 30th June 2026 in line with the client assistance schedule shared with the Finance team.
Timeliness and quality of evidence supporting key accounting estimates	Effective	• Management identified three estimates within the financial statements, related to actuarial valuation of present value of promised retirement benefits, valuation of private equity/ Infrastructure and property valuation. Supporting evidence and quality of evidence provided for these accounting estimates were provided prior to 30th June in line with the client assistance schedule shared with the Finance Team.
Access to finance team and personnel to support the audit in accordance with agreed project plan	Effective	• Despite intermittent availability of the Finance Manager, the Fund ensured relevant people were available where required.
Volume and value of identified misstatements	Effective	• We identified 2 audit differences and 1 disclosure differences arising from the current year audit in relation to the financial statements.
Volume of misstatements in disclosure	Effective	• We identified minimal disclosure misstatements, the most material of which being in relation to classification of investments within the fair value hierarchy. Refer to Appendix F.
Adherence to public inspection period	Effective	• We were satisfied that the Fund made the financial statements available for public inspection in accordance with Regulation 9 of The Local Authority Accounts (Scotland) Regulations 2014.
Pace of progress in respect of implementation of recommendations agreed in prior years	Effective	• A total of 1 recommendation was followed up from prior years, with none remaining open.

Audit outcomes

As part of the audit, we reviewed the financial statements and made several comments aimed at improving the compliance with the Code of Accounting Practice. We worked with management to make minor amendments to the financial statement disclosures, and we will continue to highlight and discuss good practice throughout our period of appointment.

We identified [3] adjustments arising from the audit, where no adjustments have been adjusted by management and [3] being unadjusted audit differences. In addition to this, there is [1] disclosure difference arising from our audit. Further detail for all disclosures can be found at Appendix F.

[We note that the adjustments presented within this report are preliminary findings and may be updated following completion of our review process].

Audit Approach

We adopted a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

During our planning procedures, we determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence to express an opinion on the financial statements.
- Reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable.
- Ensuring that reporting to the Pension Fund Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.
- We rigorously maintain auditor independence (refer to Appendix B).

Our overall audit opinion is summarised on the following page.

Key audit matters

Under the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021, key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Exhibit 3: Our Audit Opinion

Element of our opinion	Basis of our opinion	Conclusions
Financial statements ▪ Truth and fairness of the financial transactions of the Pension Fund at 31 March 2026 and of the amount and disposition at that date of its assets and liabilities. ▪ Financial statements in accordance with the relevant financial reporting framework and relevant legislation.	▪ We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. ▪ We are satisfied that accounting policies are appropriate, and estimates are reasonable. ▪ We have considered the financial statements against the Code requirements, and additional guidance issued by CIPFA and Audit Scotland.	[We intend to issue an unqualified audit opinion] on the 2025/26 financial statements for the Pension Fund.
Going concern ▪ We are required to conclude on the appropriateness of the use of the going concern basis of accounting.	▪ We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis.	In accordance with the work reported on page 20, [we have not identified any material uncertainties].
Other information ▪ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit.	▪ The Chief Financial Officer is responsible for other information included in the financial statements. ▪ We conduct a range of substantive procedures on the financial statements, and our conclusion draws upon review of committee and Pension Fund minutes and papers, regular discussions with management, our understanding of the Pension Fund and the wider sector.	[We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.]
Matters prescribed by the Accounts Commission ▪ Management commentary / annual governance statement are consistent with the financial statements and have been properly prepared.	Our procedures include: ▪ Reviewing the content of narrative disclosures to information known to us. ▪ Our assessment of the Annual Governance Statement against the requirements of the CIPFA Delivering Good Governance Code.	[We issued an unqualified opinion].
Matters on which we are required to report by exception	We are required to report on whether: ▪ Adequate accounting records have been kept. ▪ Financial statements are not in agreement with the accounting records. ▪ We have not received the information or explanations we require.	[We have no matters to report].

Our response to significant and fraud audit risks

1. Risk of fraud through management override of control (Key audit matter)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to the fraud risk on every audit engagement.

ISA (UK) 240 also requires us to assume that fraud risk from revenue recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure. For the Pension Fund, we rebut the risk of fraud in revenue and expenditure recognition.

What did we do?

For 2025/26, our work included consideration of the following areas:

- **Risk of fraud:** We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also developed our understanding of the oversight of those charged with governance over management's processes over fraud.
- **Testing on journal entries:** We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including year-end investment assets journals. We obtained all journals posted to record the transactions of the Pension Fund, which are hosted on the Glasgow City Council financial ledger. We subsequently identified risk criteria for the journals and tested any relevant journals considered to be at higher risk of misstatement to understand the basis for the transaction and agree to third party supporting evidence. We also note that prior year recommendation in respect of one weakness in internal controls over journal entries has been addressed. Please refer to Appendix E for details.
- **Judgements and estimates:** We agreed with management's assessment that there are no material accounting estimates included in the financial statements that have a direct impact on the Fund's financial statements beyond the estimates used by third parties to value assets in which the Pension Fund has investments.

- **Accounting policies:** We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Pension Fund to be appropriate and there were no significant accounting practices which materially depart from the Code.
- **Significant unusual transactions:** We discussed with management whether there were any significant unusual transactions in the year. We remained alert to the indication of this through our testing of journal entries and through core audit transaction testing.

Our conclusions:

- [Our testing has not identified any material misstatements relating to management override.]
- [We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.]
- There was no disagreement during the course of the audit over any accounting treatment or disclosure, and [we encountered no significant difficulties in the audit].

2. Valuation of Complex Assets (Key audit matter)

Impacted balances within the financial statements:

- Level 2 assets: £14.9 billion; and
- Level 3 assets: £7.8 billion.

Refer to accounting policies within Note 3, pages 179-180 and Note 21 of the Fund's financial statements.

What is the risk?

As of 31 March 2026, the Fund held investments (excluding property) of £30.7 billion, of which 75% (£22.8 billion) were classified as Level 2 and Level 3 investments, meaning there are not publicly quoted prices in place in an active market. We have assigned a significant risk to the valuation of Private Equity and Infrastructure Funds, and Pooled Investments.

The Fund's property assets of £2.5 billion are also classed as Level 3. We have assigned a separate significant risk to this class of assets as described at page 18.

What did we do?

We undertook specific, additional procedures for complex investment valuations to address the significant risk. For 2025/26 our work, performed on a sample basis over complex asset population, included consideration of the following areas:

- Where fund managers complete control reports, we obtained the reports for all material investments and reviewed qualifications or exceptions that may affect the audit risk and scope, obtaining bridging letters where the period covered is different. [No issues that could affect the risk or scope of the audit were identified.]
- For private equity and infrastructure, we obtained the most up-to-date financial statements for each investment, and capital statements to the Fund's Financial Statements date. Where these are not at 31 March 2026 (for example, December 2025 year-ends), we utilise indices to compare the expected movement and quantify a 31 March 2026 year-end position. Indices are obtained from EY Markets, which is a reputable source and the preferred source within EY. This is performed to gain additional assurance over year-end balances where audited financial statements are not available at that date. We have considered the audit opinions for the Fund's share of the investment based on its percentage ownership.
- For pooled investments, we tested all material balances to a lower testing threshold and agreed all balances sampled to third party fund managers' reports. For each holding, we obtained the net asset figure per the audited financial statements Fund's percentage ownership and directly from the fund managers. We additionally obtained underlying records from Fund Managers and recalculated valuations using an independent pricing tool.
- We reviewed the basis of valuation for unquoted investments to assess if they are in line with the accounting policy and in accordance with the CIPFA Code of Practice on Local Authority Accounting requirements.

- We assessed the impact of the timing of the valuation reports for 31 March 2026. Through this work, we identified a number of differences between the Pension Fund recorded balances and the confirmations received from Fund managers. [We confirmed this occurred where valuations gains to 31 March 2026 were not reported to the Pension Fund before the unaudited accounts are prepared but are available by the time of the audit of the financial statements. The total differences identified were £34.75 million for private equity, infrastructure and private debt (2024/25: £66.74 million)].

Our conclusions

- Our testing of level 2 and level 3 assets, including directly held property , did not identify any significant issues. Details of the procedures performed over directly held property and associated results are provided on page 18.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure, and we encountered no significant difficulties in the audit.
- [The review of the work on valuation of complex assets remains ongoing and is subject to manager and partner review. Accordingly, the conclusions presented in this report are preliminary and may be updated following completion of the review process].

3. Valuation of Directly Held Property (Key audit matter)

Impacted balances within the financial statements:

- Directly held property: £2.5 billion

Refer to accounting policies within Note 3, pages 179-180 and Note 18 of the Fund's financial statements.

What is the risk?

As of 31 March 2026, the Fund held £2.5 billion as directly held property, which is valued annually by an external valuer and classified as Level 3 assets.

The Fund has a significant portfolio of directly held property investments.

The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.

What did we do?

We undertook specific, additional procedures for property valuations to address the significant risk. For 2025/26 our work included consideration of the following areas:

- We documented and walked through the design and implementation of the controls over the valuation process.
- We obtained the valuation report from the external valuer (Avison Young) and reconciled the valuations provided to those utilized within the financial statements.
- We assessed the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts.
- We engaged EY Property experts (EYRE) on a sample basis to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations.
- We sample tested additional valuations, testing key asset information used by the valuers in performing their valuation (e.g. yields and revenue costs).

Our conclusions

- Our testing of directly held property, did not identify any significant issues.
- No differences were identified for directly held property.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure, and we encountered no significant difficulties in the audit.
- [The review of the work on valuation of directly held property remains subject to manager and partner review. Accordingly, the conclusions presented in this report are preliminary and may be updated following completion of the review process]]

Our response to risks of material misstatement

1. IAS 26 Reporting

What is the risk?

The Fund’s IAS 26 disclosure shows that the actuarial present value of promised retirement benefits is £19.346 billion as at 31 March 2026 (2025: £18.7 billion), with the fair value of scheme assets disclosed as £33.2 billion (2025: £31.3 billion).

The figure is material and subject to complex estimation techniques and judgements by the Actuary, Hymans Robertson. The estimate is based on the 2023 triennial valuation and takes into account local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.

There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2026. We therefore associate an inherent risk to this area.

What did we do?

In order to address this risk, we carried out a range of procedures including:

- Assessing the competence of managements expert, Hymans Robertson;
- Engaging with the NAO’s consulting actuary (PwC) and our EY Pensions Advisory Team to review the IAS 26 approach applied by the actuary are reasonable and compliant with IAS 26;
- Ensuring that the IAS 26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary; and
- Engaged EY Pensions Specialists to perform a roll-forward calculation for the IAS19 calculation at one of the scheduled bodies, in order to confirm that assumptions and techniques used for IAS 26 modelling is consistent and appropriate.

Our conclusions:

- We conclude that management experts have sufficient experience and competence for the performed work.
- Internal specialists concluded that the IAS 26 approach applied by the actuary is reasonable.
- We have no matters to report in respect of our work around IAS 26 disclosures in the financial statements.
- [Our testing procedures covering IAS 26 reporting is currently underway and is subject to manager and partner review. Accordingly, the conclusions presented in this report are preliminary and may be updated following completion of the review process]]

Going concern

All International Standard on Auditing (UK) 570 Going Concern, as applied by Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom, requires auditors to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting and to consider whether any material uncertainties exist that require disclosure in the financial statements or reporting in the auditor's report.

For public sector bodies, including Local Government Pension Funds, the going concern basis of accounting is founded on the expectation that the services provided by the body will continue in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which outlines that as authorities cannot be created or dissolved without statutory prescription. Accordingly, the assessment is focused on the continuation of public services and functions rather than on the continued existence or financial viability of the Pension Fund as a separate legal entity established under the secondary legislation made under the terms of the Public Service Pensions Act 2013.

Management's assessment covers the period of at least twelve months from the date of approval of the financial statements, extending to 31 March 2028. In undertaking its assessment, management considered the legislative and regulatory framework within which the Fund operates, its role in delivering pension services, and the expectation that these services will continue to be provided by the administering authority.

The Fund has concluded that there are no material uncertainties that cast significant doubt on the appropriateness of the going concern basis of preparation. This conclusion reflects the expectation that pension administration and related services will continue to be provided to scheme members and employers through the administering authority.

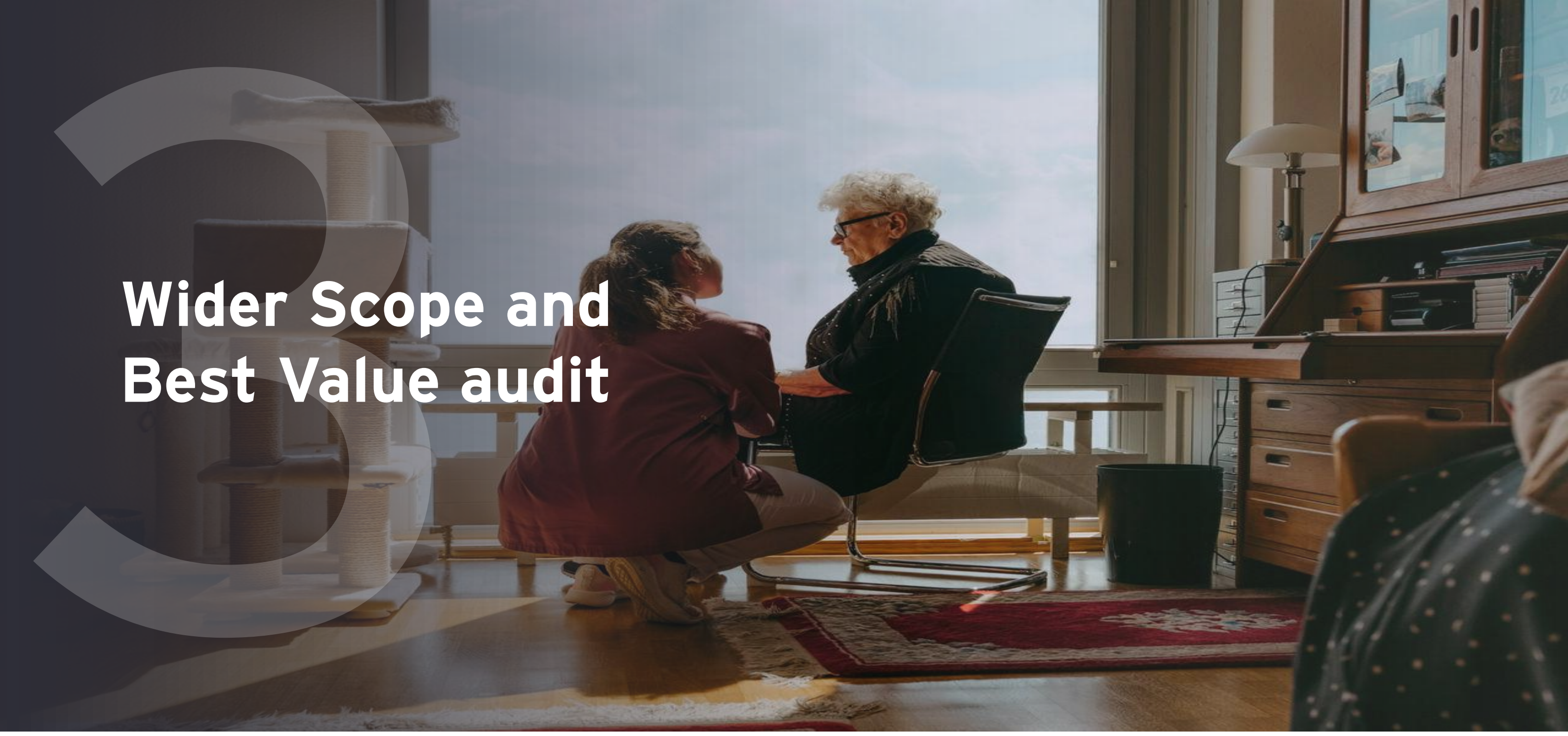
In evaluating management's assessment, we considered:

- The appropriateness of applying the going concern basis of accounting in the context of the public sector continuation of services principle;
- The completeness of factors considered within management's assessment;
- The extent to which management's assessment supports the continued provision of pension services and functions;
- The adequacy and completeness of the related disclosures within the financial statements.

information provided by management to support its assessment, including key reports to the Pension Fund and financial plans, were verified to supporting records.

Our conclusions:

- We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key reports to the Pension Fund Committee and financial planning documentation.
- We concur with management’s assessment that there are no material uncertainties in relation to the going concern of the Pension Fund that is expected to impact their continuity to deliver services.
- We have no matters to report in respect of our work around going concern or the conclusions reached by the Pension Fund.
- [Our conclusions above over our review of the Going Concern assessment represent the preliminary position with work on the area currently underway that is subject to manager and partner review.].



Wider Scope and Best Value audit

Introduction

In June 2021, Audit Scotland and the Accounts Commission published the current Code of Audit Practice. This establishes the expectations for public sector auditors in Scotland for the term of the current appointment.

Risk assessment and approach

The Code sets out the four dimensions that comprise the wider scope audit for public sector in Scotland:

- Financial management.
- Financial sustainability.
- Vision, Leadership and Governance.
- The use of resources to improve outcomes.

We apply our professional judgement to risk assess and focus our work on each of the wider scope areas. In doing so, we draw upon conclusions expressed by other bodies including the Pension Fund's internal auditors, along with national reports and guidance from regulators and Audit Scotland. The findings from our wider scope work have informed our assessment on Best Value in 2025/26.

For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Pension Fund's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

Exhibit 4: Our RAG ratings

Red Amber Green	Our auditor judgements are RAG rated based on our assessment of the adequacy of the Pension Fund's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each area. This takes account of both external risks not within the Pension Fund's control and internal risks which can be managed by the Pension Fund, as well as control and process observations made through our audit work.

Financial Management

Introduction

Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Our focus is therefore on in-year monitoring and reporting arrangements, including the achievement of planned savings, and the Pension Fund's outturn for 2025/26.

Our overall assessment: Green

- The Pension Fund has established financial management arrangements, and we are satisfied that these are adequate for the management of its financial position.
- No significant matters for improvement in financial management arrangements have been identified by internal audit activity in 2025/26 or as a result of our own audit procedures.
- One audit recommendation was given in the prior year which was revisited during our audit and observed that management had put in place additional controls to address the internal control weakness. See Appendix E for details.
- [The Financial Management findings remain subject to manager and partner review. Accordingly, the conclusions presented in this report are preliminary and may be updated following completion of the review process].

Financial management arrangements

We give consideration to the financial management arrangements in place at the fund through our financial statement audit procedures. No significant matters were identified through the course of our work in this respect. In particular, we considered changes to the internal control environment resulting from the hybrid working arrangements that have been in place since Covid-19, noting that hybrid working and associated procedural changes are embedded and operating as expected.

We additionally review committee member training initiatives and conclude that the Fund's training policy recognises the importance of ensuring that all staff and members charged with financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to allow them to perform their roles.

An external audit recommendation was raised in 2022/23 in relation to approval of journals processes. From follow up discussions with management and the testing performed as part of our journal entry testing, a new policy has been implemented to have a journal register maintained and formally reviewed by the Director every month. See Appendix E for details.

Budget monitoring and approval

The Pension Fund prepares a Fund budget for review and approval by the Pension Fund Committee and Board, and updates on performance against the budget are then presented to the Committee throughout the year on a quarterly basis.

The 2026/27 budget was approved in March 2026 and includes a total expenditure of £10.83m, representing an increase of £2.50m (29.6%) compared with the 2025/26 budget of £8.33m. This is due to higher employee costs and supplies and services expenditure associated with service reform initiatives, the increase in employer pension contribution rates from 6.5% to 17.5%, ongoing investment in systems and technology, costs arising from the triennial actuarial valuation, and the continuation of the Heywood migration programme.

Despite the increase in expenditure, the most significant factor affecting the Fund's overall budget position is the reduction in forecast bank interest income from £8.65m in 2025/26 to £3.800m in 2026/27. As a result, the Fund is expected to move from a net income position of £0.50m in 2025/26 to a net expenditure position of £6.83m in 2026/27.

Employee costs remain the largest element of the budget at £5.78m, accounting for approximately 53% of total planned expenditure. The year-on-year increase of £1.28m reflects the 3.5% pay award, pension contribution increases, incremental salary progression and additional staffing to support service reform activities. Supplies and services expenditure is budgeted to increase by £1.18m to £2.61m, largely due to technology and regulatory projects, including the Altair cloud migration, bank account verification implementation, McCloud remedy developments, legislative change requirements, actuarial valuation costs and continued investment in IT infrastructure.

Internal audit scrutiny of financial management arrangements

We have also considered the results of the Pension Fund's Internal Audit findings for the year in relation to financial management. The Internal auditor issued reports in the year in relation to compliance with the Direct Impact Portfolio and Altair Application. In each case internal audit were able to provide substantial assurance over the arrangements in place, with no open recommendations in place as a result of these audits.

Fraud prevention arrangements

The Fund participates in the National Fraud Initiative (NFI) exercise through the administering authority, Glasgow City Council. Responsibility for investigating data matches lies with the internal audit function, which is shared across the Council and Pension Fund. A total of 2,776 matches were identified in the exercise for the Pension Fund to investigate, which is an ongoing exercise. 2,528 have been investigated and closed as at the time of the audit.

In addition to NFI, the Fund are also enrolled in the Tell us Once service, which is used to notify Pension Funds of registered deaths, and the LGPS database, which helps to ensure that individuals are not being paid duplicate benefits from different Pension Fund.

The risk of fraud is included on the Pension Fund's risk register, with a series of mitigating controls in place to respond to the risk. The risk register is kept under periodic review and therefore there is robust oversight of fraud prevention arrangements.

Financial Sustainability

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

The core issue for financial sustainability for the Pension Fund is in ensuring that there are sufficient future assets to fund benefits to members going forward into the future. Therefore, our focus is on effective investment strategies and monitoring.

Our overall assessment: Green

- The value of the Fund increased by 6.9% to £33.4 billion during 2025/26, with investment performance at 9.2%, slightly below the benchmark return set for the year of 11.8%.
- The 2023 valuation funding level was 147%, evidencing that the Fund is well-funded.
- The Fund has seen the number of participating employers reduced during the year, primarily due to employer wind-ups and Fund exits, with further movements expected. However, these changes are not expected to have a significant impact on the overall position of the Pension Fund.
- [The Financial Sustainability findings remain subject to ongoing manager and partner review. Accordingly, the conclusions presented in this report are preliminary and may be updated following completion of the review process].

The 2023 triennial valuation showed a funding position of 147%, compared with 106% at the 2020 valuation

The Local Government Pension Scheme rules require a fund valuation to be undertaken every three years by an independent actuary. The Fund's most recent triennial valuation was at 31 March 2023, performed by the Fund's actuary, Hymans Robertson.

2026 is a triennial valuation year for the Fund, with the valuation being carried out as at 31 March 2026. However, the valuation report is not expected to be available for review until later in the 2026/27 financial year.

The Fund's valuation showed a funding position of 147%, compared with 106% at the 2020 valuation, which results in significantly lower contribution levels for the Fund from 2025/26.

The value of the Fund increased by 6.9% to £33.4 billion during 2025/26, with investment performance slightly below the benchmark return set for the year.

At 31 March 2026, the capital allocation to each Policy Group was within acceptable ranges set by the statement of investment principles

The review of the investment principles relevant for 2025/26 was presented in March 2026 to the Pension Fund Committee and approved. This was performed to ensure that the Fund's allocation of capital to various asset classes is consistent with the key funding aims of positioning employer contributions at an affordable level and being fully funded.

As at 31 March 2026, the allocation to each class of investment assets (Policy Group) was within the acceptable range set by the current strategy. Consideration is given by the Investment Advisory Panel as to how to better align these investments to the strategy through the regular monitoring that is performed.

The Fund have a target to become net zero by 2050, in line with the Paris Aligned Investment Initiative (PAII)

Responsible investing has been an area of increased attention within LGPS in recent years. The Pension Fund developed their first socially responsible investment strategy in 2000. The Fund's traditional approach to Responsible Investment has been top-down - ensuring that Environmental, Social and Governance (ESG) concerns in their portfolios are recognised and addressed. Alongside this, a bottom-up approach is being adopted where there is a preference for new investments with a positive ESG criteria.

In 2025/26, the Fund approved a revised Climate Plan during the year, having confirmed successful delivery of most priorities under the previous strategy.

The updated plan maintains the Fund's long-term objective of achieving net-zero investment emissions by 2050 and is supported by interim targets through to 2030 and rolling three-year implementation plans. Progress against these objectives continues to be monitored and reported.

The Fund’s Direct Impact portfolio places a crucial role in the Fund’s climate-strategy targets

The primary objective of the Direct Impact Portfolio (DIP) is identical to the overall investment objective, however there is a secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact. The value of DIP commitments as at 31 March 2026 totalled £2.5 billion representing 7% of the Fund’s assets. The portfolio is supporting technology and solutions crucial for the transition to a low carbon UK economy.

Revised Exit Credit Arrangements Increase Governance Requirements and Funding Prudence

In 2025/26, changes to the LGPS exit credit framework in Scotland brought arrangements more closely into line with those in England and Wales. The revised regulations require administering authorities to determine exit credit payments when employers leave the Fund, increasing governance requirements and potential uncertainty for exiting employers.

The Fund continues to apply a prudent actuarial approach to exit credit assessments, to protect the interests of the Fund and those of the remaining employer bodies against material future losses in respect of exiting employers. During the year, the University of Strathclyde received the largest exit credit payment made by the Fund to date of £85.5m and the Fund retained a provisional amount to meet any potential future liabilities following their exit.

Given the wider financial pressures currently being experienced across the higher education sector, further employer exits may arise in future, increasing the significance of the Fund's approach to assessing and managing exit credit liabilities.

Management reported that the number of participating employers reduced during the year, primarily due to employer wind-ups and Fund exits. The most significant movements related to the University of Strathclyde and River Clyde Homes.

A further employer exit occurred after the year end and is expected to be considered by the Committee during 2026/27, with additional exits possible. The Fund’s management continues to monitor the implications of employer exits for the Fund's funding position, administration and future actuarial valuations. Based on information provided by management, the Fund does not currently anticipate that these employer exits will have a significant impact on its overall funding position.

The Fund's Management continues to Monitor Growing LGPS Focus on Flexible Retirement Arrangements

There has been an increased focus across the LGPS on flexible retirement arrangements, which allow eligible employees, subject to employer consent, to reduce their working hours or responsibilities while accessing pension benefits before full retirement.

While decisions remain at the discretion of individual employers and are governed by local policies, recent guidance and appeals have reinforced the need for consistent application of such policies and decisions that are not based solely on financial considerations. Although any associated strain costs are primarily borne by participating employers, management continues to monitor developments across the sector and engage with employers to assess potential implications for administration, policy implementation, and employer support requirements.

Vision, Leadership and Governance

This considers the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Our overall assessment: Green

- The Pension Fund had appropriate Governance arrangements in place throughout 2025/26 and ensured governance activities were held on a routine and timely basis.
- We consider the Governance Statement to be consistent with our findings from our audit.
- There were no identified weaknesses in governance or internal control that were required to be reported within the Annual Governance Statement, and no recommendations were given from Internal Audit.
- [The Vision, Leadership and Governance findings remain subject to ongoing manager and partner review. Accordingly, the conclusions presented in this report are preliminary and may be updated following completion of the review process].

The Annual Governance Statement demonstrates that it has the key requirements for good governance in place

The key aspects of the Pension Fund's governance arrangements are required to be disclosed in the Annual Governance Statement within the financial statements. The Pension Fund concluded that they have obtained assurance that the system of internal control was operating effectively during the year.

We reviewed the governance statement against the requirements outlined in the CIPFA framework for Delivering Good Governance in Local Government, and against our understanding of the Committee's arrangements in the period to 31 March 2026.

[We were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the CIPFA framework.]

Through our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work has included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed.

We undertook an assessment of the financial control environment as part of our planning work and updated our understanding as part of the year end audit. Our work did not identify any significant weaknesses in the systems of internal control relevant to the preparation of the Pension Fund's financial statements.

We have attended each of the Pension Fund Committees during the year and we were satisfied that there was an appropriate level of challenge and scrutiny at meetings, and that management's assessment of compliance is consistent with matters arising at the committee.

The Fund's risk management policy is supplemented by the risk register and assurance mapping exercise

The Fund has a risk management policy which outlines the risk management strategy for the Fund. This was last updated in March 2025.

The policy is supplemented by the risk register and assurance mapping exercise, which is subject to regular review by senior officers at a six-weekly meeting. New or changing risks are communicated to the Pension Fund Committee in a timely manner.

The internal audit work carried out in 2025/26 identified no recommendations that remained open at year end

The Pension Fund's Head of Audit and Inspection presented the annual report to the Pension Fund Committee in June 2026. It was noted that the audit plan was completed, subject to ongoing fieldwork, as expected and that in 2025/26 there were no unsatisfactory audit opinions issued.

Internal audit allocated 40 days to fieldwork directly addressing the Pension Fund, covering two reviews:

- Direct Impact Portfolio; and
- Altair System.

The Pension Fund has disclosed that the Council was affected by a cyber incident involving a third-party supplier in June 2025. Access was gained through the supplier's network rather than through Council systems or users. As a result, several web-based services were disrupted until September 2025 while affected servers were isolated and remediated.

An accredited cyber incident response specialist was appointed to undertake forensic investigations and identify the root cause of the incident and an internal audit review of lessons learned was subsequently completed and reported to the Finance and Audit Scrutiny Committee in May 2026. The Council managed the incident appropriately and has implemented actions to strengthen resilience, including undertaking a cyber incident response exercise in May 2026.

The Annual Governance Statement also highlights results of one significant governance issue relevant to the pension fund that was required to be reported in 2022/23, with nothing since then. The statement concludes that all management actions identified following the incident have been implemented and no further follow up is required.

Internal Audit undertake a follow up on all previous recommendations twice per year. As at March 2026, the Pension Fund had no outstanding internal audit recommendations (2025: no outstanding recommendation).

Responsible investing

The Pension Fund has been a member of the UN Principles for Responsible Investment (PRI) since 2008. Additionally, the Fund has been a member of the Institutional Investors Group on Climate Change (IIGCC) since 2017 and are a signatory of the FRC UK Stewardship Code, preparing an annual Stewardship Code report disclosing compliance with the 12 principles in the Code.

Responsible investing, including the Fund's socially responsible investment strategy, has been considered in the Financial Sustainability section of this report.

Management's Transparent Reporting and Regulatory Engagement in Reporting Breaches to the Pension Regulator

The Pension Fund identified and responded appropriately to a historic pensionable pay compliance matter affecting two of their member bodies. The matter, relating to the historic treatment of certain pay elements as non-pensionable, was reported to The Pensions Regulator and impacts two other Scottish LGPS funds.

The Fund worked collaboratively with the affected employers, other Scottish LGPS administering authorities, advisers and the regulator to assess the issue and develop an appropriate remediation approach. The matter has been transparently disclosed in the Annual Report and Accounts, including the uncertainty regarding the final financial impact and the corrective actions being undertaken.

Transparency of information

Pensions Committee agenda, reports and minutes are published on the Glasgow City Council website. In addition, Pensions Committee meetings are open to members of the public. Despite the Cyber attack on one of Glasgow City Council's servers in June 2025, the pension fund was minorly affected, by a one-week outage of their member SPFO portal and not being able to access committee papers for a few weeks.

The committee papers are available to the public from the Glasgow City Council website, but the pension fund will have their own servers and data protection in place separate to Glasgow City Council.

Continuity of the Fund's Business and Knowledge Transfer

The Pension Fund has established robust governance arrangements, supported by experienced individuals with clear roles and responsibilities. We are satisfied that these arrangements are operating effectively at present.

However, as part of its longer-term business continuity planning, the Fund should consider how key knowledge, expertise and operational responsibilities will be maintained and transferred to ensure resilience and continuity of service over time. This should include consideration of succession planning for key roles and the mechanisms through which institutional knowledge is documented, shared and retained, reducing reliance on individual knowledge holders and supporting a smooth transition where responsibilities change.

Use of Resources to improve outcomes

We consider the Pension Fund's approach to demonstrating economy, efficiency, and effectiveness through the use of resources and reporting outcomes.

Our overall assessment: Green

- The Pension Fund has a well-developed approach in place to monitor and report on investment performance.
- The Pension Fund underperformed against benchmark, achieving investment performance of 9.2% against a benchmark of 11.8% but continues to perform above the LGPS average across all time periods.
- Robust arrangements are in place to scrutinise the performance of managers.
- [The findings from our review of the Fund's Use of Resources to improve outcomes remains subject to ongoing manager and partner review. Accordingly, the conclusions presented in this report are preliminary and may be updated following completion of the review process].

The Pension Fund has a well-developed approach in place to monitor and report on investment performance, thus ensuring resources are used in line with key strategic aims.

The Fund achieved a return on investment of 9.2% against a benchmark of 11.8%, missing the benchmark by 2.6%.

The Fund performed below its benchmark during the current year. Other than one Fund that met their set benchmark, the comparative funds underperformed by an average of 2.79% relative to their respective benchmarks. The Fund has continued to perform above the median return, performing strongly as compared to its peer group over the short, medium and long term and is ranked in the top quartile of local authority funds over the 10, 20 and 25-year time periods.

The total unit costs per member (which encompass investment management, administration and oversight and governance costs) have been in an upward trajectory since 2022/23. The Fund has experienced a further increase in costs during 2025/26. While membership grew by 2.4%, this was insufficient to offset the 5% rise in overall expenditure, resulting in a higher cost per member.

Administration and oversight costs per member increased significantly during 2025/26, resulting in a 23% increase in the overall cost per member compared to 2024/25. Membership grew by 2.4% in 2025/26, which is an increase in comparison to the 1.4% growth rate in 2024/25. Although membership increased in the year, costs rose at a faster rate, leading to the higher cost-per-member metric.

Meanwhile, investment management expenses have increased by £14.8m (7.5%) as compared to 2024/25. This is due to the growth in Fund assets to £33.4b and the ongoing investment activity during the year.

The performance of investment managers is monitored through the Investment Advisory Panel

We have considered fund manager performance through review and attendance at the Pension Fund Committee. The performance of investment managers is monitored through the Investment Advisory Panel. Each manager sends a quarterly report outlining performance against benchmarks, which are collated into one report and presented at each meeting. A summary report is then presented to each meeting of the Pensions Committee. In addition to this report, Northern Trust provide a separate quarterly report detailing their conclusions of performance of each manager against benchmark. Managers present at the panel on a rotation basis, so that each manager is presenting to the panel at least once a year.

Where poor performance has been identified, this will be monitored through the Investment Advisory Panel and a recommendation is given to the Chief Investment Officer on suggested actions.

We have concluded that there is an appropriate level of scrutiny of fund manager performance which supports the Fund in complying with their investment principles.

Best Value

Although the statutory responsibility for securing Best Value rests with the administering authority, we consider the Pension Fund's arrangements for demonstrating economy, efficiency and effectiveness in the use of resources and the achievement of intended outcomes.

The administering authority has appropriate arrangements in place for securing Best Value at the Fund

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

The outcome of audit work on the administering authority’s Best Value arrangements is reported in the Glasgow City Council annual audit report. No findings directly applicable to the Fund have been communicated to us by the auditor of Glasgow City Council that will be reported in the 2025/26 annual audit report of the council.

Appendices

A Code of audit practice: Responsibilities

Audited body responsibilities

Audited bodies have the 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 enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Corporate governance

Each body, through its chief executive or accountable officer, 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. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- Preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- Maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports 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.
- Preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements.
- Ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies 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 their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

A Code of audit practice: Responsibilities (cont.)

Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- Such financial monitoring and reporting arrangements as may be specified.
- Compliance with any statutory financial requirements and achievement of financial targets.
- Balances and reserves, including strategies about levels and their future use.
- How they plan to deal with uncertainty in the medium and longer term.
- The impact of reporting future policies and foreseeable developments on their financial position.

Responsibilities for best value, community reporting and performance

Local government bodies have a duty 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:

- 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.

In maintaining that balance, the local government body shall have regard to:

- Efficiency.
- Effectiveness.
- Economy.
- The need to meet the equal opportunity requirements.

The local government body shall discharge its duties under this section 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

The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services.

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

A Code of audit practice: Responsibilities (cont.)

Appointed auditors' responsibilities

Appointed auditors' statutory duties for local government bodies are contained within Part VII of the Local Government (Scotland) Act 1973, as amended.

These are to audit the accounts and place a certificate (i.e., an independent auditor's report) on the accounts stating that the audit has been conducted in accordance with Part VII of the Act.

Satisfy themselves, by examination of the accounts and otherwise, that:

- The accounts have been prepared in accordance with all applicable statutory requirements.
- Proper accounting practices have been observed in the preparation of the accounts.
- The body has made proper arrangements for securing best value and is complying with its community reporting duties.

Hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the statutory reporting responsibilities in section 102 of the Local Government (Scotland) Act 1973, including those relating to the audit of the accounts of a local government body.

B Independence report

Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in January 2024, requires that we communicate formally both at the reporting stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged for the provision of services during the period, analysed in appropriate categories, are disclosed.

Required communications

Planning Stage

- The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us.
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review.
- The overall assessment of threats and safeguards.
- Information about the general policies and process within EY to maintain objectivity and independence.

Final Stage

To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed:

- Details of non-audit/additional services provided and the fees charged in relation thereto.
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us.
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence.
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy.
- An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our independence to act as your external auditor. We have identified no relationships that impact the audit of Strathclyde Pension Fund.

C Required communications

We have detailed below the communications that we must provide to the Committee.

		Our reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Pension Fund Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter (December 2022) - audit to be undertaken in accordance with the Code of Audit Practice.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Annual Audit Plan - March 2026
Reporting and audit approach	Communication of the reporting scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Annual Audit Plan - March 2026
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures. • Significant difficulties, if any, encountered during the audit. • Significant matters, if any, arising from the audit that were discussed with management. • Written representations that we are seeking. • Expected modifications to the audit report. • Other matters if any, significant to the oversight of the financial reporting process. • Findings and issues regarding the opening balance on initial audits.	This Annual Audit Report - September 2026.
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements.	This Annual Audit Report - September 2026.

C Required communications (cont.)

Required communications	What is reported?	Our reporting to you When and where
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation. • The effect of uncorrected misstatements related to prior periods. • A request that any uncorrected misstatement be corrected. • Corrected misstatements that are significant. • Material misstatements corrected by management.	This Annual Audit Report - September 2026.
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist. • A discussion of any other matters related to fraud.	This Annual Audit Report - September 2026.
Internal controls	Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report - September 2026.
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	There are no matters to report.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan and this Annual Audit Report.

C Required communications (cont.)

Required communications	What is reported?	Our reporting to you When and where
External confirmations	• Management's refusal for us to request confirmations. • Inability to obtain relevant and reliable audit evidence from other procedures.	There are no matters to report.
Representations	Written representations we are requesting from management and/or those charged with governance.	There are no matters to report.
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. • Enquiry of the Pension Fund Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Pension Fund Committee may be aware of.	There are no matters to report.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	This Annual Audit Report - September 2026.
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	There are no matters to report.
Best value and wider scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider-scope audit.	This Annual Audit Report - September 2026.
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	This Annual Audit Report - September 2026.

D Timeline of communication and deliverables

2026

Month	Audit activity	Deliverable	Timing
January	Risk assessment for Financial Statements and wider scope audit dimensions		
February		Submission of quarterly fraud return	28 February 2026
March	Walkthrough of key systems and processes	Annual Audit Plan	18 March 2026
April			
May		Submission of quarterly fraud return	31 May 2026
June	Update meeting with Finance Team		
July	Year end audit fieldwork		
August		Submission of quarterly fraud return	31 August 2026
September	Audit completion procedures	Annual Audit Report	30 September 2026

E Action Plan

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Council or management to action.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are either critical to the achievement of strategic objectives or significant risks to material compliance with regulatory requirements. Management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on objectives and compliance, or impact the operation of a single process, and so require prompt but less urgent immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which consider merit attention but do not require to be prioritised by management.

There were no new recommendations raised from our current year review.

E Action Plan

Set out below are the recommendations that were made in 2024/25, along with our assessment of progress.

Prior year recommendations

No.	Recommendation	Management response	Our assessment of progress
1.	**Journals** The majority of journals posted by the finance team are prepared and informally approved by the Finance Manager and posted by the Financial Accountant. No formal journal approval process is in place. We consider this to be a weakness in internal controls, as this process demonstrates a lack of segregation of duties or formal journal approval and increases the risk of management override. Management should review the journal posting and approval process and consider implementing a formal policy. Grade 1	**Response:** The Pension Fund has plans in place for the Finance Manager to produce a register of journals posted at each month end which will be sent to the Director for review. **Responsible officer:** Finance Manager **Implementation date:** By 31 March 2025	**Resolved:** From current year discussions with management and our current year journals testing process, we note that a formal approval policy has been implemented. The Finance Manager maintains a register of journals posted every month and this is approved by the Director.

F Adjusted and unadjusted audit differences

This appendix sets out the adjustments that were processed over the course of our audit and as part of the finalisation of the financial statements. We include differences identified by both the audit team and the Fund during the audit of the Pension Fund.

[During the course of the audit, we have not identified misstatements greater than £16.7 million which have been corrected by management. We note that the adjustments presented in this report are preliminary and may be updated following completion of our review process].

Summary of adjusted differences – 2025/26

Adjusted differences			
No.	**Description**	**Balance Sheet Impact / £000's**	**Income and Expenditure Impact / £000's**
1	[No adjusted audit differences have been noted to date]		

F Adjusted and unadjusted audit differences (cont.)

Summary of unadjusted differences – 2025/26

In addition, we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We ask that the Pension Fund Committee consider management's rationale as to why they are not corrected and provide evidence of this approval within the Letter of Representation:

Unadjusted differences

No.	Description	Balance Sheet Impact / £000's	Income and Expenditure Impact / £000's
1	Undervaluation of Regular Private Equity / Infrastructure Portfolio	DR Assets £46.40 million	CR Income £46.40 million
2	Overstatement of Direct Impact Portfolio	CR Assets £17.26 million	DR Income £17.26 million
3	Note 14: Statement of Movement in Investments: As part of our audit of the investment assets, we identified a difference in the Change in Market Value of Investments value disclosed in the Fund Accounts (£2,473.0m) as compared to what has been disclosed in Note 14. Investments (£2,323.0m). The difference is due to the management costs that have been netted off against the investment value. We proposed an adjustment for the reversal of the gross-up done to the fund account value for the estimated management expenses previously deducted from the investment value to them to match. Management however has included a narrative under the Note to explain the difference as noted above.	N/A	DR Change in Market Value £150.0 million CR Management Expenses £150.0 million
Cumulative effect of uncorrected misstatements before turnaround effect			CR Income £29.13 million
Turnaround effect (See Note 1 below)			DR Income £66.74 million
Cumulative effect of uncorrected misstatements, after turnaround effect			CR Income £37.60 million

Note 1: turnaround effect is the post-tax impact of uncorrected misstatements related to the prior period, on results of the current period.

F Adjusted and unadjusted audit differences (cont.)

Summary of adjusted Disclosure / other differences – 2025/26

We highlight the following disclosure misstatements / other differences which have been corrected by management that were identified during the course of our audit:

No.	Note	Description
1		[No adjusted disclosure differences have been noted to date]

F

Adjusted and unadjusted audit differences (cont.)

Summary of unadjusted Disclosure/ other differences 2025/26

Auditing standards require us to evaluate the overall presentation, structure and content of the financial statements, including disclosures, and to consider whether they provide a fair presentation of the Authority's underlying transactions and events. We also read the other information accompanying the financial statements to assess whether it is materially consistent with our understanding obtained during the audit.

As part of this process, we identified a number of disclosure matters and opportunities to enhance compliance with the Audit Scotland Code of Audit Practice 2021 (the Code) and improve the clarity of financial reporting. Where management elected not to amend the financial statements, we were satisfied that the uncorrected items were not material to the financial statements as a whole. We have assessed that the following disclosure misstatements merit the attention of the Pension Fund Committee due to their quantitative or qualitative significance:

No.	Note	Description
1	Accounts comments	[There were a number of narrative updates/amendments to be made as a result of Manager and Partner review of the financial statements. We await v3 of the financial statements with these amendments made.]

We also made various comments through our review of the financial statements designed to both ensure full compliance with the Code and enhance the Pension Fund's financial reporting. We were content where management opted not to adjust that this was reasonable on the basis of materiality to the financial statements.

G Audit fees

2025/26 Fees

The Pension Fund's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2025/26	2024/25
Component of fee:		
▪ Auditor remuneration – expected fee	£145,990	£96,970
▪ Additional audit procedures (see below)	-	£43,678
Audit Scotland fixed charges:		
▪ Audit support costs	£5,030	£2,440
Sectoral price cap	(27,570)	(£26,430)
Total fee	**£123,450**	**£116,658**

The expected fee for auditor remuneration is based on a risk assessment of publicly available information from the 2021 tender exercise, submitted in November 2021. It assumes that the Pension Fund has well-functioning controls, an effective internal audit service, and an average risk profile for its sector across a range of areas for consideration, including financial, operational and governance risks. Throughout the course of their work, auditors may identify new, developing or otherwise enhanced areas of risk that require to be addressed to deliver an audit to the quality standards expected, and in line with the requirements of the Code of Practice.

Within prior years, we had agreed with both management and Audit Scotland two recurring elements of work (being additional work for harder to value assets valuations and additional procedures in respect of International Standards on Auditing (ISA) 315 revised), for which additional fees were incurred. For 2025/26, these recurring elements have been incorporated into the auditor remuneration, as set by Audit Scotland.

H Additional audit information

Introduction

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities under auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the Pension Fund Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.

Purpose and evaluation of materiality

- For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- Materiality determines the locations at which we conduct audit procedures, and the level of work performed on individual account balances and financial statement disclosures.
- The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit, we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

H Additional audit information (cont.)

Audit Quality Framework/Annual Audit Quality Report

- Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.
- We support reporting on audit quality by proving additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: Quality of public audit in Scotland: Annual report 2025/26 | Audit Scotland
- EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: **https://www.ey.com/en_uk/about-us/transparency-report**

This report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland through which the Accounts Commission has appointed us as external auditor of Strathclyde Pension Fund for financial years 2022/23 to 2026/27.

This report is for the benefit of the Council and is made available to the Accounts Commission and Audit Scotland (together "the Recipients").

This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

Management agree that they remain solely responsible for management decisions relating to the audited body and that we do not, and cannot, act in a managerial capacity nor can we make business decisions for management/the audited body in connection with the services or otherwise, nor advise or recommend that any accounting policy, treatment or reporting is suitable for any particular purpose or specific facts, and management agrees that they will not rely on us as having done so.

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Anna Anthony, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

I Summary of Outstanding Information

Summary of Outstanding Information

We have outlined below a summary of the outstanding information that we are still awaiting in order to finalise our audit review and complete the work supporting our provisional report. As noted, we have materially completed our audit review of the financial statements of Strathclyde Pension Fund for the year ended 31 March 2026 with the work subject to the ongoing managers and partners review and receipt of the outstanding information listed below:

No.	Detail	Action Owner
1	Confirmations, bridging letters, valuation reports and audited financial statements from the Investment Managers listed (Partners Group, Infrastructure and Real Assets, Healthcare Royalty Management, LGIM Corporates).	Third Parties
2	Responses to queries sent to the custodian for variances in the investment values included in the Report versus Northern Trust Valuation Report issued.	Third Parties
3	IAS 19 – Responses from auditors of employer bodies for our assurance requests issued.	Third Parties
4	Final property valuation report from our specialists, EY Real Estate (Draft already received).	EY
5	Signed Letter of Management Representations	SPF
6	Final copy of the Updated Accounts (Including Updated Note 14 Disclosure)	SPF
7	Response to Letter of those charged with Governance (TCWG)	SPF

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