Teesside Pension Fund
Provisional Audit Planning Report

Year ended 31 March 2023

November 2023

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29 November 2023

Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Audit Committee Members

Provisional Audit Planning Report

We are pleased to attach our provisional Audit Plan for the 2022/23 financial year, which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2022/23 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 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 Council, and outlines our planned audit strategy in response to those risks. This Provisional Audit 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 remain ongoing; we will inform the Governance and Assurance Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee. We will issue a finalised planning report on completion of all detailed procedures.

This report is intended solely for the information and use of the 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 report with you on 14 December 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Rob Jones

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.psaa.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 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 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 Audit Committee and management of Teesside Pension Fund 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 2022/23 audit strategy

Overview of our 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the 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 PY	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	**No change** in risk or focus	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.
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.
Revised ISA 315 (Identifying and Assessing the Risks of Material Misstatement)	Area of audit focus	New area of focus for 2022/23	A revision to ISA 315 has become effective for the audit of the 2022/23 financial statements. This standard requires us to perform a more robust risk identification and assessment, thereby promoting better responses to the identified risks. This involves gaining an understanding over IT applications and controls that are relevant to the financial reporting process.

Overview of our 2022/23 audit strategy

Materiality

Planning materiality **£50m**	Materiality has been set at £50m, which represents 1% of the Pension Fund's net assets per the draft 2022/23 financial statements.
Performance materiality **£25m**	Performance materiality has been set at £25, which represents 50% of materiality.
Audit differences **£2.5m**	We will report all uncorrected misstatements relating to the primary statements (Fund Account and Net Asset Statement) greater than £2.5m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2022/23 audit strategy

Audit scope

This Audit Plan 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 2023 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 Council.

Taking the above into account, and as articulated in this audit plan, 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 auditors 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 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 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

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?
Misstatements due to fraud or error*	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	▶ Identify any material fraud risks during the planning stages of our audit; ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks; ▶ Understanding the oversight given by those charged with governance of management's processes over fraud; ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud; ▶ Determining an appropriate strategy to address those identified risks of fraud; and ▶ 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 significant and unusual transactions.

Our response to significant risks

Valuation of pooled investment vehicles

Financial statement impact

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 2022/23 financial statements:

- Pooled investment vehicles: £4,187m (2021/22: £3,773m)
- Pooled property investments: £65m (2021/22: £60m)

What is the risk?

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.

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.

What will we do?

- 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;
- Use national indices to assess the reasonableness of movements in investments within funds; 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 2022/23 financial statements:

- Pooled investment vehicles: £4,187m (2021/22: £3,773m)

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;
- Use national indices to assess the reasonableness of movements in private market investments; 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

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.

Financial statement impact

Misstatements that occur in relation to the risk of valuation of directly held properties could affect the properties account. Property assets had the following balance in the draft 2022/23 financial statements:

- Properties: £403m (2021/22: £336m)

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Revised ISA 315 (Identifying and Assessing the Risks of Material Misstatement) A revision to International Standard on Auditing 315 has become effective for the audit of the 2022/23 financial statements. This standard requires us to perform a more robust risk identification and assessment, thereby promoting better responses to the identified risks. This involves gaining an understanding over IT applications and controls that are relevant to the financial reporting process.	We will: ▸ As part of our scope and strategy procedures and walkthroughs, we will identify key controls and relevant IT applications; ▸ We will make specific enquiries in order to understand the extent of vendor and entity managed changes to IT applications, security settings and user access, and job scheduling and monitoring. ▸ Assess the impact of any deficiencies identified on our audit approach and report deficiencies to those charged with governance.

03 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2022/23 has been set at £50m. This represents approximately 1% of the Pension Fund's net assets per the draft 2022/23 financial statements. It will be reassessed throughout the audit process. Net assets has been selected as a basis for materiality as we consider that this is the primary focus of users of the financial statements. We have provided supplemental information about audit materiality in Appendix D.

Net assets of the Fund at 31 March 2023
£5.06bn

Planning materiality
£50m

Performance materiality
£25m

Audit differences
£2.5m

We request that the 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 £25m which represents 50% of planning materiality. We have selected 50% of planning materiality because of the potential for errors through the use of interim financial information adjusted for cashflows as part of the financial reporting process and errors identified in the prior year.

Audit difference threshold – 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 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 and disclosures, however we do consider the materiality of transactions as they apply to both parties involved, rather than just to the Pension Fund. We will also audit remuneration of key management personnel to the level of rounding in the financial statements.

04 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements and 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 (continued)

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 2022/23 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 whole populations of your financial data, in particular journal entries. 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 Audit Committee.

Internal audit

We will meet with the 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 Rob Jones, who will have responsibility for ensuring that our audit delivers high quality and value to the Pension Fund.

Richard Tebbs will be the 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.

06 Audit timeline

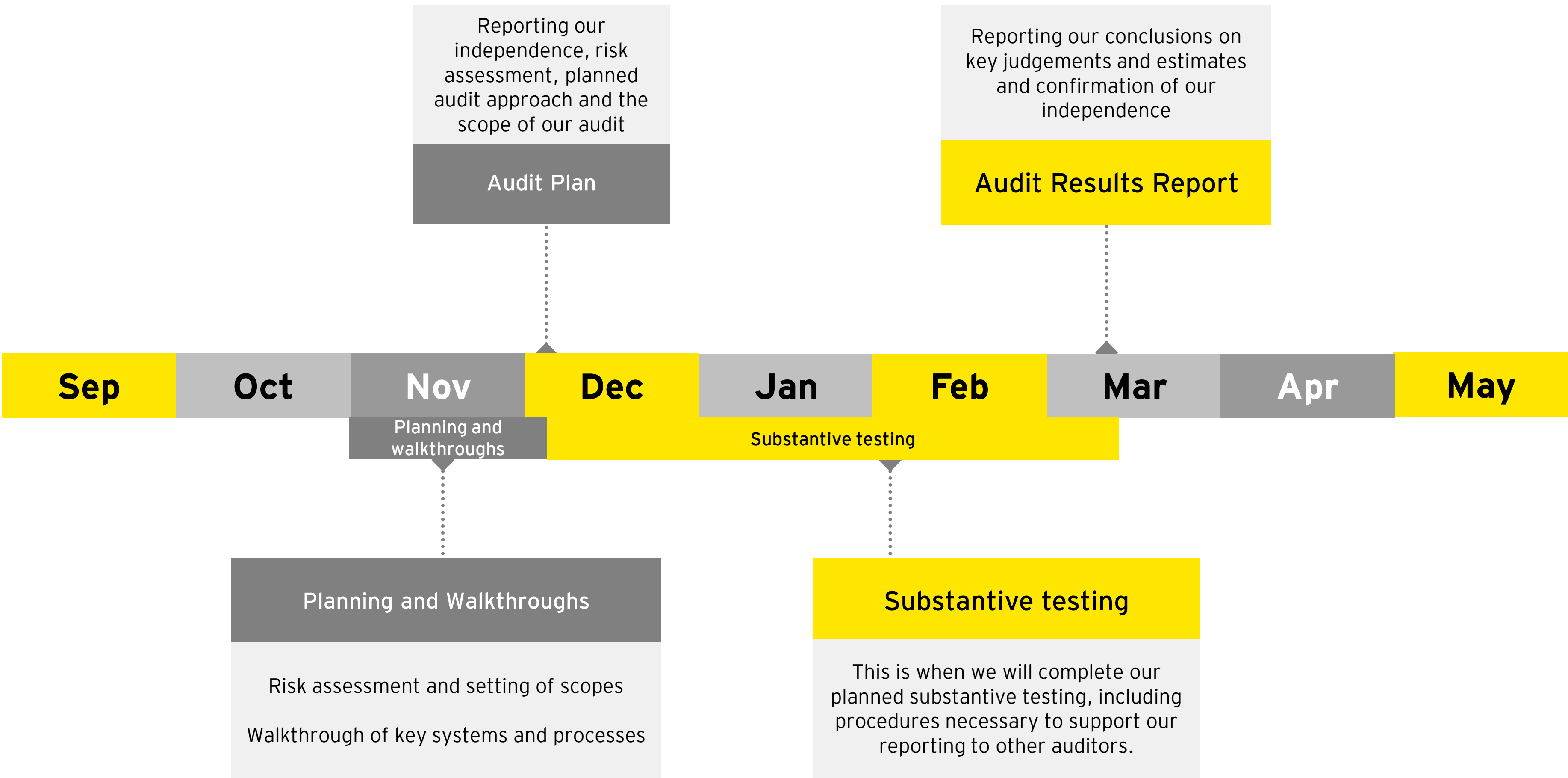
Audit timeline

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 2022/23.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the 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 June 2016, 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**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the 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 process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ 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 Rob Jones, 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 the Council. Examples include 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.

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 the Council. 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.

Other communications

EY Transparency Report 2023
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 year end 30 June 2023: https://www.ey.com/en_uk/about-us/transparency-report

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 Housing, Communities and Local Government.

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.

	Notes	Planned Fee 2022/23	Estimated Fee 2021/22
		£	£
Base audit fee – Code work	1	35,222	21,972
Changes in work required to address professional and regulatory requirements and scope associated with risk	2	TBC	TBC
Additional specific one-off considerations requiring additional work	3	TBC	TBC
Total audit fee		**TBC**	**TBC**
IAS 19 procedures – code work	4	9,250	19,250
Total audit fees (inc. IAS procedures)		**TBC**	**TBC**
Fees for non-audit services		Nil	Nil
Total fees		**TBC**	**TBC**

All fees exclude VAT

(1) The base audit fees reflect the amounts determined by Public Sector Audit Appointments Limited (PSAA) for the 2022/23 and 2021/22 financial years.

(2) We previously wrote to management and the Corporate Affairs and Audit Committee Chair 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 2021/22 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) Where we identify additional significant risks and other areas of audit focus as part of our 2022/23 audit, we will undertake additional procedures to obtain the appropriate levels of evidence to support our opinion. Until our 2021/22 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.

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 2022/23, this includes the adoption of a new auditing standard ISA 315: Identifying and Assessing the Risks of Material Misstatement which requires us to perform addition work around the Pension Fund's control environment. We will discuss the impact of these factors on our audit fees with management once the full extent of additional effort has been determined.

(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. For 2021/22, this included £10,000 for additional work required with respect to the triennial valuation.

Our final fee will be based on officers meeting the agreed timetable of deliverables, our accounts and consistency opinions being unqualified, appropriate quality of documentation being provided by the Pension Fund, and the administrating authority having an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with management in advance.

Appendix B

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the 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	▸ 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	Audit planning report (This report)

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report (April 2024)
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report (April 2024)
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report (April 2024)
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report (April 2024)

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit planning report (This report) Audit results report (April 2024)
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report (April 2024)
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the 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 Audit Committee may be aware of	Audit results report (April 2024)
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report (April 2024); and Management letter (May 2024)

Appendix B

Required communications with the Audit Committee (continued)

		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 2024)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (April 2024)
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report (April 2024)
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report (This report) Audit results report (April 2024)

Appendix C

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. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Additional audit information (continued)

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 to support the opinion given on the financial statements; 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, 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.