

# Teesside Pension Fund Final audit results report

Year ended 31 March 2023

November 2024



Private and Confidential

November 2024

Audit Committee  
Middlesbrough Council  
Civic Centre  
Middlesbrough  
TS1 9GA

Dear Audit Committee Members,

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee.

This report summarises our audit conclusion in relation to the audit of Teesside Pension Fund (the Pension Fund) for 2022/23.

The audit is designed to express an opinion on the 2022/23 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Teesside Pension Fund's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects.

This report is intended solely for the use of the Audit Committee, other members of the Council and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the next meeting of the Audit Committee on 5 December 2024.

Yours faithfully



Rob Jones

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. 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 July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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. 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 Executive Summary

# Executive Summary

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## Scope update

In our Outline Audit Planning Report tabled at the December 2023 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

## Status of the audit

Our audit work in respect of the Pension Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Review of the separate Pension Fund Annual Report - we issue a separate consistency opinion on the consistency of the Pension Fund's separate Annual Report with the audited financial statements. We have received the final updated Annual Report and are in the process of confirming it is consistent with the final financial statements reflecting all corrected audit differences;
- Final quality assurance and review / documentation arrangements for our audit files remain ongoing up to the date of approval of the financial statements.
- Letter of Representation - we will ask management to sign the Letter of Representation with the same date as the financial statements.

In addition, our internal review procedures continue up until the date of our audit report.

## Audit differences

Details of identified misstatements, both adjusted and unadjusted, including misstatements within disclosures, are provided in section 04.

# Executive Summary

## Other reporting matters

During the course of our audit, we identified two instances where the Pension Fund has not acted in accordance with applicable laws and regulations which we wish to bring to the attention of the Audit Committee:

- The financial statements of the Pension Fund are published alongside those of Middlesbrough Council within the Middlesbrough Council Statement of Accounts. The statutory deadline by which local authorities were required to publish draft financial statements for public inspection under the Accounts and Audit Regulations 2015 was 1 August 2022. The Council did not meet this deadline, commencing the inspection period for the draft 2021/22 financial statements on 30 August 2022; and
- Under the Local Government Pension Scheme Regulations 2013, the Pension Fund is required to distribute annual benefit statements to all members of the fund no later than five months after the end of the scheme year. The Pension Fund has not been able to distribute annual benefit statements to all members as the Pension Fund does not hold current contact information for all members. Management have previously reported this fact to the Audit Committee.

## Control observations

During the 2021/22 audit we identified control observations and have made improvement recommendations in relation to management's financial processes and controls in relation to:

- Recording of asset valuations
- Production of the financial statements
- Reconciliation to custodian reports
- Support for sensitivity disclosures
- Review of submissions to the Fund actuary; and
- Retention of Fund membership information

At the date of drafting this report management has not implemented changes to address these recommendations, so they have continued to exist throughout 2022/23 and into the following financial years. Further details of our observations and our recommendations are provided in section 06.

## Independence

Please refer to section 07 for our update on Independence.

# Executive Summary

## Areas of audit focus

Our Outline Audit Planning Report identified key areas of focus for our audit of the Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

### *Fraud risk: Misstatement due to fraud or error*

- We completed our planned procedures and are satisfied that the financial statements are not materially misstated as a result of misstatements due to fraud or error.

### *Significant risk: Valuation of pooled investment vehicles*

- We completed our planned procedures and are satisfied that pooled investment vehicles are not materially misstated.

### *Significant risk: Valuation of private market investments*

- We completed our planned procedures and are satisfied that private market investments are not materially misstated.

### *Significant risk: Valuation of directly held property*

- We completed our planned procedures and are satisfied that directly held property is not materially misstated.

We ask you to review these and any other matters in this report to ensure:

- there are no other considerations or matters that could have an impact on these issues;
- you agree with the resolution of the issue; and
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

A close-up photograph of a person's hand holding a white marker, pointing at a bar chart displayed on a tablet. The chart features several bars in shades of green, brown, and red. The background is dark, and the lighting is focused on the hand and the tablet.

## 02 Areas of Audit Focus



# Areas of Audit Focus

## Misstatements due to fraud or error

### What is the risk, and the key judgements and estimates?

The financial statements as a whole are not free from 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 respond to this fraud risk on every audit engagement. We did not identify any specific fraud risks relating to the Fund.

### What are our conclusions?

We have identified audit differences during our audit work, related to the valuation of investments. Details of these audit differences can be found on the following pages in areas of audit focus and our outlined in Section 05, including impact on overall financial position. We have not identified any instances of management override of control.

### Our response to the key areas of challenge and professional judgement

We responded to this risk through consistent application of professional judgement and conducting the following:

- We assessed fraud risks during the planning stages of our audit;
- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We developed our understanding of the oversight given by those charged with governance over management's process over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We determined an appropriate strategy to address risks of fraud;
- We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements, including journals posted around year-end to update investment valuations, assessing accounting estimates and identifying significant unusual transactions;
- We have specifically focused on the yearend valuation journals for Level two and three investments assets in response to the identified specific risk of management override; and
- We considered whether the results of our testing indicated there was indication of management bias.

# Areas of Audit Focus

## Valuation of Pooled Investment Vehicles (Level 2 and 3)

### What is the risk, and the key judgements and estimates?

The Fund's investments include unquoted pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments mean that any error in these judgements could result in a material valuation error for the Pension Fund.

We 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.

Our work in this area focused on ensuring that the assumptions used by investment managers in relation to the valuation of private equity investments were free from material misstatement.

### What are our conclusions?

We have identified the following matters to report:

- Pooled Investment Vehicles reported in the financial statements were £10.1 million lower than confirmations received from fund managers. Of this, £8.1 million relates information from fund managers not being available until after the financial statements were prepared.

### Our response to the key areas of challenge and professional judgement

In response to the identified significant risk relating to the Valuation of level 2 Pooled Investment Vehicles, the following approach was adopted:

- We documented and walked through the design and implementation of the controls over the valuation process;
- We considered whether investments are appropriately classified in the fair value hierarchy
- We obtained third party confirmations of the valuation of the pooled investments at the reporting date from the investment managers.
- We reviewed the relevant investment manager controls reports for qualifications or exceptions that may affect the audit risk;
- We performed an analytical review of changes in valuations between reporting dates, using 'unit' or market price data sourced independently of management;
- For non-coterminous funds (year-end is not 31 March), we have compared the audited value with the closing value using indices to determine if movements are in line with expectations;
- We agreed a sample of purchases and sales of unquoted investment vehicles during the period to supporting evidence; and
- Reviewed the basis of valuation to ensure this is in line with the Fund's accounting policy.

# Areas of Audit Focus

## Valuation of Pooled Property Investment (Level 3)

### What is the risk, and the key judgements and estimates?

The Fund's investments include unquoted pooled property investments. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments mean that any error in these judgements could result in a material valuation error for the Pension Fund.

We 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.

Our work in this area focused on ensuring that the assumptions used by investment managers in relation to the valuation of private equity investments were free from material misstatement.

### What are our conclusions?

We have identified the following matters to report:

- Of the confirmation difference noted on page 10, the portion relating to Pooled Property Investments was £566,000. The two investments totalling £7.3 million noted as being incorrectly classified as level 3 instead of level 1 related to Pooled Property Investments.
- Movements between audited financial statements and the year-end valuations were not significantly different to wider market indices.
- No control observations were noted from our review of investment manager control reports.

### Our response to the key areas of challenge and professional judgement

In response to the identified significant risk relating to the Valuation of Pooled Property Investment, the following approach was adopted:

- We documented and walked through the design and implementation of the controls over the valuation process;
- We considered whether investments are appropriately classified in the fair value hierarchy
- We obtained third party confirmations of the valuation of the pooled investments at the reporting date from the investment managers.
- We reviewed the relevant investment manager controls reports for qualifications or exceptions that may affect the audit risk;
- We performed an analytical review of changes in valuations between reporting dates, using 'unit' or market price data sourced independently of management;
- For non-coterminous funds (year-end is not 31 March), we have compared the audited value with the closing value using indices to determine if movements are in line with expectations;
- We agreed a sample of purchases and sales of unquoted investment vehicles during the period to supporting evidence; and
- Reviewed the basis of valuation to ensure this is in line with the Fund's accounting policy.

# Areas of Audit Focus

## Valuation of Private Market Investments (Level 3)

### What is the risk, and the key judgements and estimates?

Judgement is required to value private market investments as prices are not publicly available and market volatility means that 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.

Our work in this area focused on ensuring that the assumptions used by investment managers in relation to the valuation of private equity investments were free from material misstatement.

### What are our conclusions?

We have identified the following matters to report:

- We further identified that for two investments totalling £18.6 million, fund managers provided valuations on cost rather than on a revaluation basis. This understated the investments reported by £7.3 million.
- The Fund holds investments in a limited company with a reported value of £40.1 million. We noted that the Fund has continued to value this at the cost of the investment, rather than revaluing its investment at 31 March 2023. The value reported was in excess of the Fund's share of the net book value of the company by £30.3 million (£9.8 million total). This has been adjusted by management.
- Movements between audited financial statements and the year-end valuations were not significantly different to wider market indices.

### Our response to the key areas of challenge and professional judgement

In response to the identified significant risk relating to the Valuation of Level 3 private market investments, the following approach was adopted:

- We documented and walked through the design and implementation of the controls over the valuation process;
- We obtained third party confirmations of the valuation of the pooled investments at the reporting date from the investment managers.
- Reperformed the translation of the net asset value, where reported in a currency other than sterling, to sterling using independently sourced exchange rates.
- We reviewed the relevant investment manager controls reports for qualifications or exceptions that may affect the audit risk;
- We obtained the latest available audited accounts and used the net asset value per the accounts and the Fund's percentage of the share value to recalculate the net asset value included in the investment manager confirmations;
- We agreed a sample of purchases and sales of unquoted investment vehicles during the period to supporting evidence;
- We compared movements between the audited financial statement dates and the valuation at year-end, to relevant indices obtained within EY to ensure these are reasonable; and
- Reviewed the basis of valuation to ensure this is in line with the Fund's accounting policy.

# Areas of Audit Focus

## Valuation of Directly Held Property (Level 3)

### What is the risk, and the key judgements and estimates?

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 their valuation.

Our work in this area focused on ensuring that the assumptions used by the property valuer were appropriate and that the valuations were free from material misstatement.

### What are our conclusions?

We have identified the following matters to report:

- The Fund's valuer is appropriately objective, competent and capable. We note, however, that the principal signatory of the valuation report has performed the valuation since 2012, in excess of suggested timings under RICS recommendations.
- We identified that properties were mostly valued at the upper end of expected valuation ranges. From properties reviewed, expected valuations were not significantly different to underlying lease agreements and wider market indices and costs.
- No audit differences were identified and we have no further matters to report.

### Our response to the key areas of challenge and professional judgement

In response to the identified significant risk relating to the Valuation of Directly Held Property Investments, the following approach was adopted:

- We documented and walked through the design and implementation of the controls over the valuation process;
- We obtained the valuation report from the Fund's valuer, Cushman and Wakefield, and reconciled the valuations to those reflected in the Fund's accounts;
- We assessed the competence, capabilities and independence of the external valuer to ensure that they can be relied upon as management experts;
- We performed analysis on the property valuations, considering valuation movements and consistency with the valuations of similar assets, to identify any assets with characteristics that indicate a risk of material misstatement; and
- We engaged EY Real Estate specialists to audit the valuations and the underlying assumptions of a sample of assets.



# 03 Audit Report

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Draft audit report

Our opinion on the financial statements

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL ON THE PENSION FUND'S FINANCIAL STATEMENTS

### Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2023 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 and the amount and disposition at that date of the its assets and liabilities as at 31 March 2023 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below.

We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Head of Pensions Governance and Investment's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period to 31 December 2025.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

### Other information

The other information comprises the information included in the Statement of Accounts 2022/23, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Statement of Accounts 2022/23.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

# Audit Report

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## Matters on which we report by exception

We report to you if :

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

## Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities – Teesside Pension Fund, the Director of Finance is responsible for the preparation of the Pension Fund's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Director of Finance.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- We understood how the Fund is complying with those frameworks by making enquiries of the management. We corroborated this through our reading of the Pension Board minutes, through enquiry of employees to confirm Pension policies, and through the inspection of employee handbooks and other information.



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- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation
- We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. Based on our risk assessment procedures we identified the manipulation of journal entries of the investment asset valuations to be our fraud risk. To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.
- In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.
- The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation of the Local Government Pension Scheme. As such, we have

considered the experience and expertise of the engagement team [including the use of specialists where appropriate], to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Middlesbrough Council and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Rob Jones (Key Audit Partner)

Ernst & Young LLP

Glasgow

[Date]



# 04 Audit Differences

# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements greater than £2.5 million which have been corrected by management that were identified during the course of our audit:

Adjusted audit misstatements 31 March 2023	Effect on the current period:
	Net Assets Increase/(Decrease)
Errors	£'000
Factual differences	
<ul style="list-style-type: none"> <li>Management have posted a correction of £15.5 million in the current year and for previous years, whereby distributions for non-recallable capital have been recorded as income, rather than a disposal. This is corrected against Profits and losses on disposal of investments and changes in market value.</li> </ul>	
<ul style="list-style-type: none"> <li>The Pension Fund has an investment in a limited company that has not been revalued during the financial year.</li> </ul>	(30,283)
Net impact on the Statement of Accounts	(30,283)

# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of unadjusted differences

We highlight the following misstatements greater than £2.5 million which have not been corrected by management that were identified during the course of our audit:

Unadjusted audit misstatements 31 March 2023	Effect on the current period:
	Net Assets Increase/(Decrease)
Errors	£'000
Factual differences	
<ul style="list-style-type: none"> <li>Differences were noted between confirmations received from fund managers and amounts reported by the Pension Fund.</li> </ul>	10,137
<ul style="list-style-type: none"> <li>One fund manager has reported valuations on the basis of cost rather than a revalued basis.</li> </ul>	7,315
Net impact on the Statement of Accounts	17,452



# Audit Differences

## Summary of unadjusted disclosure differences

During the course of the audit, we identified a number of disclosure matters and made a number of recommendations to management to improve the presentation of financial statements disclosures. The following are the most significant which we consider warrant the attention of the Audit Committee, consistent with our findings from the 21/22 audit findings reported separately:

- Financial Instruments – Note 14 contains disclosures relating to the Pension Fund’s financial instruments. Our testing of these disclosures identified that the Pension Fund had incorrectly identified the level in the fair value hierarchy of a number of its investments. In addition, the Pension Fund had incorrectly included the directly held property within this disclosure – directly held property is not a financial instrument and should therefore be excluded from these disclosures.
- Geographical Location of Investments – Note 13 contains disclosure of the geographical location in which the Pension Fund’s investments are held. Our testing identified that this disclosure was based on the location of the investment manager, rather than the underlying investments, and was therefore incorrectly prepared. In preparing a revised disclosure, management have opted to simplify the previous breakdown of locations to now disclose those investments held in the UK and those held outside of the UK, in-line with the disclosure requirement of the CIPFA Code.

The above disclosure errors, together with the material levels of misstatement reported on the previous pages and the volume of other disclosure errors not individually warranting the Audit Committee’s attention, indicates a poor control environment over the production of the Pension Fund’s financial statements.

Significant audit effort has been required to resolve misstatements and disclosure errors which should have been identified and corrected via the Pension Fund’s internal review processes prior to publication of the draft financial statements (or provision for audit where relating to subsequently amended disclosures). The increased time and resource taken to identify, address and report on these misstatements will result in additional audit fees .



05

## Other Reporting Issues

# Other Reporting Issues

## Consistency of other information published with the financial statements

We are required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. We agreed with management we would only review the Annual Report once we were collectively satisfied that no further changes would be required to the financial statements.

We have not yet received a copy of the final Annual Report to perform these checks. We are working with management to enable completion of these checks in time to issue the consistency opinion at the same time as our main audit report.

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We had no reason to exercise these duties.

# Other Reporting Issues

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have included the significant matter which we wish to bring to the attention of the Audit Committee within this report.





06

## Assessment of Control Environment

# Assessment of the control environment

## Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have no significant deficiencies in internal control to bring to the attention of the Audit Committee.

During the course of the 2021/22 financial statement audit, we identified a number of control observations, which are set out in the following pages. Given the timing of the completion of the 2021/22 and 2022/23 financial statement audit being the same, management has not implemented any changes to the control environment to respond to these matters and we have the same observations from our experience in the 2022/23 audit.

# Assessment of Control Environment – 2022/23 findings

Area	Rating	Area	Rating
Observation	Our testing of investment valuations identified significant levels of error in the recorded value of individual investments, including investments recorded in the wrong currency and transactions close to year-end being omitted from the financial statement valuations. Gross misstatements identified totalled £107m, which is more than 2% of the Fund's net assets, although we note the net impact of misstatements was smaller but not insignificant. This level of misstatement leads us to conclude that controls over the recording of investment valuations are not operating effectively.	Observation	Our audit identified a number of material disclosure errors including disclosures being prepared on the incorrect basis and not in accordance with the requirements of the Pension Fund's reporting framework.  We also note that knowledge supporting the production of the financial statements is concentrated with a small number of people (2 officers), which significantly increases the risk of loss of corporate knowledge should there be a turnover in staff.
Recommendation	We recommend management review the controls in place to ensure accurate recording of investment valuations, including ensuring there is a robust review process, to ensure that investments are not recorded at the incorrect value.	Recommendation	We recommend management review the controls in place to ensure the financial statements are prepared in accordance with the requirements of the reporting framework, including ensuring there is a robust review process. We also recommend that knowledge of how to prepare material disclosures is formally documented to reduce the risk of loss of corporate knowledge.
Management response	The Head of Pensions and Governance will implement a process to undertake a quarterly review of the basis of recording investment valuations by a supervising officer. This will be implemented in producing the 2024/25 accounts and will also review the draft 2023/24 accounts that remain subject to audit.	Management response	The Director of Finance is due to implement a revised operating model within the accountancy disciplines within the Finance Directorate in the 2025/26 financial year subject to approval of the associated investment in the budget by Council in February 2025. There will be a new role of Chief Accountant who will be required to oversee the production of both the Council and Pension Fund Accounts to ensure compliance with relevant legislation, reporting standards and the code of practice and to build resilience within the Pensions and Accountancy Teams.

# Assessment of Control Environment – 2022/23 findings

Area	Rating	Area	Rating
<p>Reconciliation to custodian reports</p> <p><b>Observation</b></p> <p>Our testing of the Pension Fund's reconciliation of its accounting records against the investment valuations provided by the custodian identified that the reconciliation is performed shortly after each month end, when final valuations are often still to be reported to the custodian by investment managers.</p> <p>There is no subsequent revisiting of this reconciliation to identify where valuations have changed, which we consider was a factor in why the Pension Fund did not identify the misstatements of investment valuations reported in section 2.</p>		<p>Support for sensitivity disclosures</p> <p><b>Observation</b></p> <p>Note 13 to the financial statements includes various disclosures of the sensitivity of the Pension Fund's balances to movements in external factors, such as exchange rates or market movements.</p> <p>Our testing of these disclosures found that management were unable to support the sensitivities disclosed in the financial statements, partly because the reporting to the Pension Fund by the external party which provided them is limited and the external party is no longer trading.</p>	
<p><b>Recommendation</b></p> <p>We recommend management review the timing of the reconciliation to custodian reporting to ensure the reconciliation takes place at a time when the custodian records are up-to-date. If this is not possible due to delays in custodian reporting, an additional check back against the accounting records should be introduced to support year-end reporting.</p>		<p><b>Recommendation</b></p> <p>We recommend management review the controls in place to obtain, and retain support for, the sensitivities disclosed within the financial statements to ensure that disclosures made in the financial statements can be supported.</p>	
<p><b>Management response</b></p> <p>The Head of Pensions and Investments will introduce a year end closure task to reconcile custodian reports to investment manager valuations. This will be adopted in closing the 2024/25 accounts and a check of the draft 2023/24 accounts will be undertaken prior to the audit.</p>		<p><b>Management response</b></p> <p>The Head of Pensions and Investments will ensure that all documentation relevant to the preparation of the financial statements is retained for management and audit purposes.</p>	

# Assessment of Control Environment – 2022/23 findings

Area	Rating	Area	Rating
<p>Review of submissions to the Fund actuary</p> <p><b>Observation</b></p> <p>Where the Pension Fund's actuary provides IAS 19 valuations to individual participating employers for inclusion in the employer's financial statements, they rely on employer-specific information submitted by the Pension Fund.</p> <p>Our testing of this process identified that information submitted to the actuary is prepared and submitted by one individual, with no review performed by someone other than the preparer.</p> <p>A lack of review process increases the risk of error in the information provided to the actuary, though we note we did not identify any such errors.</p>		<p>Retention of Fund membership information</p> <p><b>Observation</b></p> <p>The IT system used to administer the Pension Fund is not able to report the membership of the Fund at a past date. Whilst live membership reports are run at key dates, such as the date of triennial valuations, these are not retained and management are therefore unable to subsequently evidence the membership numbers reported at a point in time.</p> <p>The inability to subsequently evidence the membership of the Fund at key dates increases the risk that errors in membership numbers may go undetected, and we consider this a factor in the Pension Fund having to include what is effectively a balance line in their reconciliation of changes in membership between the start and end of the financial year.</p>	
<p><b>Recommendation</b></p> <p>We recommend management review the process supporting submission of IAS 19 information to the actuary to ensure there is an adequate review to provide assurance that the submission is accurate.</p>		<p><b>Recommendation</b></p> <p>We recommend management put in place a process to retain supporting evidence for membership data obtained at key dates, such as the date of triennial valuations of the Pension Fund.</p>	
<p><b>Management response</b></p> <p>The Head of Finance and Investment and the Head of Pensions and Investments will liaise to establish an appropriate review process to support the IAS19 position which will improve the assurance and resilience arrangements in relation to this return.</p>		<p><b>Management response</b></p> <p>The Head of Pensions and Investments will put in place a process to ensure that all key data required to evidence key membership at key dates is retained for financial reporting and audit purposes for the 2024/25 accounts</p>	



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# Independence

# Other Reporting Issues

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have the following matters to report:

- During the audit, we made the following observations on internal control and financial reporting:
  - The Altair system incorrectly calculates some aspects of the pension for elements with CARE involved due to applying incorrect inflation increases, there is no IT control in place to prevent this. XPS rely upon their manual checks of each benefit payment to ensure that it matches to the appropriate inflation increases. However, it was noted that this only applies to members on death so the issue is restricted to a small pool of members. We have not identified any issues through our testing.
  - As reported on page 12, one Investment Fund Manager received a qualified opinion in their controls report due to failure to review a report for one of five clients, which could affect valuation of Investment. We are content that this does not have a material impact on the valuation of the fund.
  - As reported on page 12, one Investment Fund Manager had not provided a controls report. We are content that this does not have a material impact on the valuation of the fund.
  - The Pension Fund's pensions administrator, XPS, did not retain a record of a formal review process over the membership data sent to the Fund's actuary.
  - We noted an absence of a review completed by a separate member of the pensions team of the IAS 19 data submission to the Fund's actuary.
  - We noted that the Pension Fund had not fully disclosed all transactions with the administering authority, Middlesbrough Council, due to a late accrual process. No formal process to identify related parties in relation to the administering authority. The Fund should ensure that the GL is reviewed for completeness on preparation of the statements on account.

# Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard 2019 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

- ▶ 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; and
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

#### Final stage

- ▶ 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/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner;
- ▶ 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 all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; 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 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.



# Independence

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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 your company. Examples include where we have an investment in your company; 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.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, we have not provided any non-audit services, see Appendix B. 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.

# Independence

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## Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. 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.

## EY Transparency Report 2024

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 ended 30 June 2024:

[EY UK 2024 Transparency Report | EY UK](#)

# Independence

## Confirmation and analysis of audit 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.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statement opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund;
- ▶ The Pension Fund has an effective control environment; and
- ▶ The Pension Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>.

In particular the Pension Fund should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. See Appendix D.

	2022/23	2021/22
	£	£
Scale fee (1)	35,222	21,972
<b>Total scale fee</b>	<b>35,222</b>	<b>21,972</b>
Changes in work required to address professional and regulatory requirements and scope associated with risk (2) (3)	49,199	49,199
<b>Revised scale fees</b>	<b>84,421</b>	<b>71,171</b>
Additional specific one-off considerations reflecting a change in audit work (2) (4)	54,918	74,041
<b>Total core audit fees</b>	<b>139,339</b>	<b>145,212</b>
IAS 19 procedure fees (recurring) (5)	9,970	9,250
IAS 19 procedure fees (triennial) (5)	-	10,000
<b>Total audit fees</b>	<b>149,309</b>	<b>164,462</b>
<i>No non-audit services have been provided</i>	-	-
<b>Total other non-audit services</b>	<b>-</b>	<b>-</b>
<b>Total fees</b>	<b>139,309</b>	<b>164,462</b>

*All fees exclude VAT, see notes overleaf*



# 08 Appendices

# Appendix A

## Audit approach update

We summarise below our approach to the audit of the Net Asset Statement and any changes to this approach from prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the Net Asset Statement include:

- Existence: An asset, liability and equity interest exists at a given date;
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date;
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items;
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded; and
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

We have tested each of these assertions substantively for all material balances included in the Net Asset Statement.

# Appendix B - Required communications with the Audit Committee

## Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		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 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.	Audit Planning Report – 29 November 2023
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report – 29 November 2023
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	This Audit Results Report

# Appendix B - Required communications with the Audit Committee (cont'd)

## 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"> <li>• Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The appropriateness of related disclosures in the financial statements</li> </ul>	This Audit Results Report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	This Audit Results Report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	This Audit Results Report

# Appendix B - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	This Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	This Audit Results Report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ 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</li> </ul>	This Audit Results Report
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	This Audit Results Report
Representations	Written representations we are requesting from management and/or those charged with governance	This Audit Results Report
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Audit Results Report



# Appendix B - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	This Audit Results Report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	This Audit Results Report

# Appendix B - Required communications with the Audit Committee (cont'd)

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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>• Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>• Related safeguards</li> <li>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>• Details of any inconsistencies between the Ethical Standard and Fund's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>• The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	This Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	This Audit Results Report

# Appendix B - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	This Audit Results Report
Auditors report	<ul style="list-style-type: none"> <li>Key audit matters that we will include in our auditor's report</li> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	This Audit Results Report

# Appendix C – Management representation letter

## Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young LLP  
G1 Building  
5 George Square  
Glasgow  
G2 1DY

Dear Sirs,

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund ("the Fund") for the year ended 31 March 2023. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose all fraud, shortages, errors and other irregularities, should any exist.

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

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for

the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and for keeping records in respect of contributions received in respect of active members of the Fund.

2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements and the Summary of Contributions. We believe the financial statements referred to above give a true and fair view of the financial transactions and the financial position of the Fund in accordance with applicable law the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that are free from material misstatement, whether due to fraud or error.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention from the auditor because [management to specify reason].

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

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

# Appendix C– Management representation letter

## Management representation letter

### Management Rep Letter

2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to the Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with the Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
7. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the Fund (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), including non-compliance matters:
  - Involving financial improprieties
  - Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Fund’s financial statements
  - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue in business, or to avoid material penalties
  - Involving management, or employees who have significant roles in internal control, or others.
  - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees,

former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [DATE].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year-ended 31 March 2023. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of management of the Fund.

# Appendix C– Management representation letter

## Management representation letter

### Management Rep Letter

7. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.
8. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
9. No transactions have been made which are not in the interests of the Fund members or the Fund during the year or subsequently.
10. From 27 April 2023 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

#### D. Liabilities and Contingencies

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

#### E. Subsequent Events

1. Other than the High Court Ruling regarding Virgin Media Limited v NTL Pension Trustees II Limited described in Note 22 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the annual report on pages 1 to 39, other than the financial statements, the auditor's report and the statement about contributions.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### G. Advisory Reports

1. We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and schedule of contributions/payment schedule.

#### H. Independence

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

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

1. We confirm that the Fund has made no direct investment in derivative financial instruments.
2. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the

# Appendix C– Management representation letter

## Management representation letter

### Management Rep Letter

requirements of the LGPS (Management and Investment of Funds) Regulations 2016 in respect of these investments has been followed.

#### K. Estimates

Pooled investment vehicles, directly held property and actuarial valuation disclosures (“the estimates”)

1. We confirm that the significant judgments made in making the estimates have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate, reflect the expectations of the Fund and to meet the obligations to members of the Fund with regards to payment of retirement benefits.
4. We confirm that the disclosures made in the financial statements with respect to the estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the Fund, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

#### L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value Investments held by the Fund and the Fund’s liabilities to its members to pay retirement benefits and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any

instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### M. Going Concern

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

#### N. Climate-Related Matters

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

Yours faithfully,

\_\_\_\_\_  
(Head of Pensions)

\_\_\_\_\_  
(Chair)

\_\_\_\_\_  
Date

# Appendix D

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## PSAA Statement of Responsibilities

As set out on page 36 our fee is based on the assumption that the Pension Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Pension Fund should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- ▶ prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ▶ ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- ▶ assign responsibilities clearly to staff with the appropriate expertise and experience;
- ▶ provide necessary resources to enable delivery of the plan;
- ▶ maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ▶ ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ▶ ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- ▶ during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.



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