



# Audit Strategy Memorandum - DRAFT

## Teesside Pension Fund – Year ending 31 March 2025

June 2025

Audit Committee  
Middlesbrough Council  
PO Box 500  
Middlesbrough  
TS1 9FT

June 2025

Forvis Mazars  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

Dear Audit Committee Members,

## Audit Strategy Memorandum – Year ending 31 March 2025

We are pleased to present our Audit Strategy Memorandum for Teesside Pension Fund for the year ending 31 March 2025.

This report summarises our audit approach, including the significant audit risks and areas of key judgement we have identified, and provides details of our audit team. In addition, as it is a fundamental requirement that an auditor is, and is seen to be, independent of an audited entity, the section of the report titled ‘*Confirmation of our independence*’ summarises our considerations and conclusions on our independence as auditors.

Two-way communication with you is key to a successful audit and is important in:

- Reaching a mutual understanding of the scope of the audit and our respective responsibilities;
- Sharing information to assist each of us to fulfil our respective responsibilities;
- Providing you with constructive observations arising during the audit process; and
- Ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance, and other risks facing Teesside Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, this report, which has been prepared following our initial planning discussions with management, facilitates a discussion with you on our audit approach. We welcome any questions, concerns, or input you may have on our approach or role as auditor.

This report also contains appendices that outline our key communications with you during the audit.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with

the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me.

This report was prepared solely for the use and benefit of Audit Committee and to the fullest extent permitted by law Forvis Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Yours faithfully

  
Mark Kirkham (Apr 29, 2025 09:04 GMT+1)

**Mark Kirkham**

**Partner**

**Forvis Mazars**

# Contents

- 01 Engagement and responsibilities summary
- 02 Your audit team
- 03 Audit scope, approach, and timeline
- 04 Materiality and misstatements
- 05 Significant risks and other key judgement areas
- 06 Audit fees and other services
- 07 Confirmation of our independence
  
- A Appendix A – Key communication points

This document is to be regarded as confidential to Teesside Pension Fund. It has been prepared for the sole use of Audit Committee as the appropriate group charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents.

## Engagement and responsibilities summary

# Engagement and responsibilities summary

We are appointed to perform the external audit of Teesside Pension Fund (the Pension Fund) for the year to 31 March 2025. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: [Statement of responsibilities of auditors and audited bodies from 2023/24](#). Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

## Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting.

Our audit does not relieve management or Audit Committee as Those Charged With Governance, of their responsibilities.

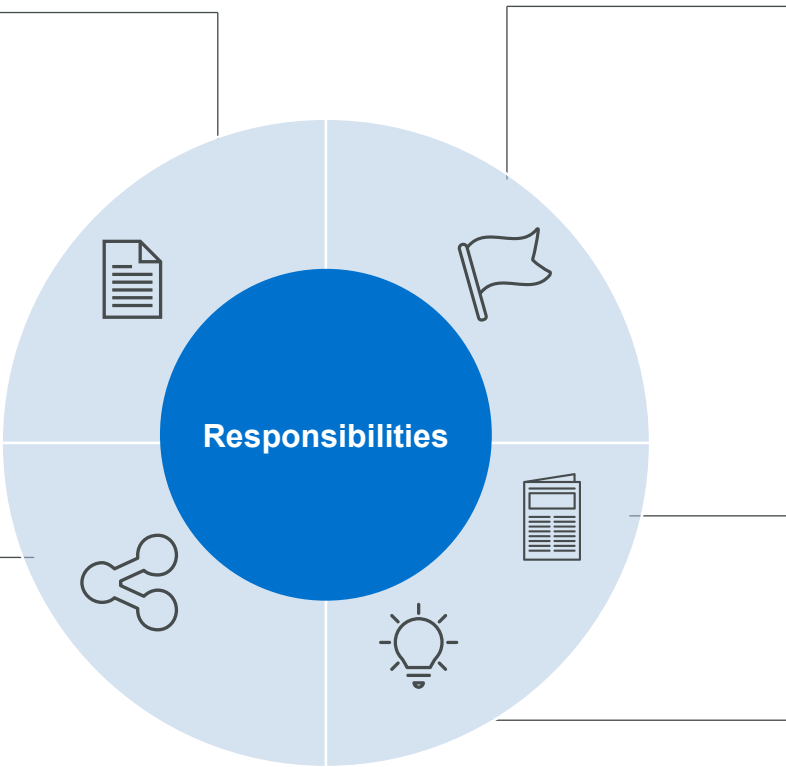
The Director of Finance is responsible for the assessment of Teesside Pension Fund’s ability to continue as a going concern. As auditors, we are required to obtain sufficient, appropriate audit evidence regarding, and conclude on:

- a) whether a material uncertainty related to going concern exists, and
- b) the appropriateness of the Director of Finance’s use of the going concern basis of accounting in the preparation of the financial statements.

## Internal control

Management is responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Teesside Pension Fund’s internal control.



## Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error, and non-compliance with law or regulations rests with both you and management. This includes establishing and maintaining internal controls over asset protection, compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud, we are required to inquire of you and key management personnel, including internal audit, on their knowledge of instances of fraud, and their views on the risks of fraud and on internal controls that mitigate those risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

## Consistency reporting

We are responsible for forming and expressing an opinion on the consistency of the financial statements within the Pension Fund’s annual report and the Pension Fund’s financial statements included in the Statement of Accounts of Middlesbrough Council.

## Wider reporting and electors’ rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Pension Fund and consider objections made to the accounts. This would include an objection made to the accounts of the Pension Fund included in the administering authority’s financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

# 02

Your audit team

# Your audit team

**Mark Kirkham**

**Engagement Lead**

[Mark.Kirkham@mazars.co.uk](mailto:Mark.Kirkham@mazars.co.uk)  
+44 (0)113 294 2000

**Thomas Backhouse**

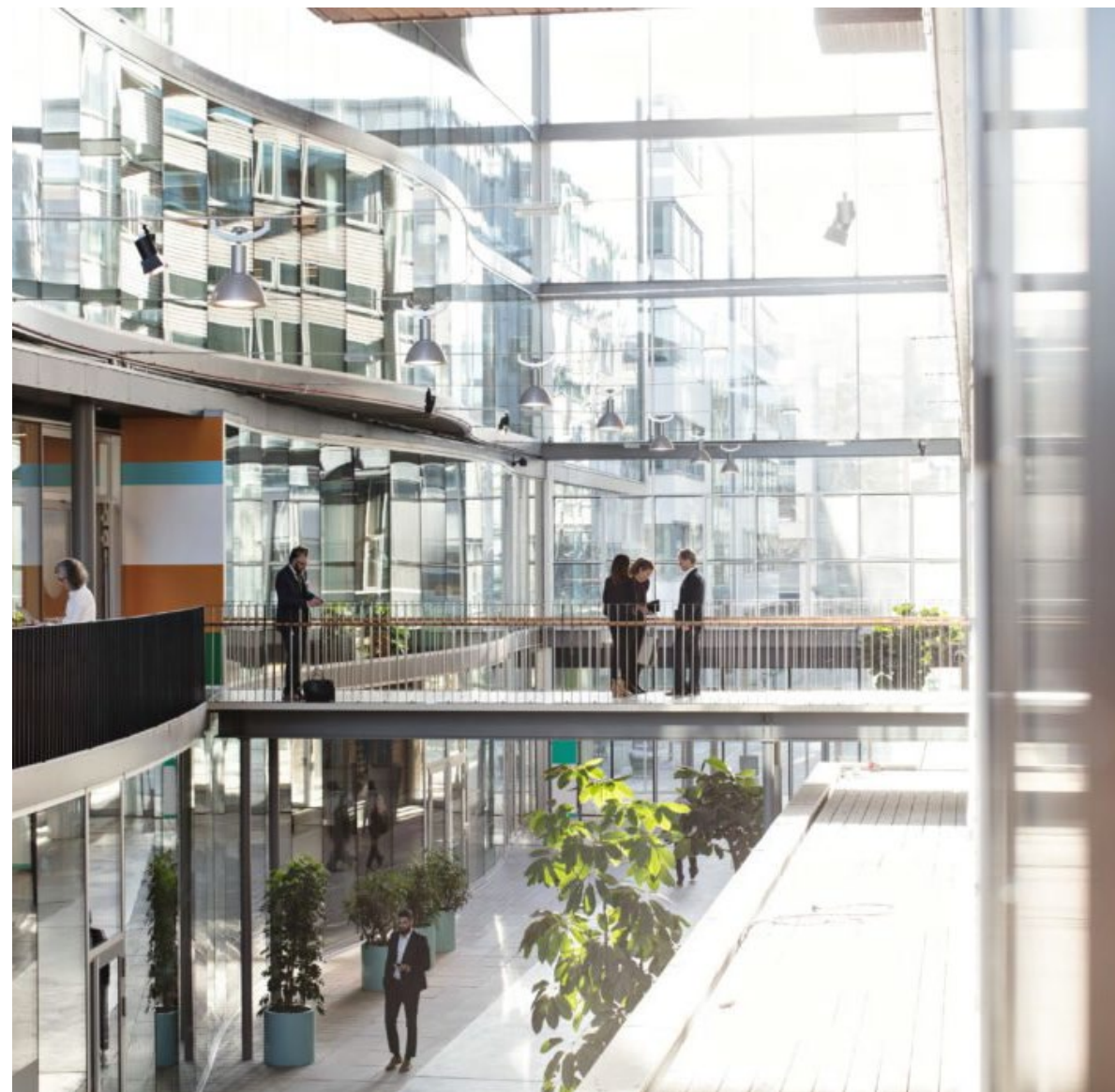
**Engagement Manager**

[Thomas.Backhouse@mazars.co.uk](mailto:Thomas.Backhouse@mazars.co.uk)  
+44 (0)7890 949 525

**Smriti Sood**

**Engagement Team Lead**

[Smriti.Sood@mazars.co.uk](mailto:Smriti.Sood@mazars.co.uk)  
+44 (0)7816 209 240



# 03

Audit scope, approach, and timeline

# Audit scope, approach, and timeline

## Risk-based Approach



# Audit scope, approach, and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit methodology, and in accordance with the Code of Audit Practice. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations, or areas found to contain material errors in the past.

## Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud), we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit has been planned and will be performed to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in the *‘Materiality and misstatements’* section of this report.

The diagram on the next page outlines the procedures we perform at the different stages of our audit.

## Managements and our experts

Management makes use of experts in specific areas when preparing the Pension Fund’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

| Item of account  | Management’s expert         | Our expert                   |
|--|-----------------------------|------------------------------|
| Disclosure Notes on funding arrangements and actuarial present value of promised retirement benefits | Hymans Robertson            | NAO consulting actuary, PwC. |
| Investment Properties  | CBRE, Cushman and Wakefield | Forvis Mazars Valuation team |

## Service organisation

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Pension Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Pension Fund and our planned audit approach.

| Item of account                               | Service organisation              | Audit approach  |
|---|-----------------------------------|---|
| Investment Valuations and related disclosures | Investment Managers               | Substantive testing of in year transactions and valuation applied to investments at the year end. |
| Investment Valuations and related disclosures | Northern Trust (Fund’s Custodian) | Substantive testing of in year transactions and valuation applied to investments at the year end. |

# Audit scope, approach, and timeline



# Audit scope, approach, and timeline

## Follow up on significant deficiencies in internal control

Set out below are the significant deficiencies in internal control that we identified during our prior period audit. During the course of the audit, we will request that you and management provide us with evidence of the progress made to address these deficiencies. We will report an update on the progress made for each significant deficiencies in internal control detailed below in our Audit Completion Report.

### Deficiencies identified in 2023/24

#### 1. Declarations of interests.

---

##### Description of deficiency

For the financial year 2023/24, we reviewed the meeting minutes and attendance records of committee members as listed on the Middlesbrough Council website. We identified three instances where management could not provide declarations of interest for individuals who attended the meetings. According to the Middlesbrough Council constitution, “voting rights are held by all members, including scheme member representatives, as long as they are not employees of Middlesbrough Council.” This means a member could potentially vote on a motion without declaring their interest.

We note from discussion with the Pension Fund that members are asked to declare their interests at the beginning of all Pension Fund committee meetings and are appraised at induction training for potential conflicts of interest.

---

##### Potential effects

Committee members may vote on agenda items in which they have an undeclared personal interest, leading to potential conflicts of interest.

---

##### Recommendation

The Monitoring Officer should ensure that the register of interests is regularly checked throughout the year.

---

##### Management response

The Monitoring Officer will conduct a regular review of members of the Pension Fund Committee and ensure that all members attending meetings have provided an up-to-date declaration of interest form.

---

# Audit scope, approach, and timeline

## Deficiencies identified in 2022/23

In the 2022/23 audit completion report presented to the December 2024 audit committee, the predecessor auditor identified internal control recommendations in the following areas:

- Recording of assets valuations
- Production of financial statements
- Reconciliation to custodian reports
- Support for sensitivity disclosures
- Review of submissions to the Actuary
- Retention of Fund Membership Data

We have discussed these matters with management, who have had limited time to make changes since the report was presented at the last audit committee. We understand that work is currently ongoing to respond to identified internal control recommendations and these will be implemented for the 2024/25 accounts.

### 1. Recording of asset valuations *(initially raised in 2022/23)*

#### Description of deficiency

The 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 yearend 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.

#### Potential effects

Information relating to the market value of investments at the year-end could be materially misstated in the Fund's financial statements.

#### Recommendation

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.

#### 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.

# Audit scope, approach, and timeline

## 2. Production of the financial statements *(initially raised in 2022/23)*

---

### Description of deficiency

Our audit work 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. 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.

---

### Potential effects

Errors in disclosures can lead to inaccurate financial statements.

---

### Recommendation

Recommended 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 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.

---

# Audit scope, approach, and timeline

## 3. Reconciliation to custodian reports *(initially raised in 2022/23)*

---

### Description of deficiency

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. 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.

---

### Potential effects

There is a possibility the transactions are misreported, and this could have a material impact on Pension Fund financial statements.

---

### Recommendation

Recommended 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.

---

### Management response

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.

---

# Audit scope, approach, and timeline

## 4. Support for sensitivity disclosures *(initially raised in 2022/23)*

---

### Description of deficiency

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. 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

---

### Potential effects

There is a possibility that misstatements are carried through the reconciliation as they have not been sufficiently reviewed, which may in turn lead to misstatements in the figures reported for the purchases, sales and market value of investments reported in the Pension Fund's accounts.

---

### Recommendation

Recommended 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.

---

### Management response

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.

---

# Audit scope, approach, and timeline

## 5. Review of submissions to the Fund actuary *(initially raised in 2022/23)*

---

### Description of deficiency

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. 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. 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.

---

### Potential effects

There is a possibility the transactions are misreported, and this could have a material impact on Pension Fund financial statements.

---

### Recommendation

Recommended 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.

---

### Management response

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.

---

# Audit scope, approach, and timeline

## 6. Retention of Fund Membership Data *(initially raised in 2022/23)*

---

### Description of deficiency

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. 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.

---

### Potential effects

Without the ability to verify past membership numbers, there is a higher risk of inaccuracies and errors in the reported figures, which can affect the reliability of financial statements.

---

### Recommendation

Recommended 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.

---

### Management response

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.

---

## Materiality and misstatements

# Materiality and misstatements

## Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

## Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to Audit Committee.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities, and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented, and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provides a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

# Materiality and misstatements

## Materiality (continued)

We consider that net assets is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 1% of net assets.

As set out in the table below, based on currently available information provided to the Pension Fund Audit Committee in March 2025, we anticipate overall materiality for the year ended 31 March 2025 to be in the region of £55.6m (£54.9m in the prior year), and performance materiality to be in the region of £27.8m (£27.4m in the prior year).

Additionally, we expect to set a materiality threshold of 10% of benefits payable for auditing the fund account. As set out in the table below, based on a month 12 trial balance provided by management in April 2025, we anticipate overall materiality for the year to 31 March 2025 to be in the region of £20.0m (£18.3m in the prior year), and performance materiality to be in the region of £10.0m (£9.1m in the prior year).

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

|  | 2024-25<br>£'000s | 2023-24<br>£'000s |
|--|-------------------|-------------------|
| Overall materiality                    | £55,578           | £55,290           |
| Performance materiality                | £27,789           | £27,645           |
| Clearly trivial                        | £1,667            | £1,659            |
| Fund Account – Overall materiality     | £20,048           | £18,252           |
| Fund Account – Performance Materiality | £10,024           | £9,126            |

## Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to you and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £1.667m, based on 3% of overall materiality. If you have any queries about this, please raise these with me.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to you as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover qualitative misstatements and include quantitative and qualitative misstatements and omissions relating to the notes of the financial statements.

## Reporting

In summary, we will categorise and report misstatements above the reporting threshold to you as follows:

- adjusted misstatements;
- unadjusted misstatements; and
- disclosure misstatements (adjusted and unadjusted).

## Significant risks and other key judgement areas

# Significant risks and other key judgement areas

Following the risk assessment approach set out in the '*Audit scope, approach, and timeline*' section, we have identified the risks of material misstatement in the financial statements. These risks are categorised as significant, enhanced, or standard. The definitions of these risk ratings are set out below.

## Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. As required by auditing standards, a fraud risk is always assessed as a significant risk.

## Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

- key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- risks relating to other assertions and arising from significant events or transactions that occurred during the period.

## Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

# Significant risks and other key judgement areas

## Audit risks and planned responses

In this section, we have set out the risks that we deem to be significant and enhanced, and our planned response. An audit is a dynamic process, and should we change our view of risk and/ or our approach to address those risks during our audit, we will report this to you.

### Significant risks

|   | Risk name  | Fraud | Error | Judgement | Risk description   | Planned response   |
|---|--|-------|-------|-----------|--|--|
| 1 | Management override of controls (a mandatory significant risk for all entities). | ●     | ○     | ○         | Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The unpredictable way in which such override could occur means there is a risk of material misstatement due to fraud on all audits. You should assess this risk as part of your oversight of the financial reporting process. | In line with our methodology, we plan to address the management override of controls risk by carrying out audit work on: <ul style="list-style-type: none"><li>• accounting estimates;</li><li>• journal entries; and</li><li>• significant transactions outside the normal course of business or otherwise unusual.</li></ul> |

# Significant risks and other key judgement areas

## Significant risks

|   | Risk name   | Fraud | Error | Judgement | Risk description   | Planned response  |
|---|---|-------|-------|-----------|--|---|
| 2 | <p>Valuation of investments within level 3 of the fair value hierarchy</p> <p>2024-25: Not Calculated at Planning Stage</p> <p>2023-24: £1,413.9m</p> | ○     | ●     | ●         | <p>As at 31 March 2023 the fair value of investments classified within level 3 of the fair value hierarchy was £1,413.9m. The values included in the accounts are based on those provided by investment managers, updated by the Pension Fund for cash movements, where the most recently available information from fund managers is at a date prior to the year end.</p> <p>Level 3 assets are those assets where values are based on unobservable inputs, and consequently the estimation uncertainty for these assets is more significant than for assets valued at level 1 and 2.</p> | <p>We plan to address this risk by completing the following additional procedures on a sample basis:</p> <ul style="list-style-type: none"> <li>• agree holdings from fund manager reports to the global custodian's report;</li> <li>• agree valuations included in the Pension Fund's underlying financial systems to the most up-to date supporting documentation at the time of audit including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;</li> <li>• agree the investment manager valuations to audited accounts or other independent supporting documentation, where available;</li> <li>• where audited accounts are available, check that they are supported by an unmodified opinion;</li> <li>• review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and</li> <li>• where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.</li> </ul> |

# Significant risks and other key judgement areas

## Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, we would like to seek your views/ knowledge of the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between Teesside Pension Fund and regulators?

We plan to do this by formal letter to Audit Committee which we will obtain prior to completing our audit.

## Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to you which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- significant delays in management providing information that we require to perform our audit;
- an unnecessarily brief time within which to complete our audit;
- extensive and unexpected effort to obtain sufficient appropriate audit evidence;
- unavailability of expected information;
- restrictions imposed on us by management; and
- unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

## Internal audit function

Based on our assessment of the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control, we do not expect to use the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit determine whether any findings will have an impact on our risk assessment and planned audit procedures.

Audit fees and other services

# Audit fees and other services

## Fees for work as the Pension Fund’s appointed auditor

Our fees (exclusive of VAT) as the Pension Fund’s appointed for the year ended 31 March 2025 are outlined below.

At this stage of the audit, we are not planning any divergence from the scale fees set by PSAA.

| Area of work    | 2024-25 Proposed Fee | 2023-24 Actual Fee |
|-----------------|----------------------|--------------------|
| Code Audit Work | £117,860             | £102,380           |
| Fee Variations  | TBC                  | £7,840             |

The fee variation for 2023-24 includes fees in respect of additional audit work under revised ISA (UK) 315 and the related impact of ISA (UK) 240 (fraud) is required at all local audit bodies from the 2022/23 audits.

Further details of this fee variation can be found on the PSAA website: <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2024-25-auditor-appointments-and-audit-fee-scale/2024-25-audit-fee-scale/3/>

# 07

Confirmation of our independence

# Confirmation of our independence

## Requirements

We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Revised Ethical Standard.

## Compliance

We are not aware of any relationship between Forvis Mazars and Teesside Pension Fund that, in our professional judgement, may reasonably be thought to impair our independence.

We are independent of Teesside Pension Fund and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.

## Non-audit and Audit fees

We have set out a summary of the non-audit services provided by Forvis Mazars (with related fees) to Teesside Pension Fund together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC’s Revised Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and complete annual ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with me in the first instance.

Prior to the provision of any non-audit services, I will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 1 July 2021 - PSAA](#). Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

# Appendices

A: Key communication points

# Appendix A: Key communication points

We value communication with Audit Committee as a two-way feedback process is at the heart of our client service commitment. The Code of Audit Practice as well as ISA (UK) 260 *Communication with Those Charged with Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of matters with you. We meet these requirements, principally, through presenting the following documents to you:

- our Audit Strategy Memorandum; and
- our Audit Completion Report.

These documents will be discussed with management prior to being presented to you and their comments will be incorporated as appropriate.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.
- Our commitment to independence.
- Responsibilities for preventing and detecting errors.
- Materiality and misstatements.
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control.
- Significant findings from the audit.
- Significant matters discussed with management.
- Significant difficulties, if any, encountered during the audit.
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Our conclusions on the significant audit risks and areas of management judgement.
- Summary of misstatements.
- Management representation letter.
- Our proposed draft audit report.
- Independence.

# Appendix A: Key communication points

ISA (UK) 260 *Communication with Those Charged with Governance*, ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* and other ISAs (UK) specifically require us to communicate the following:

| Required communication   | Where addressed   |
|--|---|
| Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance.   | Audit Strategy Memorandum   |
| The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.   | Audit Strategy Memorandum   |
| With respect to misstatements: <ul style="list-style-type: none"><li>• uncorrected misstatements and their effect on our audit opinion;</li><li>• the effect of uncorrected misstatements related to prior periods;</li><li>• a request that any uncorrected misstatement is corrected; and</li><li>• in writing, corrected misstatements that are significant.</li></ul>  | Audit Completion Report   |
| With respect to fraud communications: <ul style="list-style-type: none"><li>• inquiries with Audit Committee to determine whether you 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 fraud may exist; and</li><li>• a discussion of any other matters related to fraud.</li></ul> | Audit Completion Report and discussion at Audit Committee meeting(s), audit planning meeting(s), and audit clearance meeting(s) |

# Appendix A: Key communication points

| Required communication   | Where addressed         |
|--|-------------------------|
| Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <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; and</li><li>• difficulty in identifying the party that ultimately controls the entity.</li></ul>   | Audit Completion Report |
| Significant findings from the audit including: <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 or were the subject of correspondence with management;</li><li>• written representations that we are seeking;</li><li>• expected modifications to the audit report; and</li><li>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Pension Fund or Audit Committee in the context of fulfilling your responsibilities.</li></ul> | Audit Completion Report |

## Appendix A: Key communication points

| Required communication  | Where addressed  |
|---|--|
| Significant deficiencies in internal controls identified during the audit.  | Audit Completion Report                                |
| Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.   | Audit Completion Report                                |
| Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and inquiry of Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that Audit Committee may be aware of.  | Audit Completion Report and Audit Committee meeting(s) |
| <p>With respect to going concern, 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;</li> <li>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• the adequacy of related disclosures in the financial statements.</li> </ul>   | Audit Completion Report                                |
| <p>Communication regarding our system of quality management, compliant with ISQM (UK) 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, our firm's System of Quality Management team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on our firm's System of Quality Management. These include:</p> <ul style="list-style-type: none"> <li>• ensure there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership;</li> <li>• establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities ;</li> <li>• identify, review, and update quality risks each quarter, taking into consideration the number of input sources (such as FRC / ICAEW review findings, internal monitoring findings, findings from our firm's root cause analysis and remediation functions, etc.);</li> <li>• identify, design, and implement responses as part of the process to strengthen our internal control environment and overall quality; and</li> <li>• evaluate responses and remediate control gaps or deficiencies.</li> </ul> <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website <a href="#">here</a>.</p> <p>The details of our evaluation of our system of quality management as of 31 August 2024, and our conclusion, set out in our 2023/24 Transparency Report, which is available on our website <a href="#">here</a>.</p> | Audit Strategy Memorandum                              |

# Contact

## Forvis Mazars

### Mark Kirkham

Engagement Lead

Mark.Kirkham@Mazars.co.uk

Tel: +44 (0)113 294 2000

Forvis Mazars LLP is the UK firm of Forvis Mazars Global, a leading global professional services network. Forvis Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London, EC4M 7AU. Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: GB 839 8356 73

© Forvis Mazars 2024. All rights reserved.