



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Ext: 77383

Item 1

11th September 2024

Annual Audit Report 2023/24

Purpose of Report:

To present the draft Annual Audit Report for 2023/24 prepared by Strathclyde Pension Fund's external auditors, EY.

Recommendations:

The Committee is asked to **NOTE** EY's draft Annual Audit Report.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

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1 Policy and Resource Implications

Resource Implications:

<i>Financial:</i>	None at this time.
<i>Legal:</i>	Section 12 of the Local Government in Scotland Act 2003 places a duty on a local authority to observe proper accounting practices. Section 99 of the Local Government (Scotland) Act 1973 (as amended) places a duty on auditors, in auditing the accounts of the local authority, to satisfy themselves that proper accounting practices have been observed in the preparation of those accounts.
<i>Personnel:</i>	None at this time.
<i>Procurement:</i>	None at this time.

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.***
The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-

Economic Impacts :

Does the proposal support the Council's Equality Outcomes 2022-25? Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.

What are the potential equality impacts as a result of this report? No specific equalities impacts.

Please highlight if the policy/proposal will help address socio economic disadvantage. N/a.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify: Not directly.
The Annual Report includes a separate section detailing Strathclyde Pension Fund's Climate Change Strategy.

What are the potential climate N/a.

*impacts as a result of
this proposal?*

*Will the proposal contribute to
Glasgow's net zero
carbon target?* N/a.

Privacy and Data

Protection Impacts:

Are there any No.
potential data
protection impacts
as a result of this
report Y/N

2 Recommendations

The Committee is asked to note EY's provisional draft Annual Audit Report.

Attached:

- ***Draft Annual Audit Report***
- ***Additional items which form part of the Annual Report submission by SPF to EY:***
 - ***Draft Response to EY letter to Those Charged with Governance***
 - ***Draft Letter of Representation***

Strathclyde Pension Fund

Provisional

Annual Audit Report
Year Ended 31 March 2024

11 September 2024



Building a better
working world

This report

This report has been prepared in accordance with Terms of Appointment Letter, through which Audit Scotland and the Accounts Commission have 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 Audit Scotland and the Accounts Commission (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 will be available on Audit Scotland's website and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018. Compliance is the responsibility of the individual body.

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1. Key messages

Financial statements



Financial statements

Our assessment: Green

[We have concluded our audit of the financial statements of Strathclyde Pension Fund for the year ended 31 March 2024.]

The draft financial statements and supporting working papers were of a sufficient quality to allow us to complete our audit procedures. We identified two unadjusted differences arising from the audit, as well as two misstatements in disclosures and a number of other minor disclosure amendments, which were processed within the financial statements as part of the audit process.

Overall, we were satisfied that the Annual Governance Statement reflects the requirements of CIPFA's updated *Delivering Good Governance Framework*.



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, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Pension Fund has concluded that there are no material uncertainties around its going concern status.

[We have no matters to report in respect of our work around going concern or the conclusions reached by the Pension Fund.]

- 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.

Wider Scope



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 2023/24 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 remains ongoing, see Appendix G.



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 9.7% to £30.6 billion during 2023/24, with investment performance was 9.9%, slightly below the benchmark return set for the year of 12.8%. The 2023 valuation funding level was 147%, evidencing that the Fund is well-funded. The value of assets and liabilities grew significantly between the 2020 (assets: £20.941m, liabilities: £19.744m) and 2023 valuation (assets: £27.872m, liabilities: £18.970m).



Vision, leadership & 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 2023/24 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. Internal Audit identified two recommendations as outlined on page 23.

Wider Scope



Use of resources

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, achieving investment performance of 9.9% against a benchmark of 12.8% and 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.



Best Value

We are required to conclude on the Pension Fund's arrangements to demonstrate the achievement of Best Value.

Our assessment: Green

In our view, the Pension Fund's performance management and financial reporting arrangements allow the Pension Fund to demonstrate the achievement of Best Value.

2. 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 members of 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.

We draw your attention to the fact that 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). We outlined these in our Annual Audit Plan which was presented to the Pension Fund Committee on 19 March 2024. There have been two changes to the plan throughout our year-end procedures, as detailed on the next page.

Our review and assessment of materiality

Our updated assessment of materiality resulted in a small change to the level reported within our Annual Audit Plan. The assessment raised materiality from £278.7 million to £305.6 million based on the 2023/24 net asset value.

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 Pension Fund as at 31 March 2024 and of the amount and disposition at that date of its assets and liabilities;
- ▶ Whether they have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code.
- ▶ 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 2023/24 audit in our Annual Audit Plan, which was presented to

the Pension Fund Committee on 19 March 2024.

There have been two changes compared to what we reported in our Annual Audit Plan:

- ▶ We indicated in our Annual Audit Plan that we identified a standard risk of management override, but did not identify specific areas where this risk is heightened. However, during year end procedures, we identified the valuation of investment assets as a specific risk of management override and associated a fraud risk to this. See page 13 for details.
- ▶ In revisiting our risk assessment, we designated IAS 26 disclosure as an inherent risk in our audit file to align to firm methodology. However, this did not result in a change to the audit procedures undertaken. See page 18 for details.

In addition, we continued to place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements. Our findings are summarised in Section 3 of this report.

Exhibit 1: Updated materiality assessment in 2023/24 assessment

Our Annual Audit Plan outlined that our audit procedures would be performed using a materiality of £278.7 million. On receipt of the unaudited accounts we revisited our materiality and updated our materiality level to reflect the 2023/24 reported net asset value.



Overall
materiality



Performance
materiality



Reporting
materiality

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

| Wider scope and best value

Under the Code of Audit Practice, 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.

3. 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.

The plan highlighted one area that we identified as a fraud risk relating to the presumed risk of fraud in revenue and expenditure recognition, including through management override of controls. For the Pension Fund, we consider this risk to manifest itself as an asset valuation risk.

Additionally, significant risks were identified relating to the valuation of complex assets and directly held property.

Compliance with regulations

As part of our oversight of the Pension Fund's financial reporting process we report on our consideration of the quality of working papers and supporting documentation prepared, predominantly by the finance team, to support the audit.

The financial statements were prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2023/24.

The draft financial statements and supporting working papers were submitted for audit by 30th June 2024, in line with requirements. The financial statements and working papers were of a sufficient quality to allow us to complete our audit procedures.

We were satisfied that the Pension Fund

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made the financial statements available for public inspection in accordance with Regulation 9 of The Local Authority Accounts (Scotland) Regulations 2014.

There was a statutory objection to the financial statements during the inspection window, in relation to climate-related disclosures in the financial statements. Communications with the objector and Audit Scotland remain ongoing.

Other accounting matters

The Virgin Media court case, relating to contracted-out defined benefit pension schemes being invalid if they were not accompanied by the correct actuarial confirmation, was ongoing at the time of the audit. Following discussion with management an additional narrative disclosure was included in the financial statements to reflect the uncertainty that the case may have on the actuarial present value of promised retirement benefits.

Audit outcomes

We identified two audit differences from our testing of level 3 assets relating to timing differences. These differences were not adjusted for by management.

We additionally identified a number of disclosure-only adjustments, which management agreed to update in the financial statements.

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, or to enhance the understanding of the financial statements. We worked with management to make amendments as appropriate and will continue to discuss good practice going forward.

Please see Appendix F for further details.

Audit status

Our audit is nearing completion, subject to the following outstanding areas:

- ▶ Receipt and review of finalised financial statements;
- ▶ Completion of triennial valuation testing;
- ▶ Engagement manager and partner review;
- ▶ Receipt of letter of representation;
- ▶ Completion of benefits payable testing, of which there are four GMP-related queries outstanding;
- ▶ Completion of journals testing, where we are in discussions with the Finance Manager regarding completeness of journals considered;
- ▶ Consideration of the issues raised in the objection to the financial statements;
- ▶ Updated confirmation that there have been no subsequent events in the period to date of signing.

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 an 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).

Exhibit 2: Our Audit Opinion

Element of our opinion	Basis of our opinion	Conclusions
<p>Financial statements</p> <ul style="list-style-type: none"> ► Truth and fairness of the financial transactions of the Pension Fund at 31 March 2024 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. 	<ul style="list-style-type: none"> ► 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 Code requirements, and additional guidance issued by CIPFA and Audit Scotland. 	<p>[We have issued an unqualified audit opinion on the 2023/24 financial statements for the Pension Fund.]</p>
<p>Going concern</p> <ul style="list-style-type: none"> ► We are required to conclude on the appropriateness of the use of the going concern basis of accounting. 	<ul style="list-style-type: none"> ► We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. ► Wider scope procedures including the forecasts are considered as part of our work on financial sustainability. 	<p>[In accordance with the work reported on page 17, we have not identified any material uncertainties.]</p>
<p>Other information</p> <ul style="list-style-type: none"> ► We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit. 	<ul style="list-style-type: none"> ► 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. 	<p>We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>

Exhibit 2: Our audit opinion (continued)

Element of our opinion	Basis of our opinion	Conclusions
<p>Matters prescribed by the Accounts Commission</p> <ul style="list-style-type: none"> ► Management commentary / annual governance statement are consistent with the financial statements and have been properly prepared. 	<p>Our procedures include:</p> <ul style="list-style-type: none"> ► 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. 	<p>[We issued an unqualified opinion.]</p>
<p>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> ► 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. 	<p>[We have no matters to report.]</p>

Our response to significant and fraud audit risks

We identified three significant risks within our 2023/24 planning procedures:

- ▶ Risk of fraud through management override of control, including a specific risk of management override in posting investment asset valuation journals for level 2 and level 3 assets.
- ▶ Valuation of complex assets
- ▶ Valuation of directly held properties

| Management override of controls

| What is the risk?

Our Annual Audit Plan recognises that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every 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, however, still consider revenue and expenditure balances through the lens of management override of controls.

We indicated in our Annual Audit Plan that we identified a standard risk of management override, but did not identify specific areas where this risk is heightened. However, during year end procedures, we identified the valuation of level two and level three investment assets as a specific risk of management override and associated a fraud risk to this. This section outlines our response to this risk.

| What judgements are we focused on?

We determined that the way management could be most likely to override controls is by manipulating the value of the level 2 and level 3 investment asset balances posted in totality to the accounts at year-end. The 2023/24 account balance in the financial statements is £30.6 billion (2022/23: £27.8 billion). We do not apply this risk to level 1 assets as the opportunity to manipulate the valuation of level 1 assets does not exist.

For 2023/24 our procedures to address the risk around management override 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. We obtained all journals posted by management to record the transactions of the Pension Fund, which are hosted on the Glasgow City Council financial ledger. We subsequently identified risk criteria, for example journals which post movements in the valuation of investment assets, 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.

| Investment Balances

We obtained third party confirmations of the Fund's externally held investment balances at the Pension Fund's year end 31 March 2024 from both custodians and investment managers. We investigated any differences in valuation between these sources and agreed the final balance for investments in the accounts.

We additionally performed independent valuation procedures on all investment asset balances, including level 2 and 3 investments.

From our testing to date, we have not identified any matters to report to the Pension Fund Committee.

| 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. We identified no evidence of management bias in the estimates used.

| 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 transaction testing and have nothing to report on this matter.

| 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.



Our conclusions

Subjection to completion of outstanding procedures:

- ▶ Our testing has not identified any material misstatements relating to management override of asset valuations.
- ▶ 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.

Our response to significant and fraud audit risks

| Valuation of Complex Assets

| What is the risk?

As of 31 March 2024, the Fund held investments, excluding property, of £28 billion, of which 75% (£21.1 billion) were classified as Level 2 and Level 3 investments, meaning there are not publicly quoted prices in place for these types of investments in an active market. We have therefore assigned a significant risk to the valuation of Private Equity and Infrastructure Funds, and Pooled Investments.

The Fund's property assets of £2.3 billion are also classed as Level 3. We have assigned a separate significant risk to this class of assets as described at the next page.

| What did we do?

We undertook specific, additional procedures for complex investment valuations to address this significant risk. For 2023/24 our work included:

- 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. Where the period covered by the Fund manager controls' reports differ from the Pension Funds balance sheet date, we have obtained bridging letters for the period between report dates and financial statements date. 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. 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 of (10% of tolerable error) 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 2024. 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 2024 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 £106.49 million for private equity, infrastructure and private debt (2022/23: £105.3 million). Management has chosen not to adjust the accounts for the differences, noting that the financial statements are prepared with the best information available at the time of preparation in line with required statutory guidelines. [If the Pension Fund Committee agrees not to adjust the financial statements for the identified difference, an explanation for not doing so should be included in the letter of representation.]

Our response to significant and fraud audit risks

Valuation of Directly Held Property

The fund holds £2.3 billion as directly held property (2022/23: £2.3 billion), which are valued annually by an external valuer and classified as Level 3 assets.

What is the risk?

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 judgements are we focused on?

Our work in this area focused on ensuring that the assumptions used by the property valuers in relation to the valuation of directly held property, including assumptions about the impact of the cost-of-living crisis on the property market, were free from material misstatement.

What did we do?

We undertook specific, additional procedures for property valuations to address this significant risk. For 2023/24 our work included:

- ▶ 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 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).
- ▶ We considered the impact on IFRS16 Lease Accounting on the Funds' accounting and disclosures for directly held properties.



Our conclusions

Subject to the completion of outstanding procedures:

- ▶ Our testing of level 2 and level 3 assets did not identify any significant issues. There were two audit adjustments raised as detailed in Appendix F, relating to timing differences. These both remain uncorrected.
- ▶ 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.

Going concern

Audit requirements

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

Under ISA (UK) 570, we are required to undertake challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of the ongoing cost of living crisis and inflationary pressures, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Pension Fund and its financial sustainability.

Management's going concern assessment and associated disclosures cover the period following approval of the financial statements, to 31 March 2026.

After completing its going concern assessment in line with the information and support provided through earlier discussions in the audit process, the Pension Fund has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the Pension Fund's financial position going forward in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- ▶ The completeness of factors considered in management's going concern assessment.
- ▶ The completeness of disclosures in the financial statements.



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 have no matters to report in respect of our work around going concern or the conclusions reached by the Pension Fund.

IAS 26 Reporting

| What is the risk?

The Fund's IAS 26 disclosure shows that the actuarial present value of promised retirement benefits is £21.240 billion as at 31 March 2024 (2023: £19.204 billion), with the fair value of scheme assets disclosed as £30.566 billion (2023: £27.872 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 2024.

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;
- Reconciliation of data provided to actuary for triennial valuation;
- Engaged EY Pensions Specialists to perform a roll-forward calculation for the IAS19 calculation at one of the scheduled bodies; and
- Sample testing of members details included in the triennial valuation data submission to ensure the details agree to underlying records.

At the time of drafting this report, our sample test of member details from the triennial valuation data remains ongoing.



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.
- ▶ Through our testing to date of triennial valuation data, we noted five differences related to pension calculations included in the data submitted to the actuary that did not agree to the underlying system. Investigations around this area remain ongoing.
- ▶ We have no matters to report in respect of our work around IAS 26 disclosures in the financial statements.

4. Best Value and Wider Scope audit

Introduction

In June 2021, Audit Scotland and the Accounts Commission published a revised 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 to 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.

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.

Best Value

The Code explains the arrangements for the audit of Best Value in Pension Fund's.

The findings from our wider scope work have informed our assessment on Best Value themes in 2023/24.

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



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 noted through internal audit activity in the year or through our own observations through the course of our procedures.

One audit recommendation was given in the prior year, we have followed up on this within Appendix H.

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.

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. In 2023/24, the Fund delivered an underspend against budget of £0.96 million, relating mainly to employee costs and IT budget where expected expenditure has been delayed.

The 2024/25 budget was set at £3.9m in March 2024 in line with the expected timetable. This represents a £4m decrease from 2023/24, which derives mainly from a large bank interest income in the 2024/25 budget of £3.86m.

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 the operational controls associated with cyber security and scheme administration. In each case internal audit were able to provide substantial assurance over the arrangements in place, with a small number of recommendations made, all of which were accepted by management and timescales for implementation have been agreed.

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 3,111 matches were identified in the exercise for the Pension Fund to investigate, which is an ongoing exercise.

In addition to NFI, the Fund have also joined the joined 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



Our overall assessment: Green

The value of the Fund increased by 9.7% to £30.6 billion during 2023/24, with investment performance slightly below the benchmark return set for the year. The 2023 valuation funding level was 147%, evidencing that the Fund are well-funded. The value of assets and liabilities grew significantly between the 2020 and 2023 valuation.

Triennial 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. 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.

Funding Strategy

The review of the investment principles relevant for 2023/24 was presented in March 2022 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 2024, the allocation to each Policy Group was within the acceptable range set by the current strategy. Consideration is being given by the Investment Panel as to how to better align these investments to the strategy.

An updated statement of investment principles was finalised and approved in March 2024, which reflects the updated strategy relevant for 2024/25 onwards.

Responsible Investment

Responsible investing has been an area of increased attention within LGPS in recent years. The Pension Fund have a target to become net zero by 2050, in line with the Paris Aligned Investment Initiative (PAII).

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.

The Direct Impact Portfolio (DIP) contributes to these aims. The primary objective of this portfolio 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 portfolio is supporting technology and solutions crucial for the transition to a low carbon UK economy.

Vision, Leadership and Governance



Our overall assessment: Green

Governance arrangements worked well throughout 2023/24, and the Pension Fund 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 weaknesses in governance or internal control that were required to be reported within the Annual Governance Statement.

Governance Arrangements

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 Committee 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 2024.

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.

Annual Governance Statement and Compliance

We have reviewed the annual governance statement and governance compliance statement prepared for the Fund for 2023/24 and agree that it is consistent with our findings from our audit procedures. This includes the disclosure of one area of non-compliance where the fund explains its consideration and reason for this which we have deemed reasonable.

Risk Management

The Fund has a risk management policy which outlines the risk management strategy for the Fund. This was last updated in March 2019 and is now overdue for review.

Discussions with management confirm that this is part of the planned work for 23/24.

The policy is supplemented by the risk register, 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.

| Internal Audit Activity

The Pension Fund's Head of Audit and Inspection presented the annual report to the Pension Fund Committee in June 2024. It was noted that the audit plan was completed, subject to ongoing fieldwork, as expected and that in 2023/24 there were no unsatisfactory audit opinions issued.

Internal audit allocated 35 days to fieldwork directly addressing the Pension Fund, covering two reviews:

- ▶ Cyber Security; and
- ▶ Scheme Administration.

The Pension Fund has, however, disclosed two issues within the Annual Governance Statement. The Head of Audit and Inspection highlighted the results of follow up work in relation to an unsatisfactory audit opinion relating to ICT security and service delivered via the Council's provider.

The improvements required were outside the direct control of the Strathclyde Pension fund and are being progressed by the Council through an agreed action plan. Whilst a number of higher risk areas are now mostly mitigated, there are other areas where remediation is still ongoing and the internal auditors therefore concluded that the Council Group, including Strathclyde Pension Fund, remained exposed to significant risk in this area during 2023/24.

The Pension Fund has also reported on the progress of a lessons learned exercise, conducted by the Council and its ICT provider, to prevent any recurrence of the SAP outage that was reported in 2022/23. Internal Audit concluded that a reasonable level of assurance can be placed upon the

control environment relating to this process, however two recommendations were agreed with management at the Council and completion will be monitored throughout 2024/25.

Internal Audit undertake a follow up on all previous recommendations twice per year. As at 31 March 2024, the Pension Fund had one outstanding internal audit recommendation which was assessed as medium risk (2023: no outstanding recommendations). The status, and updated target completion dates were reported to the Pension Fund Committee in June 2024, and the next follow up is due in November 2024.

| 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.

| 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.

| Use of resources



Our overall assessment: Green

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 underperformed against benchmark, but continues to perform above the LGPS average across both three- and five-year periods. Robust arrangements are in place to scrutinise the performance of fund managers.

| Fund Performance 2023/24

The Fund achieved a return on investment of 9.9% against a benchmark of 12.8%, missing the benchmark.

The Fund has performed well against their own benchmarks over all time periods, including in the current year. The fund is ranked in the top quartile of local authority funds over the 1, 5, 10, 20 and 25-year time periods.

The total unit costs per member (which encompass investment management, administration and oversight and governance costs) were on a downward trajectory until 2022/24, however have levelled out with a very small increase of 1% in 2023/24.

Administration and oversight costs per member increased slightly, mainly as a result of increased membership numbers (membership grew by 3.3% in 2023/24, which is consistent with the 3.9% increase in 2022/23).

Meanwhile, investment management expenses have increased by £7 per member. This is due to an increase in performance management fees due to the increase in return on investment.

| Investment Manager Scrutiny

We have considered fund manager performance through review and attendance at the Pension Fund Committee and Board. As noted above, investment management expenses decreased during 2023/24. 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



Our overall assessment: Green

In our view, the Pension Fund's performance management and financial reporting arrangements allow the Pension Fund to demonstrate the achievement of Best Value.

Basis for our assessment

As auditor to the Pension Fund, we are required to comment on how effectively, in our view, the Pension Fund demonstrates that it meets its Best Value responsibilities.

As we noted in our Annual Audit Plan, the conclusions that we reach on the wider scope areas contribute to this consideration. We expect to develop our understanding of how the Pension Fund meets its Best Value responsibilities over the course of our appointment.

Our assessment in 2023/24 therefore reflects the work conducted to support our wider scope responsibilities, and specifically:

- ▶ Documentation review and fieldwork interviews with senior officers;
- ▶ Updating our understanding of key sector developments and reporting;
- ▶ Our consideration of the Pension Fund's financial planning processes including the most recent annual budget;
- ▶ Governance arrangements, including monitoring reports on the use of resources and scrutiny arrangements; and
- ▶ Our assessment of performance reporting to the Pension Fund.

The Pension Fund can demonstrate that it has the key elements needed to deliver Best Value in place

The Pension Fund has reviewed and updated its Strategic Plan by drawing upon its arrangements for public engagement and targeted consultation with key stakeholders.

It has a well-developed Performance Framework in place and we noted evidence of effective scrutiny arrangements throughout the year.

We do, however, note that the Pension Fund's position relies heavily on events and conditions not controllable by the Pension Fund. Management and the committee remain alert to these situations and consider them through regular risk register reviews, thus ensuring that Best Value is provided.

| Appendices

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Additional audit information

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.

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 Report 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.

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.

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, 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 to you 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. We confirm that, in our professional judgment, EY is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.



Required communications

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

		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 2024
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 2024
Significant findings from the audit	<ul style="list-style-type: none">▶ 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 2024.

C Required communications (cont.)

		Our reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • 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 2024.
Misstatements	<ul style="list-style-type: none"> • 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 2024.
Fraud	<ul style="list-style-type: none"> • Enquiries of the Pension Fund 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 2024.
Internal controls	Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report – September 2024.

C Required communications (cont.)

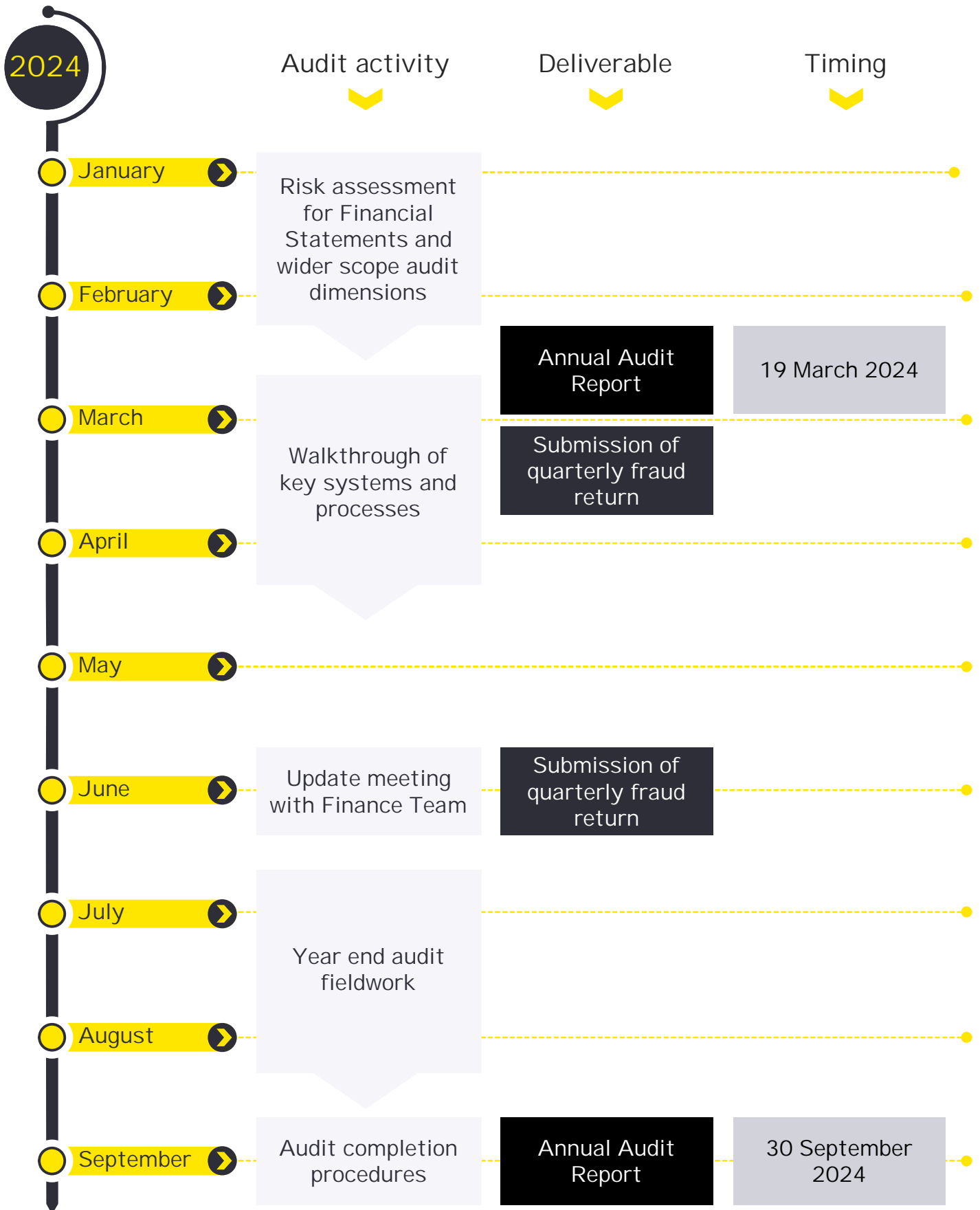
Our reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • 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 	This Annual Audit Report – September 2024.
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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.
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations. • Inability to obtain relevant and reliable audit evidence from other procedures. 	This Annual Audit Report – September 2024.
Representations	Written representations we are requesting from management and/or those charged with governance.	This Annual Audit Report – September 2024.

C Required communications (cont.)

		Our reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> 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. 	This Annual Audit Report – September 2024.
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 2024.
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	This Annual Audit Report – September 2024.
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 2024.
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 2024.

D Timeline of communication and deliverables



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 Pension Fund or management to action.

In 2023/24, there were no new audit recommendations as a result of the work undertaken (with one recommendation from the prior year that remains ongoing). We have followed up with management on recommendations made in previous years within Appendix H.

F Adjusted and unadjusted differences

This appendix sets out the adjustments that were processed as part of finalisation of the financial statements.

Unadjusted differences

No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's
1	Undervaluation of Private Equity, Infrastructure and Private Debt	CR Income £91.25 million	DR Assets £91.25 million
2	Undervaluation of DIPs investments (Private Equity)	CR Income £15.24 million	DR Assets £15.24 million

Disclosure misstatements that have not yet been corrected

No.	Note	Description
1	Summary of significant accounting policies	The new standards issued but not yet adopted section included the implementation of IFRS 16 in line with the code. This had not been updated from PY.
2	Property Purchases	The purchases and sales note included a property (BCA Corby) that was purchased in 2020 within current year purchases. This was reclassified to a change in market value, with no net impact on the opening or closing market value.
3	Management Expenses in the Fund Account	As a result of a formula error in the model financial statements, the performance fees (£16.735m) were excluded from the Fund Account and Net Asset Statement. These were correctly included in the notes to the accounts and accounted for correctly in the ledger.
4	Actuarial Present Value of Promised Retirement Benefits	There were a number of narrative updates required to this disclosure, which are to be implemented in V2 of the financial statements (that was still pending at the time of drafting this report).
5	Accounts comments	There were a number of narrative updates/amendments to be paid as a result of Manager and Partner review of the financial statements. We await v2 of the financial statements with these amendments made.

G Audit Fees

2023/24 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.

	2023/24	2022/23
Component of fee:		
► Auditor remuneration – expected fee	£93,060	£87,790
► Auditor Remuneration – scope variation (Note 1)	£TBC	£48,325
Audit Scotland fixed charges:		
► Audit support costs	£3,390	£3,330
Sectoral price cap	(£24,840)	(£23,560)
Total fee	£TBC	£115,885

As we outlined in our audit planning report, the expected fee for auditor remuneration, set by Audit Scotland, is based on a risk assessment of publicly available information from the 2021 tender exercise. 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. This is the basis for the estimated level of time and skill mix involvement by auditors.

Throughout the course of their work, auditors may identify new, developing or otherwise enhanced areas of risk that are required to be addressed to deliver an audit to the quality standards expected, and in line with the requirements of the Audit Scotland Code of Practice. Where auditors identify that additional work is required because of local risks and circumstances in a body, the auditor may negotiate an increase to auditor remuneration by up to 10% of auditor remuneration independently with management, or above 10% with approval from Audit Scotland.

Note 1

For our 2023/24 audit there were two recurring additional elements of audit work, as agreed with both management and Audit Scotland as part of 2022/23 audit cycle. These areas of work relate to additional procedures required to review complex, hard to value assets held by the Fund, and additional work required from changes to our overall risk assessment of the Fund, in line with the requirements of ISA 315. The fee for these two areas of work amount to £32,425, in line with Audit Scotland fee protocols. In 2023/24 additional work has also been required to test the data submitted to actuaries as part of 2023 triennial valuation procedures, required to support our IAS19 reporting procedures to auditors of scheduled bodies in the pension fund this year. We are currently in the process of agreeing the scope variation with Audit Scotland and management and will report the final figures as part of our 2024/25 planning. There will also be an additional fee for the work undertaken in responding to the objection which has yet to be quantified as the work is ongoing.

H Follow up of prior year recommendations

This appendix sets out the recommendations that were made in 2022/23, along with our assessment of progress.

Prior year recommendations

No.	Recommendation	Management response	Our assessment of progress
1.	<p>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.</p> <p>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.</p> <p>Management should review the journal posting and approval process and consider implementing a formal policy.</p> <p>Grade 1</p>	<p>Response: Will review</p> <p>Responsible officer: Shona MacLean, Finance Manager.</p> <p>Implementation date: Review by 30th September 2023.</p>	<p>Ongoing: From current year discussions with management and our current year journals process, we note that a formal approval policy has not been implemented.</p> <p>Due to staff shortages, the Finance Manager often works independently and is in control of both creating and posting/reviewing journals.</p> <p>This should be reviewed ahead of the 2024/25 audit.</p> <p>Management response: Through these discussions, it has been agreed that going forward, the Finance Manager will produce a register of journals posted at each month end which will be sent to the Director for review.</p>

H

Follow up of prior year recommendations (continued)

Prior year recommendations

No.	Recommendation	Management response	Our assessment of progress
2	<p>Management places significant reliance on work performed by the custodian, the property manager and the external property valuer in preparing the information included in the financial statements. While it is recognised that management is engaging external parties specifically for their expertise, the ultimate responsibility for the accuracy of this information rests with the Pension Fund. Management should review the arrangements it has to evaluate and challenge the information provided by external specialists and establish formal procedures for these arrangements.</p> <p>The Fund should ensure that evidence is available to demonstrate their review and challenge of the information provided by external parties.</p> <p style="text-align: right;">Grade 2</p>	<p>Response: SPF does have extensive processes to evaluate and review the work of experts, including a documented annual diligence review.</p> <p>However, we will review this in light of EY's findings, and with particular reference to the parties noted.</p> <p>Responsible officer: Richard McIndoe, Director.</p> <p>Implementation date: Review by 31st Dec 2023.</p>	<p>Complete: SPF were able to provide detail of review and challenge of information by external parties.</p> <p>For the custodian, in addition to an annual diligence review and the quarterly performance and accounts reconciliation already carried out by the team, SPF have carried out an annual service review, including review of KPIs.</p> <p>For the property manager, there are a range of review procedures including reviewing quarterly accounts, performance reports and valuations in conjunction with the data received from the custodian. Management also attend quarterly property manager Investment Committee meetings; quarterly investment performance reports are reviewed by the Panel.</p> <p>We deem this sufficient to evidence challenge and review of management experts.</p>

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Follow up of prior year recommendations (continued)

Prior year recommendations

No.	Recommendation	Management response	Our assessment of progress
3	<p>Policies are reviewed every three years. However, there is no tracking in place and we note that the Risk Policy has not been reviewed since 2019.</p> <p>Management should implement a formal tracker that highlights any policies due for review.</p> <p>Grade 3</p>	<p>Response: Will implement.</p> <p>Responsible officer: Richard McIndoe, Director</p> <p>Implementation date: By 31st Dec 2023.</p>	<p>Complete: The Pension Fund has implemented a formal tracker that is included in the business plan presented to the Pensions Committee.</p> <p>The only aged policy at this time is the Risk Policy which has not been reviewed since 2019, however this is scheduled for 2024/25 review.</p>

I 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 Pension Fund'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.

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 providing 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 2023/24 | 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 Pension Fund 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

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, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, 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.

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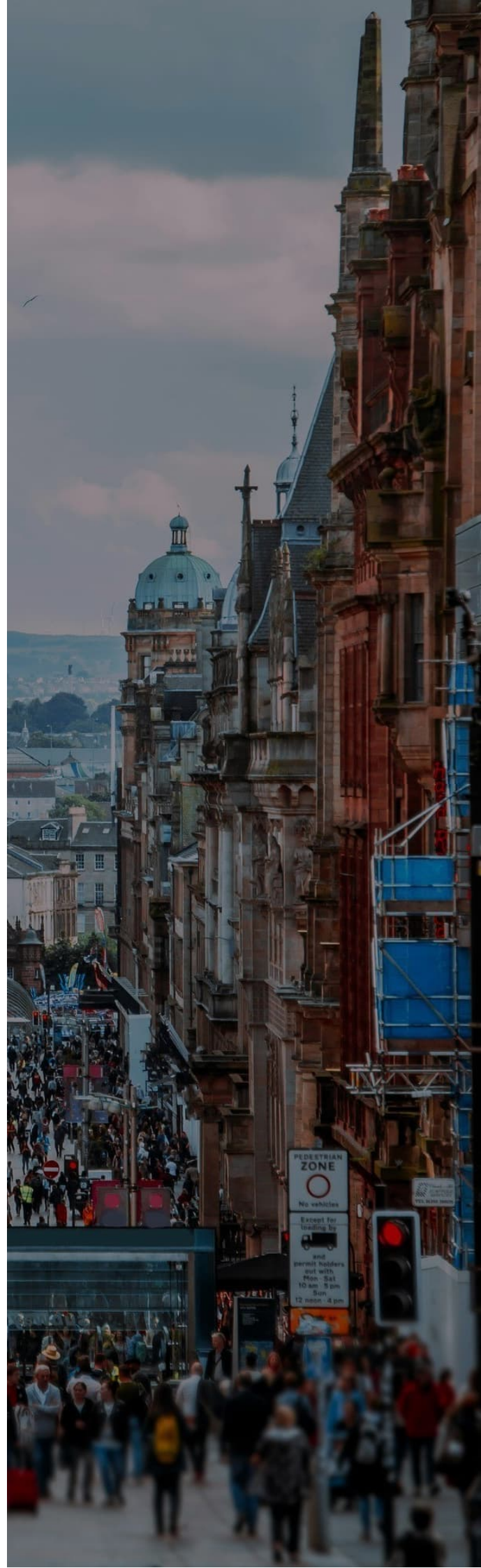
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Hassan Rohimun
Associate Partner
EY
2 St. Peter's Square
Manchester
M2 3DF

Date: 11th September 2024
Contact: richard.mcindoe@glasgow.gov.uk

Dear Hassan

Understanding how the Pensions Committee gains assurance from management

Thank you for your letter dated 16 April 2024.

On behalf of the Strathclyde Pension Fund (SPF) Committee, I would respond as follows.

- 1) How does the Pensions Committee, as 'those charged with governance' at the Strathclyde Pension Fund exercise oversight of management's processes in relation to:**
- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);**

Internal Audit is an independent appraisal function within Glasgow City Council (the Council), the administering authority. The objectives of Internal Audit (taken from the Audit Charter) are to:

- examine and evaluate internal control systems and governance arrangements within the Council, and therefore the Strathclyde Pension Fund;
- give assurances to elected Members and senior officials on the adequacy and robustness of these systems; and
- assist elected Members and officers of the Council in the effective discharge of their responsibilities.

Internal Audit provides the SPF Committee with an annual audit plan, annual audit report and annual governance statement in addition to regular reports on specific assurance reviews.

The SPF Committee also receives the external audit annual audit plan and annual audit report prior to approving the financial statements for signature.

- identifying and responding to risks of fraud in the Strathclyde Pension Fund, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;**

Glasgow City Council, including SPF, is a long-term participant in the National Fraud Initiative (NFI). A summary of progress on NFI in respect of SPF is included in the Internal Audit Annual Report.

- communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Strathclyde Pension Fund code of conduct);**

As SPF is part of Glasgow City Council (GCC), all SPF employees are required to adhere to the GCC Code of Conduct for Employees. Updating, communicating and monitoring are largely carried out at a corporate level.

- encouraging employees to report their concerns about fraud; and**

GCC Internal Audit maintain a Whistleblowing hotline which is promoted through the GCC intranet, *Connect*.

- **communicating to you the processes for identifying and responding to fraud or error?**

This is covered in Internal Audit's annual audit plan and annual audit report.

2) How does the Pensions Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

This is covered in Internal Audit's annual audit plan and annual audit report.

3) Is the Committee aware of any:

- **breaches of, or deficiencies in, internal control; and**
- **actual, suspected or alleged frauds during 2023/24?**

Glasgow City Council's Head of Audit and Inspection has confirmed that there are no significant governance issues that require to be reported as a result of the planned assurance work undertaken by Internal Audit at the Strathclyde Pension Fund in 2023/24.

No frauds relating to the Pension Fund have been identified other than through NFI which routinely identifies data inconsistencies which may involve fraud but which may also have arisen through error.

4) Is the Committee aware any organisational or management pressure to meet financial or operating targets?

The committee recognises that it has fiduciary duties and responsibilities towards pension scheme members and participating employers that are analogous to those holding the office of trustee in the private sector. In light of that, every reasonable effort is made to ensure that financial and operating targets are achieved. There is an acceptance, however, that this will not always be possible. So no undue pressure exists. In particular, SPF's financial targets are essentially long-term in nature, so not subject to short-term organisational pressure.

5) How does the Pensions Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2023/24?

Regular monitoring reports provide assurance to the SPF committee regarding regulatory compliance.

The SPF Pension Board has responsibility for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator. Committee reports are also considered by the Board which meets alongside the committee.

Certain people are required to report breaches of the law to the Pensions Regulator (TPR) where they have reasonable cause to believe that: a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with; and the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

The reporting requirement applies to: scheme managers, members of pension boards, any person who is otherwise involved in the administration of the scheme, employers, professional advisers including auditors, actuaries, legal advisers and fund managers, and any person who is otherwise involved in advising the managers of the scheme in relation to the scheme.

All breaches of the regulations which are identified are logged within SPFO.
No breaches which required to be reported to TPR occurred during 2023/24.

6) Is the Pensions Committee aware of any actual or potential litigation or claims that would affect the financial statements?

No.

7) How does the Pensions Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

SPF is a statutory scheme with liabilities stretching decades into the future and long-term investments which are more than sufficient to fund those liabilities.

The funding position is formally assessed every 3 years in an actuarial valuation. The actuary reports results to the SPF Committee. During 2023/24 the actuary reported a funding surplus of **£8.9 bn**.

The SPF Committee takes further assurance from regular monitoring reports on investment performance, administration, risk, and cash-flow (which confirms availability of shorter-term liquidity).

A formal assessment of SPF's Going Concern status has been submitted by SPF management as part of the supporting papers for the 2023/24 Annual Report and Financial; Statements.

There is no evident threat to the SPF's status as a going concern.

8) What does the Pensions Committee consider to be the related parties that are significant to Strathclyde Pension Fund and what is its understanding of the relationships and transactions with those related parties?

The only significant related party is Glasgow City Council (GCC).

SPF is part of GCC and uses and relies on a number of the Council systems, processes and controls.

These include the Council's SAP-based financial system which is used for reporting and for some transaction processing.

However, SPF also has separate governance, accounting, and audit arrangements from GCC.

Investment management and custody arrangements are separate from those of GCC.

SPF also maintains its own, separate bank accounts and has its own pensions system for member data management and pensions payroll calculation and payment.

SPF officers are employees of GCC. All salaries and other administration costs incurred are re-charged by GCC to SPF.

GCC is a contributing employer in SPF. Contributions received from GCC and benefits paid on its behalf are shown separately in a note to the financial statements.

9) Does the Pensions Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?

No.

Yours sincerely

Councillor Richard Bell
Convener
Strathclyde Pension Fund Committee

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

2 St Peter's Square
Manchester
M2 3DF

This letter of representations is provided in connection with your audit of the financial statements of Strathclyde Pension Fund ("the Fund") for the year ended 31 March 2024. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and 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 understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with applicable law and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 and for keeping records in respect of contributions received in respect of active members of the Fund.
2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements and the Summary of Contributions. We believe the financial statements referred to above give a true and fair view of the financial transactions and the amount and dispositions of assets and liabilities of the Fund in accordance with applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, and the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 that are free from material misstatement, whether due to fraud or error.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention from the auditor on the grounds of materiality.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to the Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with the Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
7. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the

source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund’s financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund’s business, its ability to continue in business, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *11 September 2024*.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of management of the Fund.
7. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.
8. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
9. No transactions have been made which are not in the interests of the Fund members or the Fund during the year or subsequently.
10. From 8 March 2024 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. Other than matters described in Note 3 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Introduction, Governance, Funding, Climate Change, Investment and Scheme Administration statements.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. As members of management of the Fund, we are not aware of any matters which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

H. Derivative Financial Instruments and Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of management of the Fund of the limitations in their use imposed by The Occupational Pension Schemes (Investment) Regulations 2005; namely that they contribute to a reduction in Scheme risk, facilitate efficient portfolio management, and that any such investment has been made to avoid excessive risk exposure to a single counterparty and to other derivative operations; and the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. The Fund's Statement of Investment Principles has been duly reviewed to ensure that such investments comply with any limitations imposed by their provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of management of the Fund at the Fund year end and the terms and conditions relating thereto.
2. The members of management of the Fund have duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.
3. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the requirements of the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010.

J. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2023 and dated 29 March 2024 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Estimates

Valuation of Complex Investments Estimate (property valuations, private equity/infrastructure/private debt and pooled investments vehicles)

1. We confirm that the significant judgments made in making the estimate of the valuation of complex investments have taken into account all relevant information.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimate of the valuation of complex investments.
3. We confirm that the significant assumptions used in making the estimate of the valuation of complex investments appropriately reflect all available information which may affect the fair value of the investment assets.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), are complete and are reasonable in the context of the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimate of the valuation of complex investments.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statement.

Actuarial Present Value of Promised Retirement Benefits Estimate

1. We confirm that the significant judgments made in making the actuarial present value of promised retirement benefits have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by the actuary producing the estimate have been consistently and appropriately applied or used in making this estimate.
3. We confirm that the significant assumptions used in making the estimate of the actuarial present value of promised retirement benefits appropriately reflect all available information at the point of making the estimate.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty, are complete and are reasonable in the context of the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.
5. We confirm that appropriate specialized skills or expertise has been applied in making the actuarial present value of promised retirement benefits.
6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the actuarial value of promised retirement benefits and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Going Concern

1. Based on our assessment of going concern, the details of which have been shared with you, we confirm that we are not aware of any material uncertainties related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. We do not intend to wind up the Fund. We are satisfied that the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statements.

2. The financial statements disclose all of the matters of which we are aware that are relevant to the Fund's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

N. Climate-Related Matters

1. Whilst recognising that the Climate Change Governance and Reporting Regulations do not cover the Local Government Pension Scheme, we confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered as well as the impact resulting from the commitments made by the Fund, in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of United Kingdom Generally Accepted Accounting Practice aligned with the statements we have made in the other information or other public communications made by us.

Yours faithfully,

Director of Strathclyde Pension Fund

Chair of Strathclyde Pension Fund Committee

Date

Communication schedule for uncorrected misstatements

Entity: **Strathclyde Pension Fund**

Period Ended: **31-Mar-2024**

Currency: **GBP**

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)								Income statement effect of the prior period	
No.	W/P ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period		Prior period Debit/(Credit)	Non taxable
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable		
Factual misstatements:												
		Understated DIPs Investment Valuation (Please refer to 43 SPF H3.2 New Opportunities Investment Testing (DIPS))										
		Dr Investment (Private Equity/ Infrastructure)		15,238,106								
		Cr Return on Investments							(15,238,106)			
		Understatement of Private Equity/ Infrastructure (Please refer to 24 SPF H3.1 Private Equity and Infrastructure Confirmations)										
		Dr Investment (Pvt Equity)		91,249,458								
		Cr Return on Investments							(91,249,458)			
Total of uncorrected misstatements before income tax			0	106,487,564	0	0	0	0	(106,487,564)		0	
Total of uncorrected misstatements			0	106,487,564	0	0	0	0	(106,487,564)		0	
Financial statement amounts			347,600,000	30,327,824,000	(43,067,000)	(63,479,000)	0		2,697,352,000		(494,486,000)	
Effect of uncorrected misstatements on F/S amounts			0.0%	0.4%	0.0%	0.0%	0.0%		-3.9%		0.0%	
Memo: Total of non-taxable items (marked 'X' above)									0		0	
Uncorrected misstatements before income tax								0.0%	(106,487,564)		0	
Less: Tax effect of misstatements at current year marginal rate									0		0	
Uncorrected misstatements in income tax									0		0	
Cumulative effect of uncorrected misstatements after tax but before turnaround								-3.9%	(106,487,564)		0	
Turnaround effect of prior period uncorrected misstatements												
All factual and projected misstatements:									0		0	
Judgmental misstatements (Note 3):									0		0	
Cumulative effect of uncorrected misstatements, after turnaround effect								-3.9%	(106,487,564)			
Current year income before tax												
Current year income after tax									2,697,352,000			