

Strathclyde Pension Fund

Annual Audit Report
Year Ended 31 March 2023
Provisional draft for discussion

13 September 2023



Building a better
working world

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.






Contents

Section	Auditor Responsibility	Page
1. Key messages	Summarise the key messages for the 2022/23 audit	03
2. Introduction	Summarises our audit approach and application of materiality	05
3. Financial Statements	Provide an opinion on audited bodies' financial statements Review and report on, as appropriate, other information such as the annual governance statement and remuneration report	08
4. Best Value and Wider Scope Audit	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the Pension Fund's: <ul style="list-style-type: none"> ▶ Arrangements to secure sound financial management; ▶ The regard shown to financial sustainability; ▶ Clarity of Reports to implement the vision, strategy and priorities of the Pension Fund, and the effectiveness of governance arrangements for delivery; and ▶ The use of resources to improve outcomes. Best Value audit work is integrated with wider scope annual audit work.	18
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards: Appendix A: Code of Audit Practice: responsibilities Appendix B: Auditor Independence Appendix C: Required communications with the Pension Fund Committee Appendix D: Timing of communications and deliverables Appendix E: Action Plan Appendix F: Unadjusted audit differences Appendix G: Audit fees Appendix H: Additional audit information	27

1. Key messages

Financial statements

 <p>Financial statements</p> <p>Our assessment: Green</p>	<p>Our audit of the financial statements of Strathclyde Pension Fund for the year ended 31 March 2023 has yet to be concluded. The draft financial statements were of a good quality, however there was insufficient detail contained in supporting workpapers resulting in significant additional audit queries which often could only be answered by third parties. This resulted in significant inefficiencies in our audit. Based on the work to date, we have identified three audit differences that management has chosen to leave unadjusted in the financial statements.</p> <p>Overall, we were satisfied that the Annual Governance Statement, reflects the requirements of CIPFA's updated <i>Delivering Good Governance Framework</i>.</p> <p>To date, we have made three recommendations to management, as detailed at Appendix E.</p>
 <p>Going concern</p> <p>Our assessment: Green</p>	<p>In accordance with the CIPFA Code of Practice on Local Authority 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.</p> <p>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, however we await a going concern assessment and supporting cashflows from management.</p> <p>We have no matters to report in respect of our work around going concern or the conclusions reached by the Pension Fund.</p>

 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: Amber

The Pension Fund has established financial management arrangements, and we are satisfied that these are adequate for the management of its financial position. The Pension Fund were impacted by the Glasgow City Council system outage.

We have raised a recommendation in relation to segregation of duties and journal authorisation, and another in relation to reliance on third party information with limited management oversight.



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 decreased by 1.7% to £27.9 billion during 2022/23, with investment performance slightly below the benchmark return set for the year. The 2020 valuation funding level was 106%, evidencing that the Fund is well-funded. The value of assets and liabilities grew significantly between the 2017 and 2020 valuation. Preparation is underway for the triennial valuation covering the period to 31 March 2023.



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

Governance arrangements worked well throughout 2022/23. The Pension Fund highlighted a system outage issue within its governance statement. There were no other governance or internal control weaknesses that were required to be reported within the Annual Governance Statement. We consider the Governance Statement to be consistent with our findings from our audit.



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, 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 1 March 2023. There have been no material changes to the plan.

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 reduced materiality from £283.6 million to £278.7 million based on the 2022/23 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, in accordance with applicable law and the 2022/23 Code of Accounting Practice, of the income and expenditure of the Pension Fund for the year ended 31 March 2023.
- ▶ Have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2022/23 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 2022/23 audit in our Annual Audit Plan, which was presented to the Pension Fund Committee on 1 March 2023. There have been no changes to our planned audit approach.

We identified one fraud risk, in relation to the risk of fraud in revenue and expenditure recognition, which includes the risk of management override of controls. We consider this risk to manifest itself through the manipulation of asset valuations. Valuation of complex assets and valuation of direct property assets require additional judgement and are therefore recognised as significant risks in themselves.

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 2022/23 assessment

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £283.6 million. We have considered whether any change to our materiality was required in light of the asset value in 2022/23 and reduced the materiality level to reflect the updated assessment following receipt of the unaudited accounts.



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 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 2022/23.

The draft financial statements and supporting working papers were submitted for audit by 30th June 2023, in line with requirements. The financial statements were of a good quality, however in some cases supporting documents provided for audit purposes were difficult to follow. As a result, this required more time from the audit team to perform our procedures.

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

As part of the audit process, we worked with the finance team to make enhancements to the presentation of the financial statements, including going concern disclosures.

Audit outcomes

Our audit work remains ongoing. To date, we have identified two audit differences in level 3 asset testing as a result of timing differences. Additionally, we identified one audit difference in level 1 assets relating to the difference between the bid and mid price. These were not adjusted and are detailed at Appendix F .

As part of the audit we reviewed the financial statements and made a number of 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.

From our audit procedures to date, we have made three recommendations relating to the financial statements as a result of the annual audit. These, together with management responses are included within the action plan in Appendix E.

Audit Status

Our audit is well progressed, subject to the following outstanding areas:

- Receipt and review of finalised financial statements, including going concern commentary;

- ▶ Receipt of responses from fund managers regarding private equity testing;
- ▶ Receipt of audit documentation to support testing of property valuations, rental income and management expenses from DTZ;
- ▶ Responses from management to queries regarding journals testing;
- ▶ Engagement manager and partner review;
- ▶ Receipt of letter of representation;
- ▶ Completion of audit procedures;
- ▶ Updated confirmation that there have been no subsequent events in the period to date of signing.

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

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

Our audit involves:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.

- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting. Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence to express an opinion on the financial statements.
- ▶ Reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable.
- ▶ Ensuring that reporting to the Pension Fund Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.
- ▶ We rigorously maintain auditor independence (refer to Appendix B).

Exhibit 2: Our audit opinion

Element of our opinion	Basis of our opinion	Conclusions
Financial statements <ul style="list-style-type: none"> ► Truth and fairness of the state of affairs of the Pension Fund at 31 March 2023 and its expenditure and income for the year then ended. ► Financial statements in accordance with the relevant financial reporting framework. 	<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>Our audit procedures have yet to be completed. We anticipate issuing an unqualified opinion, subject to receipt of outstanding information and the satisfactory completion of procedures.</p>
Going concern <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 14, our work remains ongoing. We do not anticipate any material uncertainties, subject to receipt of a going concern assessment from management</p>
Other information <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>Subject to the completion of outstanding procedures 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
Matters prescribed by the Accounts Commission <ul style="list-style-type: none"> ▶ Management commentary / annual governance statement are consistent with the financial statements and have been properly prepared. 	Our procedures include: <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 anticipate issuing an unqualified opinion, subject to the satisfactory completion of the work outstanding per this report.</p>
Matters on which we are required to report by exception	We are required to report on whether: <ul style="list-style-type: none"> ▶ There has been a failure to achieve a prescribed financial objective. ▶ Adequate accounting records have been kept. ▶ Financial statements are not in agreement with the accounting records. ▶ We have not received the information we require. 	<p>We do not anticipate having any matters to report, subject to completion of outstanding audit procedures.</p>

Our response to significant and fraud audit risks

We identified three significant risk within our 2022/23 Annual Audit Plan:

- ▶ Risk of fraud in revenue and expenditure recognition
- ▶ Valuation of complex assets
- ▶ Valuation of directly held properties

Risk of fraud in revenue and expenditure recognition, including through management override

What is the risk?

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the valuation of investment assets at the year end. The 2022/23 account balance in the financial statements is £27.8 billion (2021/22: £28.3 billion).

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.

What judgements are we focused on?

We have determined that the way management could be most likely to override controls is by manipulating the value of the year-end investment asset balances posted in totality to the accounts at year-end.

For 2022/23 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 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. This testing is ongoing at the time of writing this report, however to date we have identified one weakness in internal controls, which is detailed at Appendix E.

Investment Balances

We have obtained third party confirmations of the Fund's externally held investment balances at the Pension Fund's year end 31 March 2023 from both custodians and investment managers. We have investigated any differences in valuation between these sources and agreed the final balance for investments in the accounts.

At the time of writing this report, we await responses from numerous fund managers.

| 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.

| 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 which have yet to be completed.

| 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 response to significant and fraud audit risks

| Valuation of Complex Assets

| What is the risk?

As of 31 March 2023, the Fund held investments of £25.4 billion, of which 40% (£8.8 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 undertake specific, additional procedures for complex investment valuations to address this significant risk. For 2022/23 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 have 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 2023. 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 2023 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 to date were £61.9 million for private equity, infrastructure and private debt and pooled investments (2021/22: £88.2 million). We await evidence required to support the finalisation of a further adjustment, including responses from a number of fund managers regarding our private equity testing. 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, which is 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 Covid-19 and the cost-of-living crisis on the property market, were free from material misstatement.

What did we do?

We undertake specific, additional procedures for property valuations to address this significant risk. For 2022/23 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). Note that we await responses from both Avison Young and DTZ regarding assumptions used in these valuations.
- ▶ We considered the impact on IFRS16 Lease Accounting on the Funds' accounting and disclosures for directly held properties.

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 impact of Covid-19, the 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 12 month period following approval of the financial statements, to September 2024.

We await an assessment from management of the Fund's ability to continue as a going concern. We have outlined our consideration of the Pension Fund's financial position going forward in the financial sustainability section of this report. We will consider 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.

ISA (UK) 315: Identifying and assessing the risks of material misstatement

Audit requirements

As set out within our Annual Audit Plan, there has been a significant change to the auditing standard, ISA (UK) 315 and this impacted our 2022/23 audit approach and the procedures we needed to perform.

The standard drives our approach to:

- ▶ Risk assessment
- ▶ Understanding the Pension Fund's internal control arrangements
- ▶ The identification of significant risks
- ▶ How we address significant risks

Key changes to our audit approach as a result of the implementation of ISA 315 were:

- ▶ A significant increase in audit work on the Pension Fund's use of IT in the systems of internal control across partner organisations.
- ▶ Increased importance of our understanding of the entity and environment, the applicable financial reporting framework, and system of internal control.

- ▶ A greater focus on professional scepticism including ensuring that audit approaches do not show bias to look for corroborative evidence or excluding contradictory evidence.
- ▶ We made enhanced inquiries of management and others within the Pension Fund who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties.
- ▶ We held discussions with key members of the Pension Fund including in respect of the risks of fraud and considered the implications for the audit.



Our conclusions

- ▶ We identified 6 relevant IT systems and applications which contribute to the production of the Pension Fund's financial statements, with the majority of these systems and applications being hosted by the Pension Fund's administering authority, Glasgow City Council.
- ▶ Our work did not identify any significant weaknesses in the Pension Fund's systems of internal control. We did however note that an ongoing ICT issue at Glasgow City Council has been highlighted by the Chief Internal Auditor within the Annual Governance Statement. The Council is working with the ICT provider to complete a lessons learned review. The impact on the Pension Fund was limited, with manual processes being implemented to prevent any delays to payments.

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 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 2022/23.

Exhibit 4: Our RAG ratings

	Red	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.
	Amber	
	Green	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: Amber

The Pension Fund has established financial management arrangements, and we are satisfied that these are adequate for the management of its financial position. We noted one matter for improvement of internal controls, relating to segregation of duties and journal authorisation and raised this as a recommendation at Appendix E. No significant matters for improvement in financial management arrangements have been noted through internal audit activity in the year.

The Pension Fund's financial monitoring reporting was impacted in the year by an outage in Glasgow City Council's financial ledger.

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 ongoing remote working arrangements due to 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 2022/23, the Fund delivered an underspend against budget of £0.2 million, largely due to vacancy management.

The 2023/24 budget was set at £7.89m in March 2023 in line with the expected timetable. This represents a £1.42m increase from 2022/23, which derives mainly from employee costs as a result in growth of the Fund, as well as general increases in other areas as a result of inflationary cost pressures.

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 information management/information security, customer engagement and scheme of delegation. 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.

Capacity and capability of the finance team

As this is the first year of our annual audit work, we considered the strength and depth of the finance team, including the arrangements in place to monitor and report on budgets to the Pension Fund.

The Pension Fund has an experienced finance team, which helps to ensure the Pension Fund is managed effectively. However, despite being an experienced team, it is a small team that relies heavily on the work of other entities for financial reporting purposes. Through our audit testing, it became apparent that there is a lack of segregation of duties and

authorisation of journals. Although we have not identified any other issues throughout the journals testing, we deem this to be a weakness in internal controls. As such, we have raised a recommendation to management as detailed in Appendix E.

Recommendation 1: 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. Management should, in our view, review the journal posting and approval process and consider implementing a formal policy.

Additionally, through our audit procedures it has been noted that management place a significant reliance on third parties, for example the custodian and property managers. There is limited understanding of these figures within management, resulting in limited challenge of management's experts. We have raised a recommendation to management to this effect at Appendix E.

Recommendation 2: The Pension Fund rely heavily on the work performed by the custodian, the property manager and the external property valuer with minimal evidence of management review or understanding of key processes. Management should, in our view, ensure that they have formal procedures in place to evaluate the reports of external specialists and where appropriate challenge the information provided by these entities.

With the exception of these identified weaknesses, we were content that there are sufficient skills and capacity within the team, but we will continue to monitor the arrangements throughout our appointment.

Internal control arrangements were impacted by an IT outage at Glasgow City Council

Within the Pension Fund's Annual Governance Statement, the Pension Fund has concluded that they have obtained assurance that the system of internal control was operating effectively during the year.

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. Following the revisions to the ISA (UK) 315, our audit methodology included a greater focus on the use of IT in the system of internal control. For the Pension Fund, this required us to assess the systems hosted by Glasgow City Council.

Our work to date has not identified any significant weaknesses in the systems of internal control relevant to the preparation of the Pension Fund's financial statements.

We did, however, note the weakness in ICT controls identified by the Chief Internal Auditor at Glasgow City Council. As a result, management disclosed the nature and impact of the weakness within the Pension Fund's Annual Governance Statement.

The ICT issue started in January 2023 and affected the final quarter of the year. For the Pension Fund, the impact of the IT outage primarily related to the payment of salaries and pensions. However, the impact was mitigated due to the manual processes put in place by Glasgow City Council. Business continuity was maintained as a result of these manual processes implemented.

| 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 3,097 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 decreased by 1.7% to £27.9 billion during 2022/23, with investment performance slightly below the benchmark return set for the year. The 2020 valuation funding level was 106%, evidencing that the Fund are well-funded. The value of assets and liabilities grew significantly between the 2017 and 2020 valuation. Preparation is underway for the triennial valuation covering the period to 31 March 2023.

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 with results expected to be published in March 2024. The Pension Fund are expecting significant changes in contribution rates.

The 2020 valuation funding level of 106% was broadly in line with the 2017 position of 105%. The funding position is impacted by the lower than otherwise would be asset position due to the impact of Covid-19 on investment returns and values. However, although the funding level is similar to the last valuation, the value of the assets and liabilities have both grown significantly since the 2017 valuation.

Funding Strategy

The review of the investment principles 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 2023, 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.

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 2022/23 and the Pension Fund ensured governance activities were held on a routine and timely basis.

The Pension Fund highlighted the operational impact of an ICT issue at Glasgow City Council within its governance statement. There were no other weaknesses in governance or internal control that were required to be reported within the Annual Governance Statement. We consider the Governance Statement to be consistent with our findings from our audit.

Governance Arrangements

Like all other public bodies in Scotland, the Pension Fund moved to revised governance arrangements at the beginning of the UK lockdown period in March 2020. After an initial period of delay, remote governance arrangements were implemented successfully, and in 2022/23 the facility for hybrid meetings was adopted.

Policies are reviewed three-yearly, however the Risk Policy has not been updated since 2019.

Committee Membership

Throughout 2022/23, there were several new Pension Fund Committee and Board members after the Council elections in May 2022, and therefore there is a risk that effective scrutiny of Fund activities is diminished. However, the Fund have an appropriate induction and training programme in place to ensure members are able to fulfil their roles effectively, which is reviewed and approved each year.

Internal Audit Activity

Internal audit services are provided by Glasgow City Council and their activity appears appropriate and proportionate to the risks affecting the Fund, and arrangements are in place for management and members to monitor and act on key risks. Internal audit reviewed two areas during the year in line with their annual

audit plan as outlined in the financial management section of this report.

The reports confirm internal audit are content that controls are operating effectively and there are sufficient arrangements in place to mitigate risks.

Annual Governance Statement and Compliance

We have reviewed the annual governance statement and governance compliance statement prepared for the Fund for 2022/23 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.

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.

| 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.

| System Failure

The Pension Fund uses and relies on a number of Glasgow City Council systems, processes, and controls. The Council experienced a significant outage of their financial ledger system in January 2023 with system access and functionality being significantly impacted during the final quarter of the financial year. Business continuity plans were implemented, and the Council used manual processes during the outage. The system outage creates risks in respect of the increased manual processing, the delays in processing leading to increased cut-off risks.

It was noted that the impacts of this outage were mainly on payroll for the Pension Fund, as this is the main use of this system. All staff members and pensions were paid on time throughout the process, however the Pension Fund had to adopt some business continuity plans from the Council including the use of some manual processes.

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, 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 fund managers.

Fund Performance 2022/23

The Fund achieved a return on investment of -1.6% against a benchmark of -0.7%, missing the benchmark. Strong returns for Equities were offset by negative returns from all other asset classes, resulting in a reduction in performance against 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 an upward trajectory until 2020/21, but have decreased in both 2021/22 and 2022/23.

Administration and oversight costs per member increased slightly, mainly as a result of increased membership numbers (membership grew by 3.9% in 2022/23, the highest year-on-year increase since 2019/20). Meanwhile, investment management expenses have decreased by £53 per member. This is due to a reduction in performance management fees due to the performance against benchmark.

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 2022/23. 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. In forming this judgement, we have drawn upon our wider planning work, alongside the work conducted to support our wider scope responsibilities, and specifically:

- ▶ Documentation review and fieldwork interviews with senior officers;
- ▶ 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;
- ▶ Our assessment of performance reporting to the Pension Fund; and

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

A

Code of audit practice:
Responsibilities

B

Independence report

C

Required communications with
the Pension Fund Committee

D

Timeline of communications and
deliverables

E

Action Plan

F

Adjusted and unadjusted
differences

G

Audit fees

H

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, as revised in December 2019, 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 acceptance 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.



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 2023
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 2023
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.

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.
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.
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist. ▶ A discussion of any other matters related to fraud. 	This Annual Audit Report.
Internal controls	Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report.

C

Required communications (cont.)

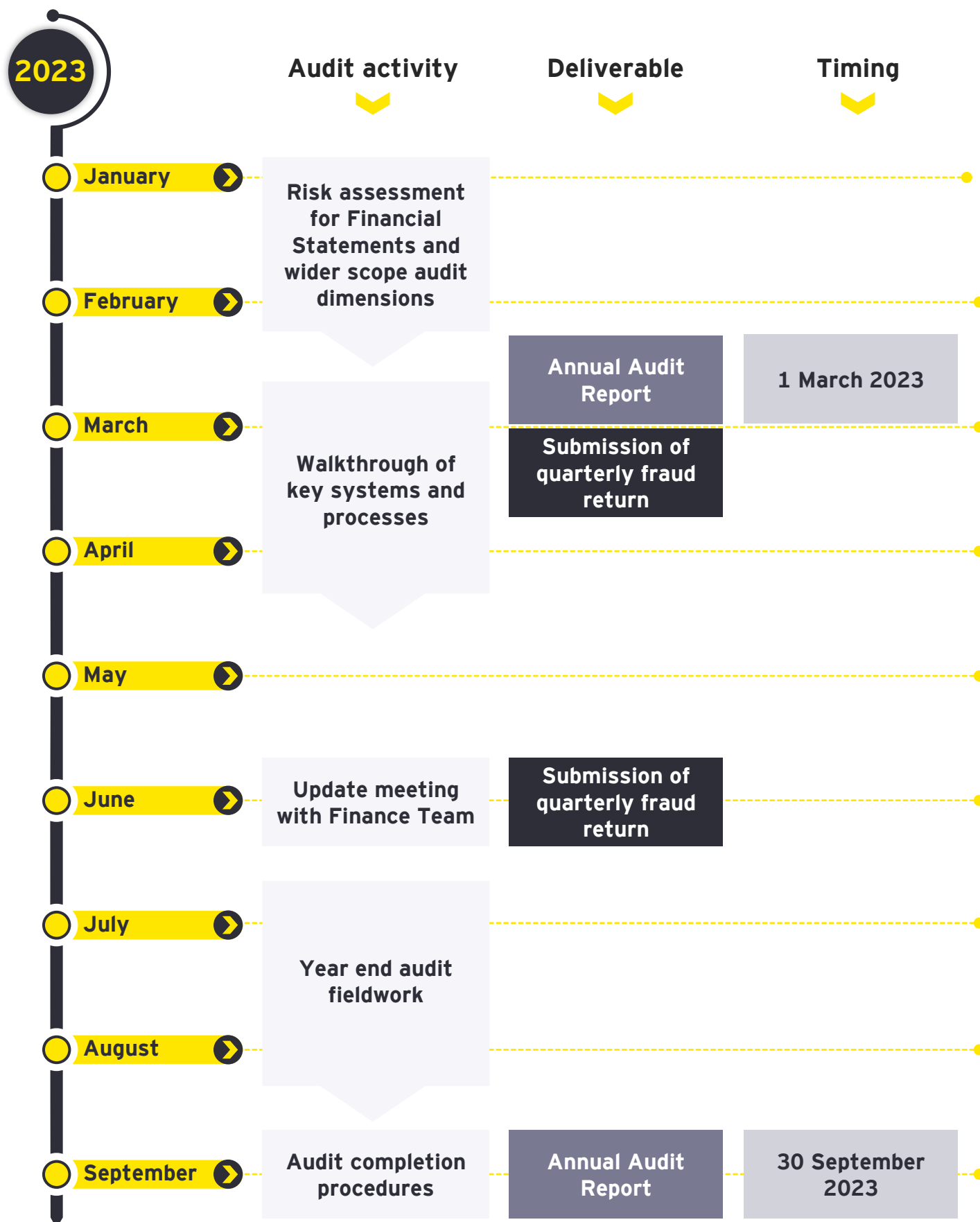
Our reporting to you

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.
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.
Representations	Written representations we are requesting from management and/or those charged with governance.	This Annual Audit Report.

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 Finance, Audit and Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Finance, Audit and Scrutiny Committee may be aware of. 	This Annual Audit Report.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	This Annual Audit Report.
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	This Annual Audit Report.
Best value and wider scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider-scope audit.	This Annual Audit Report.
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.

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.

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
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>

E Action Plan (continued)

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
2.	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.	The Fund should ensure that evidence is available to demonstrate their review and challenge of the information provided by external parties. Grade 2	Response: SPF does have extensive processes to evaluate and review the work of experts, including a documented annual diligence review. However, we will review this in light of EY's findings, and with particular reference to the parties noted. Responsible officer: Richard McIndoe, Director. Implementation date: Review by 31 st Dec 2023.
3.	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.	Management should implement a formal tracker that highlights any policies due for review. Grade 3	Response: Will implement. Responsible officer: Richard McIndoe, Director Implementation date: By 31 st Dec 2023,

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 £61.89 million	DR Assets £61.89 million

Disclosure misstatements that have been corrected

No.	Note	Description
1	Basis of preparation	Going concern disclosure required updating. This was discussed with management and an updated disclosure agreed.
2	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.
3	Note 18	The lease ageing profile formula was not correct and therefore was incorrect. Agreed amendment with management.

G Audit Fees

2022/23 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.

	2022/23	2021/22
Component of fee:		
► Auditor remuneration - expected fee	£87,790	
Audit Scotland fixed charges:		
► Audit support costs	£3,330	
Sectoral price cap	(£23,560)	
Total fee	£67,530	£60,030

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.

We have encountered challenges in the first year of the audit, including additional work around prior year disclosures, systems and gathering audit evidence from the Pension Fund and additional third parties. In particular, we have incurred additional time on the audit around valuation of hard to value assets and our required responses to IAS 19 protocols. Finally, we have shared an assessment of this time with management and we will discuss and agree this in advance of finalising the audit and issuing our final report.

We will hold a debrief with management to ensure all lessons are learned for future years to ensure that the accounts and audit process run as efficiently as possible and action required to reduce additional work is taken where possible.

H Additional audit information

Introduction

In addition to the key areas of audit focus outlined within the Report, 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.

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: <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>
- ▶ 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.

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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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