

Teesside Pension Fund

Outline Audit Planning Report

Year ended 31 March 2022

November 2022

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

28 November 2022

Dear Corporate Affairs and Audit Committee Members

Outline Audit Planning Report

We are pleased to attach our Outline Audit Planning Report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Affairs and Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks. Our planning procedures are substantially complete subject to final review, however our 2020/21 audit is not yet complete; should any material changes arise we will communicate these to the committee, as appropriate.

This report is intended solely for the information and use of the Corporate Affairs and Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this plan with you on 5 December 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Hassan Rohimun, Partner
For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Corporate Affairs and Audit Committee and management of Teesside Pension Fund in accordance with the Statement of responsibilities. Our work has been undertaken so that we might state to the Corporate Affairs and Audit Committee and management of Teesside Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Affairs and Audit Committee and management of Middlesbrough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2021/22 audit strategy



Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Corporate Affairs and Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

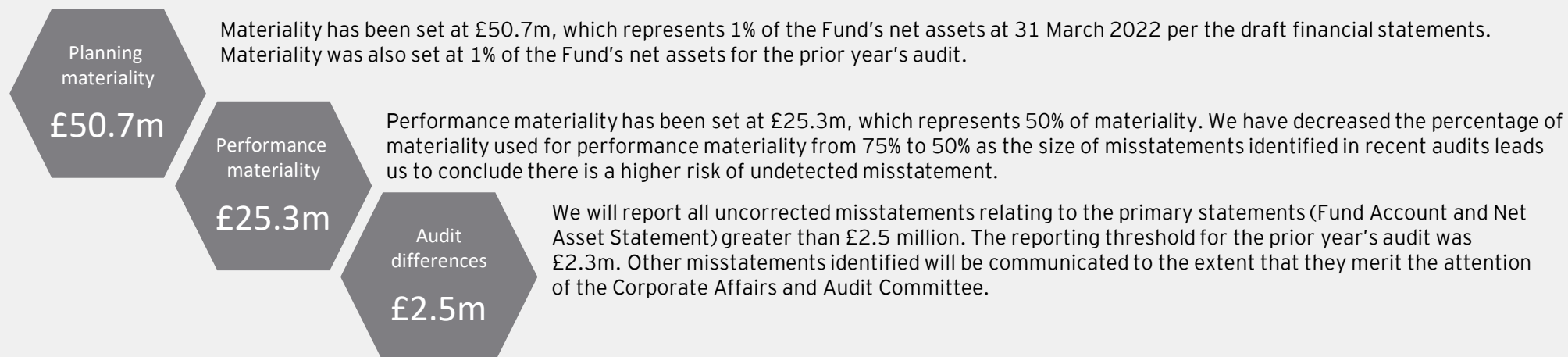
Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from prior year	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of pooled investment vehicles	Significant risk	No change in risk or focus	The majority of the Fund's investments are held as investments in pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not normally publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.
Valuation of private market investments	Significant risk	New risk	The Fund has a growing portfolio of private market investments. Valuation of these investments is performed under a number of different frameworks, depending upon the location and jurisdiction of the investment. Greater judgement is required to value these investments as prices are not publicly available and market volatility means such judgements can quickly become outdated, especially where there is a significant time period between the latest audited information and the Fund's reporting date. Any error in valuation or variation since the audited information could have a material impact upon the financial statements. We recognise this as a new risk this year due to the increase in value of such investments since the prior year.
Valuation of directly held property	Significant risk	No change in risk or focus	The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.
Recognition of investment income	Significant risk	New risk	Analysis of the Fund's accounting entries performed as part of our planning work identified a large unexpected increase in investment income. Initial enquiries of management as to the reasons for this identified that amounts had been incorrectly recognised resulting in a material overstatement of investment income in the Pension Fund's draft financial statements.

Overview of our 2021/22 audit strategy

In the prior year we also recognised the Pension Fund's disclosures around going concern as an inherent risk. Given the significant levels of cash held by the Fund, we are content that additional focus on these disclosures is no longer necessary and do not recognise this as a risk for this year's audit. We will continue to review these disclosures as part of our standard audit procedures.

Materiality



Overview of our 2021/22 audit strategy

Audit scope

This Outline Audit Planning Report covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Teesside Pension Fund give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- ▶ Our opinion on the consistency of the Fund's financial statements, which are included within the Fund's Annual Report, with the published financial statements of Middlesbrough Council (the administering authority).

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund. Should there be any changes to our plan on the completion of audit procedures we will provide an update to the Corporate Affairs and Audit Committee.

Taking the above into account, and as articulated in this Audit Planning Report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditor's assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting on the valuation of investments. Therefore to the extent any of these or any other risks are relevant in the context of the Pension Fund's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.



02

Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p>Misstatements due to fraud or error*</p>	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages of our audit; ▶ Inquire of management about risks of fraud and the controls put in place to address those risks; ▶ Understand the oversight given by those charged with governance of management's processes over fraud; ▶ Consider the effectiveness of management's controls designed to address the risk of fraud; ▶ Determine an appropriate strategy to address those identified risks of fraud; ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments made in the preparation of the financial statements, consideration of whether accounting estimates are free from material bias and a review for unusual transactions.

Our response to significant risks

<p>Valuation of pooled investment vehicles</p>	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Financial statement impact</p> <p>Misstatements that occur in relation to the risk of valuation of pooled investment vehicles could affect the pooled investment vehicles account. Pooled investment vehicle assets had the following balance in the draft 2021/22 financial statements:</p> <ul style="list-style-type: none"> ▶ Pooled investment vehicles: £3,854m ▶ Pooled property investments: £68m 	<p>The majority of the Fund’s investments are held as investments in pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not normally publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.</p> <p>We have identified the valuation of the Fund’s investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.</p>	<ul style="list-style-type: none"> ▶ Document and walkthrough the process and design of the controls over the valuation process; ▶ Obtain third party confirmations of the valuation of pooled investments vehicle assets at the reporting date from the investment managers. We will also cross-check the investment manager confirmations to the confirmation of assets held obtained from the Fund’s custodian; ▶ Review the relevant investment manager controls’ reports for qualifications or exceptions that may affect the audit risk; ▶ Compare the movement in valuation of investments in pooled investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigate any unusual variances; and ▶ Review the basis of valuation for pooled investment vehicles and ensure it is in line with the accounting policy.

Our response to significant risks

Valuation of private market investments

Financial statement impact

Misstatements that occur in relation to the risk of valuation of private market investments could affect the pooled investment vehicles account. Pooled investment vehicle assets had the following balance in the draft 2021/22 financial statements:

- ▶ Pooled investment vehicles: £3,854m

What is the risk?

The Fund has a growing portfolio of private market investments, which for the purposes of our risk are those classified by the Fund as investments in private equity, infrastructure and other alternative assets.

Valuation of these investments is performed under a number of different frameworks, depending upon the location and jurisdiction of the investment. Greater judgement is required to value these investments as prices are not publicly available and market volatility means such judgements can quickly become outdated, especially where there is a significant time period between the latest audited information and the Fund's reporting date. Any error in valuation or variation since the audited information could have a material impact upon the financial statements.

We have identified the valuation of the Fund's investments in private market investments as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

What will we do?

The Fund's private market investments are held as pooled investment vehicles therefore the audit response detailed on the previous page as our response to the risk of valuation of pooled investment vehicles includes coverage of private market investments.

In addition, for the subset of pooled investment vehicles which are also private market investments we:

- ▶ Reperform the translation of the net asset value, where reported in a currency other than sterling, to sterling using independently sourced exchange rates;
- ▶ Using the Fund's % share of the pooled investment vehicle, as confirmed by the investment manager, reperform the calculation of the valuation of the Fund's assets and compare to the financial statement valuation; and
- ▶ Seek explanations and, where appropriate, supporting evidence for any significant changes in valuation between the date of the audited pooled investment vehicle financial statements and the Fund's reporting date.

Our response to significant risks

Valuation of directly held property

Financial statement impact

Misstatements that occur in relation to the risk of valuation of directly held property could affect the properties account. Property assets had the following balance in the draft 2021/22 financial statements:

- Properties: £331m

What is the risk?

The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.

We have identified the valuation of the Fund's directly held property as a significant risk, as even a small change in assumptions could have a material impact upon the financial statements.

What will we do?

- Agree the valuation of the Fund's property portfolio as a whole back to the valuation report provided by the Fund's external valuer;
- Perform an assessment of the competence, capabilities and independence of the Fund's external valuer as a management specialist;
- Perform an analysis of property valuations, including consistency with valuations of similar assets and changes in valuations from the prior period, to identify any assets with characteristics that indicate a potentially higher risk of misstatement; and
- Based on the above analysis, request our EY Real Estate specialists to review the valuations of a sample of assets sufficient to provide an evidence base on which to conclude on the reliability of the work of management's specialist.

Our response to significant risks

<p>Recognition of investment income</p>	<p>What is the risk?</p> <p>As part of our audit planning procedures we utilise our data analytics tools to analyse the accounting records of the Pension Fund for unusual or unexpected accounting entries.</p> <p>These procedures identified a large unexpected increase in investment income, which increased from £13.7m in 2020/21 to £176.4m in 2021/22.</p> <p>Initial enquiries of management as to the reasons for this increase identified that amounts received and reinvested by investment managers without transactions occurring between the Pension Fund and the investment manager, for example the reinvestment of dividends received from underlying equity investments within equity pooled investment vehicles, had been incorrectly recorded as investment income. Management have confirmed that the balance is materially misstated in the draft financial statements.</p> <p>We have identified the recognition of investment income as a significant risk, as our audit planning procedures identified a material misstatement within this account.</p>	<p>What will we do?</p> <ul style="list-style-type: none"> ▶ Review management’s quantification of the amounts incorrectly presented as investment income within the draft financial statements, and agree this to supporting evidence; and ▶ Confirm that the financial statements are appropriately amended* to correct this misstatement. <p>Note that we have already agreed with management that the impact of the overstatement of investment income is matched by an understatement of the gain in market value of investments, therefore the misstatement does not impact the valuation of investments at 31 March 2022 presented within the draft financial statements.</p>
<p>Financial statement impact</p> <p>Misstatements that occur in relation to the risk of recognition of investment income could affect the investment income account. Investment income had the following balance in the draft 2021/22 financial statements:</p> <ul style="list-style-type: none"> ▶ Investment income: £176m 		



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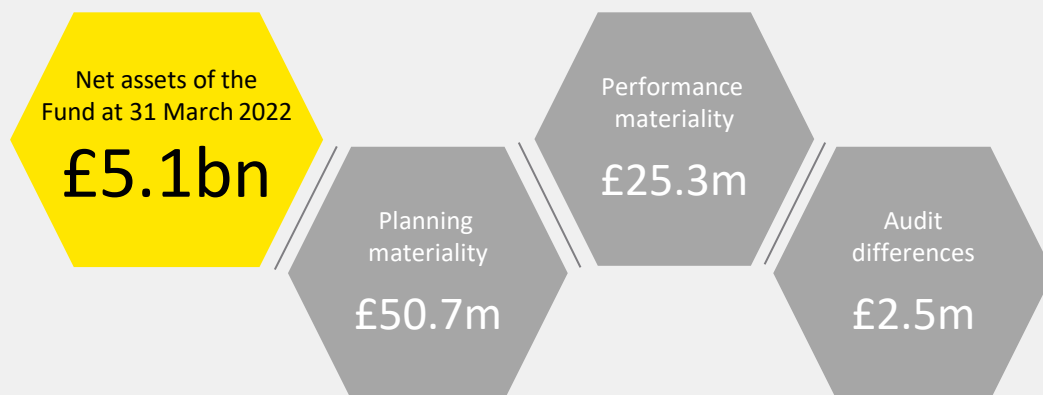
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £50.7 million. This represents 1% of the net assets of the Fund per the draft Statement of Accounts. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



Prior year Materiality



We request that the Corporate Affairs and Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – The amount we use to determine the extent of our audit procedures. We have set performance materiality at £25.3 million which represents 50% of planning materiality (rounded).

Audit difference threshold – This has been set as £2.5 million. We propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

Other uncorrected misstatements, such as reclassifications and misstatements in disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Corporate Affairs and Audit Committee, or are important from a qualitative perspective.

Specific materiality – We do not apply a specific lower materiality to the audit of related party transactions disclosures, however we do consider the materiality of transactions as they apply to both parties involved, rather than just to the Pension Fund.



04

Scope of our audit



Our Audit Process and Strategy

Objective and scope

Under the Code of Audit Practice, our principal objectives are to review and report on the Fund's financial statements and the consistency of these financial statements with those disclosed within the Fund's Annual Report.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ Auditor independence.

2. Consistency opinion

We are required to consider the consistency of the Fund's financial statements, which are included within the Fund's Annual Report, with the published financial statements of Middlesbrough Council (the Administering Authority).

Our Audit Process and Strategy

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow 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.

Analytics

We will use our computer-based analytics tools to enable us to capture and analyse the entirety of the Pension Fund's general ledger. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Corporate Affairs and Audit Committee.

Internal audit

We will meet with Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



05

Audit team



Audit team

The engagement team is led by Hassan Rohimun, who will have responsibility for ensuring that our audit delivers high quality and value to the Pension Fund.

Mark Rutter will be the senior manager responsible for the day-to-day direction of audit work and is the key point for contact for the finance team.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of land and buildings	Cushman and Wakefield (management's valuation specialists) EY Real Estate valuation specialists (as auditor's specialists)
Pensions disclosures	Hymans Robertson (management's actuarial specialists) EY Actuaries (as auditor's specialists)

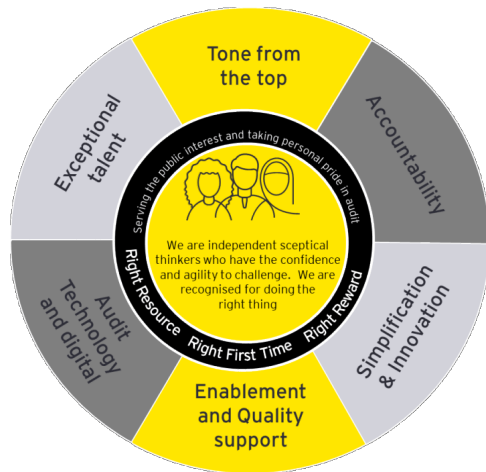
In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right audit culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.

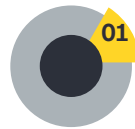


Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

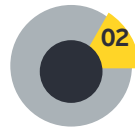
1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
 - ▶ **Right resources** – We team with competent people, investing in audit technology, methodology and support
 - ▶ **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
 - ▶ **Right reward** – We align our reward and recognition to reinforce the right behaviours

3. The six pillars of Sustainable Audit Quality are implemented.



Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality



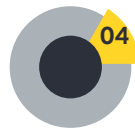
Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management



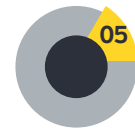
Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition



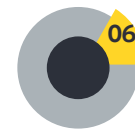
Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality



Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit



Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result

A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

“A series of company collapses linked to unhealthy cultures.....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success.”

Sir John Thompson
Chief Executive of the FRC



06

Audit timeline





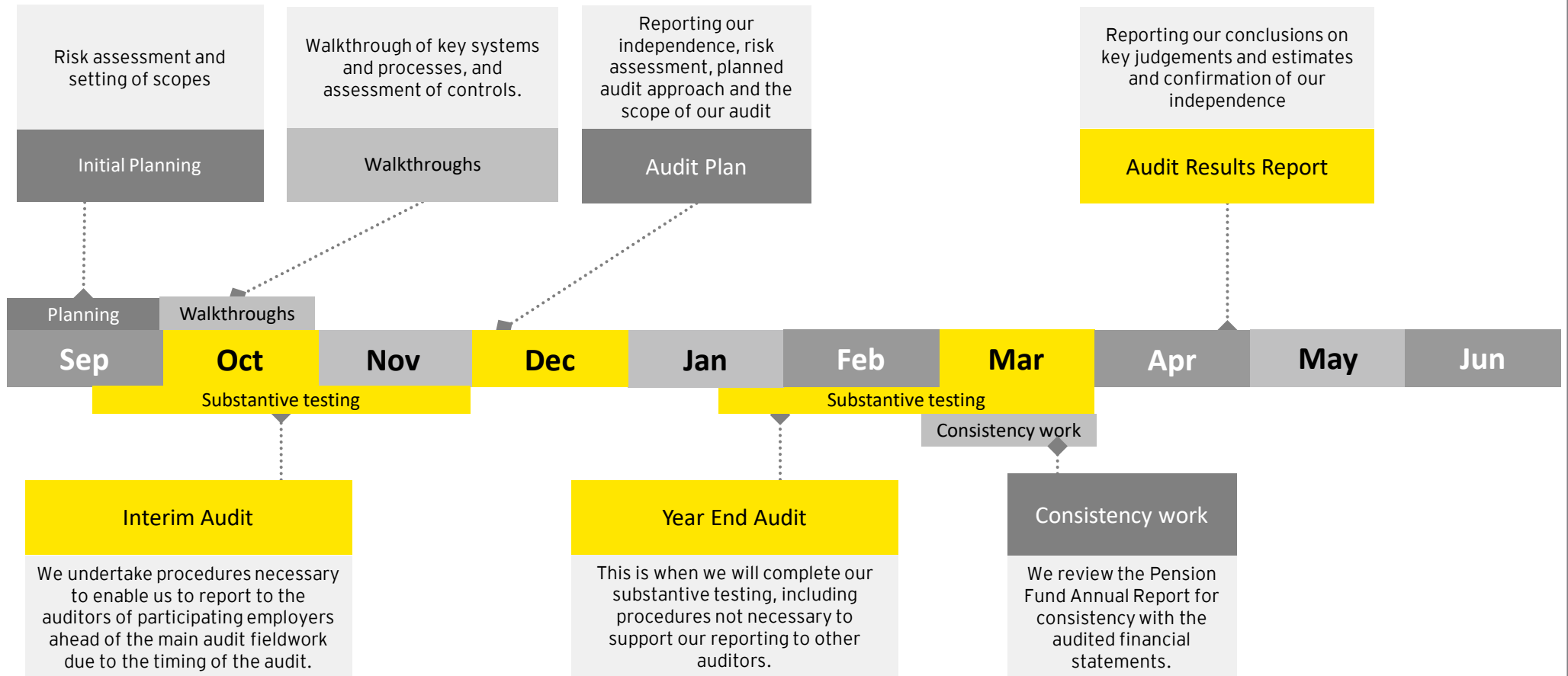
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Corporate Affairs and Audit Committee and we will discuss them with the Corporate Affairs and Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





07

Independence



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 planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and 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 processes within EY to maintain objectivity and independence; and ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for 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, its affiliates, 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 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; ▶ Written confirmation that all covered persons are independent; ▶ 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; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, 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 also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hassan Rohimun, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your Pension Fund. Examples include where we have an investment in related companies; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees, non-audit fees or business relationships and therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report. We have received no fees for non-audit services (see Appendix A).

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Relationships, services and related threats and safeguards

EY Transparency Report 2022

Ernst & Young (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 of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 1 July 2022:

[EY UK 2022 Transparency Report | EY UK](#)



08

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Levelling Up, Housing and Communities. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Description	Planned Fee 2021/22 £	Scale Fee 2021/22 £	Estimated Requested Fee 2020/21 £	Notes
Base Audit Fee - Code Work	21,972	21,972	21,972	1
Changes in work required to address professional and regulatory requirements and scope associated with risk	49,199	N/A	39,359	2, 3
Revised Proposed Scale Fee	71,171	21,972	61,331	
IAS 19 Procedures - Code Work	9,250	N/A	8,500	4
Revised Proposed Scale Fee (inc. IAS 19 Procedures)	80,421	21,972	69,831	
Additional specific one-off considerations requiring additional work	TBC	N/A	5,000	5, 6
Total Audit Fee	TBC	21,972	74,831	
Fees for non-audit services	-	-	-	
Total Fees	TBC	21,972	74,831	

All fees exclude VAT

Fees

Notes

- 1) The base audit fees reflect the amounts determined by Public Sector Audit Appointments Limited (PSAA) in March 2020 and applied to subsequent years.
- 2) We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. We have not been able to agree a scale fee variation with management and will therefore ask PSAA to make a determination as to the scale fee variation to be applied once our 2020/21 audit is concluded. The table on the previous page reflects the amount we intend to submit to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk.
- 3) We determine our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk in reference to hourly rates set by PSAA. PSAA have increased these rates by 25% since we determined the amounts for our 2020/21 audit.
- 4) As part of our audit we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. Management may opt to recharge this fee to the relevant member bodies.
- 5) Where we identified significant risks and other areas of audit focus as part of our 2020/21 audit, as reported to the Corporate Affairs and Audit Committee, we undertook additional procedures to obtain the appropriate levels of evidence to support our opinion. The amount of £5,000 represents our current estimate of the additional fees we have determined as commensurate with the additional work undertaken, however until our 2020/21 audit is concluded further procedures may be required and will discuss the additional fees with management and will provide an update once this process has been finalised.
- 6) We note that there continue to be factors which increase the extent of our audit procedures over and above the levels envisaged by PSAA when determining scale fees. For 2021/22, this will include the increasing complexity of the Fund's investment portfolio, changes made in the NAO's revised 2020 Code of Audit Practice and the adoption of a new auditing standard *ISA 540: Auditing Accounting Estimates and Related Disclosures* which requires us to perform additional work around accounting estimates. We will discuss the impact of these factors on our audit fees with management once the full extent of additional effort has been determined.

Additional fees for the work required to discharge responsibilities under the Code of Audit Practice are subject to approval by the PSAA

The fees presented are based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- No material weaknesses in arrangements for us to report on;
- Appropriate quality of documentation is provided by the Pension Fund; and
- The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.



Appendix B

Required communications with the Corporate Affairs and Audit Committee


We have detailed below the communications that we must provide to the Corporate Affairs and Audit Committee.





Our Reporting to you


Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Corporate Affairs and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The Statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The Statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report (this report)
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; and • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report (April 2023)




Required communications with the Corporate Affairs and Audit Committee

 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; and • The adequacy of related disclosures in the financial statements 	Audit Results Report (April 2023)
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; and • Material misstatements corrected by management 	Audit Results Report (April 2023)
Fraud	<ul style="list-style-type: none"> • Enquiries of the Corporate Affairs and 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; and • A discussion of any other matters related to fraud 	Audit Results Report (April 2023)
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (April 2023)



Required communications with the Corporate Affairs and Audit Committee

 Our Reporting to you

Required communications	 What is reported?	  When and where
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; and • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Planning Report (this report); and</p> <p>Audit Results Report (April 2023)</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations; and • Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit Results Report (April 2023)</p>
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; and • Enquiry of the Corporate Affairs and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Affairs and Audit Committee may be aware of. 	<p>Audit Results Report (April 2023)</p>
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	<p>Audit Results Report (April 2023); and</p> <p>Management Letter (May 2023)</p>

Required communications with the Corporate Affairs and Audit Committee

 Our Reporting to you

Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (April 2023)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (April 2023)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (April 2023)
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed; • Breakdown of fee information at the completion of the audit; and • Any non-audit work 	Audit Planning Report (this report); and Audit Results Report (April 2023)

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, 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 required by auditing standards

- Identifying and assessing 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;
- 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;
- Reading other information contained in the financial statements, the Corporate Affairs and Audit Committee reporting appropriately addresses matters communicated by us to the Corporate Affairs and Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information

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 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 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, however, 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.

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