

Teesside Pension Fund Audit Results Report

Year ended 31 March 2020

February 2021

Private and Confidential

February 2020



Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our final audit results report in respect of our audit of the Teesside Pension Fund (the 'Fund') for the year ended 31 March 2020. We have now completed our audit and this report provides an update on the matters noted as outstanding when we presented our provisional audit results report to the November 2020 meeting of the Corporate Affairs and Audit Committee.

We set out in section 1 of our report the updates to our report since we presented our provisional audit results report.

We can confirm that, as indicated in our provisional audit results report, we will be issuing an unqualified audit opinion on the financial statements. Our final opinion does not include additional narrative to highlight financial statement disclosures that the valuations of directly held property have been prepared on the basis of a 'material valuation uncertainty', as was indicated in our provisional audit results report, as we have subsequently concluded this narrative is not required.

This report is intended solely for the use of the Corporate Affairs and Audit Committee, the Pensions Committee, other members of the Authority, 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 forthcoming meetings of the Corporate Affairs and Audit Committee and the Pensions Committee.

A handwritten signature in black ink, appearing to read 'H. Rohimun', written in a cursive style.

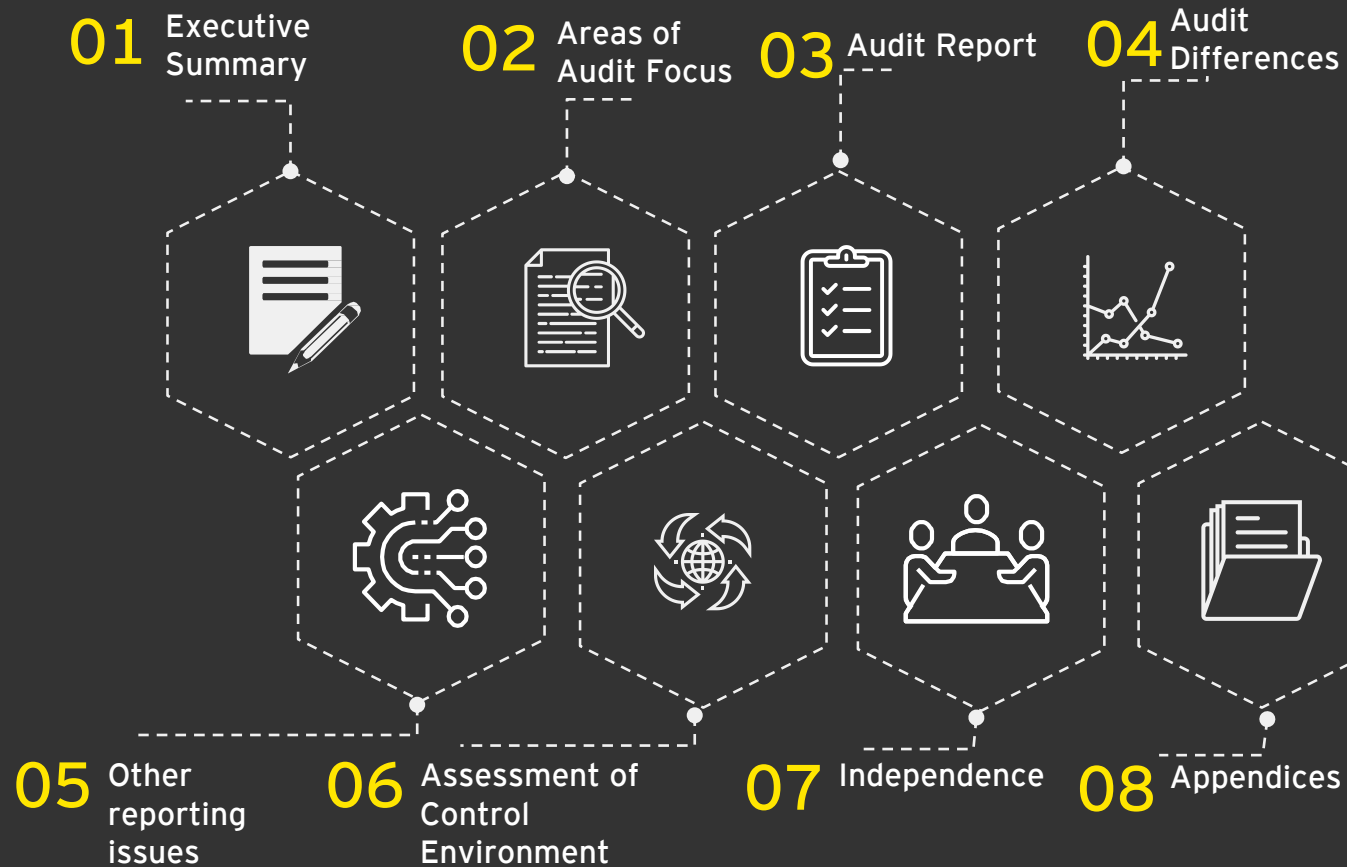
Yours faithfully

Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This 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 (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Changes to our report

We presented our provisional audit results report to the meeting of the Corporate Affairs and Audit Committee on 26 November 2020. This report contains the following updates now that our audit is complete:

- ▶ **Page 6** - we have updated the status of our audit to reflect it is now complete;
- ▶ **Page 7** - we have now completed our review of the Pension Fund Annual Report and provide an update on this work;
- ▶ **Pages 14 and 15** - we now include a copy of our proposed auditor's report - which does not include additional narrative to highlight financial statement disclosures that the valuations of directly held property have been prepared on the basis of a 'material valuation uncertainty', as was indicated in our provisional audit results report, as we have subsequently concluded this narrative is not required; and
- ▶ **Appendices** - we have removed what was Appendix D (Outstanding Matters) as all such matters have now been resolved.

Other than these amendments we have no updates to provide to what we reported in our provisional audit results report.

Scope update

In our Audit Planning Report tabled at the 5 March 2020 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. In our Audit Planning Report Addendum tabled at the 30 July 2020 Corporate Affairs and Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan, as updated to respond to the risks of Covid-19.

Materiality

In our Audit Planning Report Addendum, we communicated that our audit procedures would be performed using a materiality of £37.4m, with performance materiality, at 75% of overall materiality, of £28.0m, and a threshold for reporting misstatements of £1.9m. We have considered whether any change to our materiality is required in light of observations during the course of our audit. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report Addendum remain appropriate.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 7.

Executive Summary

Status of the audit

We have now completed our audit procedures and can confirm we will be issuing an unqualified opinion on the Fund's financial statements.

Audit differences

We identified £6.9m of unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation. We have also identified audit differences with an aggregated impact of £33.1m which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Planning Report and Audit Planning Report Addendum identified key areas of focus for our audit of Teesside 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. 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;
- ▶ 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 Corporate Affairs and Audit Committee.

Executive Summary

Control observations

During the audit we identified one control observation, relating to management's review and challenge of information provided by the Fund's custodian, and made an improvement recommendation in relation to management's financial processes and controls. Further details are set out in Section 6. We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Other reporting issues

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 have completed our review of the Pension Fund Annual Report and will be issuing an unqualified consistency opinion. We have no matters to report from our review of the Pension Fund Annual Report.

Independence

Please refer to Section 7 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement. We did not identify any specific fraud risks in our planning.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What did we do?

- ▶ We identified 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 processes over fraud;
- ▶ We considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ We determined an appropriate strategy to address those identified risks of fraud; and
- ▶ 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.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside Teesside Pension Fund's normal course of business.

We are therefore content that the financial statements are not materially misstated as a result of fraud or error.



Areas of Audit Focus

Significant risk

Valuation of unquoted pooled investment vehicles

What is the risk?

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 means that any error in these judgements could result in a material valuation error.

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.

Additional considerations for Covid-19

Unquoted assets are either level 2 or level 3 on the fair value hierarchy, which means quoted market prices are not available and valuation is reliant on the use of inputs derived from observable market data (level 2) or are not based on observable market data (level 3). The approach usually taken to value these assets, which sometimes relies on adjusting valuations or other observable information as at 31 December, has had to change because of the market volatility brought about by Covid-19 in the final quarter of 2019/20. We will need to consider the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of Covid-19 on investment values has been properly accounted for in the financial statements.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by investment managers in relation to the valuation of complex pooled investment vehicles were free from material misstatement, including due to the impacts on investment values of Covid-19.

What did we do?

- ▶ 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 unquoted pooled investments at the reporting date from the investment managers. We also cross-checked the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian;
- ▶ We reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- ▶ We compared the movement in valuation of investments in unquoted investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigated any unusual variances;
- ▶ We agreed a sample of purchases and sales of unquoted pooled investments during the period to supporting evidence;
- ▶ We reviewed the basis of valuation for unquoted investments and ensure it is in line with the accounting policy.



Areas of Audit Focus

Significant risk

Valuation of unquoted pooled investment vehicles (continued)

What did we do (continued)?

- ▶ We enquired of management as to what steps they have taken to ensure the accuracy of valuations provided by investment managers accurately reflect the impact of Covid-19 on investments; and
- ▶ We have considered whether the planned audit procedures, detailed above, provided sufficient audit assurance over the impact of Covid-19 on investments. We opted to perform the following further procedures, in addition to those set out in our plan:
- ▶ We requested management obtain updated valuations as at 31 March 2020 from investment managers, to capture any subsequent revisions to valuations made as more information about market conditions at the reporting date emerged, and compared these valuations to those used in the financial statements.

What are our conclusions?

We identified a number of differences between the amounts included within the financial statements and the confirmations provided by investment managers and the Fund's custodian, including:

- ▶ An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- ▶ Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;
- ▶ Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end;
- ▶ An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;
- ▶ A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- ▶ A number of smaller variances which have a net impact of understating assets by £7.0m.

We have considered the impact of the errors identified in our assessment of the control environment, further details of our observations and recommendations are provided in section 6.

Our procedures covered 100% of the population.

Review of the updated valuations obtained from investment managers did not identify any significant changes in valuations which required reflecting in the financial statements.

Management have agreed to adjust for some of the identified misstatements detailed above which amounts to a net £24.4m. The net impact of identified misstatements which management have not agreed to adjust amounts to £7m. Further details of which are provided in section 4.



Areas of Audit Focus

Significant risk

Valuation of directly held property

What is the risk?

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

Additional considerations for Covid-19

In-line with guidance issued by the Royal Institution of Chartered Surveyors (RICS), the Fund's property valuer provided their valuation of the Fund's directly held property at 31 March 2020 on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by the property valuers in relation to the valuation of directly held property, including assumptions about the impact of Covid-19 on the property market, were free from material misstatement.

What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained the valuation report from the external valuer (Cushman and Wakefield) and reconciled the valuations provided to those utilised within the financial statements;
- ▶ We assessed the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts;
- ▶ We engage EY Real Estate experts to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations; and
- ▶ We reviewed the financial statement disclosures to ensure that appropriate disclosure has been made in the accounts concerning the material valuation uncertainty.

What are our conclusions?

Our review of the valuations of the Fund's directly held property has not identified any misstatements.

We do however note that of the sample of 10 properties we requested our EY Real Estate experts to review, 5 were valued towards the upper end of the expected range of valuations and 5 were in the middle of the expected range. We would therefore consider the Fund's valuations, whilst reasonable, to be towards the higher end of expectations.

Properties valued towards the upper end of the expected range were predominantly retail properties, where the impact of Covid-19 on valuations has been greatest.

The valuations of property assets at 31 March 2020 were provided to management by their valuer on the basis of a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market. The draft financial statements presented for audit did not include disclosure of this fact, however following audit challenge this has been disclosed as a critical judgement, sensitivity and accounting estimate in the final statements.



03 Audit Report



Audit report

Audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. 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 2019/20.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 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 (C&AG) 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts on pages 98 to 101 and pages 127 to 135, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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

Audit report

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;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ 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;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities - Teesside Pension Fund set out on page 22, the Chief Financial Officer is responsible for the preparation of the Authority'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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Pension 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 Pension Fund either intends to cease operations, or have 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.

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 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 Middlesbrough Council and the Middlesbrough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
February 2021



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, having a net impact of reducing net assets by £33.1m, which have been corrected by management that were identified during the course of our audit:

- ▶ An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- ▶ Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;
- ▶ An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;
- ▶ Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end.

Summary of unadjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £6.9m, which have been identified during the course of our audit but not corrected for within the financial statements:

- ▶ A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- ▶ An understatement of £7.0m as the aggregated net impact of a number of smaller differences identified between the financial statements and investment manager confirmations, excluding those differences separately detailed above. The majority of these differences are timing differences whereby the financial statements do not reflect purchases or sales occurring prior to the year end.

We ask that these differences be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation.

Source of differences

We have raised a recommendation to address the common source of some of these misstatements within Section 6 of our report.



Audit Differences

Comments on disclosure notes

The following matters relating to the disclosures within the financial statements have been identified during the course of our audit and corrected by management:

- ▶ **Material valuation uncertainty** - the draft financial statement did not include reference to the fact directly held property valuations have been prepared on the basis of a material valuation uncertainty;
- ▶ **Going concern** - the draft financial statements did not specifically state that the financial statements had been prepared on a going concern basis, nor did they include management's assessment as to why the adoption of the going concern basis is appropriate;
- ▶ **Outstanding commitments** - the draft financial statements did not include disclosure of the Fund's outstanding commitments to investment managers (note this was inserted prior to inclusion in the draft Middlesbrough Council Statement of Accounts);
- ▶ **Geographical Analysis** - we identified misclassifications within the disclosure of the geographical analysis of the Fund's assets totalling £33.8m;
- ▶ **Financial instruments** - the draft financial statements incorrectly identified directly-held property assets as financial instruments; and
- ▶ **Miscellaneous** - we made a number of recommendations to improve the disclosures within the financial statements, including several instances of internal inconsistency.



05 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

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 Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any 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 nothing to report in relation to this.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the 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 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 identified one significant deficiency in the design or operation of an internal control which led to a material misstatement of the financial statements, as reported in sections 2 and 4. We have made a recommendation to address this deficiency on the next page.

We have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Area	Management review of information provided by the Fund's custodian	Rating
Observation and recommendation	<p>Management rely on information provided by the Fund's custodian when preparing the financial statements. Our audit procedures identified a number of issues with this information, including:</p> <ul style="list-style-type: none">▶ Differences between the asset valuations recorded by the custodian and the asset valuations provided by investment managers, most notably a £22.5m difference on one large investment;▶ The double-counting of a £19.6m investment by the custodian, whereby both a disposed of investment and its replacements were included in the year-end valuation report. The splitting of the investment occurred in September 2019; and▶ Timing differences, such that asset valuations provided by the custodian as at 31 March 2020 did not reflect purchases and sales which took place prior to 31 March 2020, with a net impact of understating assets by £16.0m. <p>Whilst the net impact of the above was not material, the absolute value of identified misstatements was material. The aggregate impact of all misstatements identified during the audit, including the above, was also material. We therefore consider there to be a risk of material misstatement arising from errors in the information provided by the Fund's custodian remaining uncorrected and being utilised in the production of the financial statements.</p> <p>We recommend that management review the processes in place for assuring the information provided by the Fund's custodian is accurate and complete. Where timing differences are known to exist, management should ensure that they have processes in place to determine the impact on the financial statements and, where appropriate, the information provided by the custodian should be adjusted prior to inclusion within the financial statements.</p>	
Management comment	<p>We have been working with the Fund's custodian to ensure the processes for updating manager valuation information (including the on-boarding of new managers or investments) are robust. We are also closely monitoring the figures provided by the custodian to ensure we keep track of any payments to or from managers that may not be reflected in the custodian's figures (typically, because of timing issues), and will ensure appropriate adjustments are made to quarterly and year-end valuations.</p>	



07

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 5 March 2020.

We complied with the Auditing Practices Board (APB) Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 26 November 2020.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

Note 1 - Scale Fee Variation

We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We outlined to management that we believe the fee for the Pension Fund should be set at £55,574. Management have not agreed to the proposed increase and we have therefore asked the PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Corporate Affairs and Audit Committee. The base fee set by PSAA for our 2019/20 audit is £21,972.

Note 2 - Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations. The additional fee we have requested, based on the cost to us of the additional work performed, and are discussing with management is £12,455.

Note 3 - IAS 19 Procedures

For 2019/20 a fee will be charged for the provision of IAS 19 assurances to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. Such additional fees are permissible under the PSAA contract and will represent a scale fee variation requiring PSAA approval. The fee for the provision of IAS 19 assurances to the auditor of the Care Quality Commission (CQC), which is not subject to the NAO Code of Audit Practice, is covered by a separate engagement agreement between ourselves and the Fund and does not require approval by PSAA. Management may opt to recharge such fees to the relevant member bodies.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken audit work, in the form of IAS 19 procedures on behalf of the auditors of some participating employers of the Fund.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee (note 1, 2)	TBC	21,972
IAS 19 Procedures - Code (note 3)	6,000	-
Total Audit Fees	TBC	21,972
IAS 19 Procedures - CQC (note 3)	2,000	2,000
Total Fees for Non-Audit Services	2,000	2,000
Total Fees	TBC	23,972

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- ▶ Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
- ▶ A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- ▶ A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- ▶ Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - ▶ Tax advocacy services
 - ▶ Remuneration advisory services
 - ▶ Internal audit services
 - ▶ Secondment/loan staff arrangements
- ▶ An absolute prohibition on contingent fees;
- ▶ Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
- ▶ Permitted services required by law or regulation will not be subject to the 70% fee cap;
- ▶ Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- ▶ A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
- ▶ A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020):

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

08 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the 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 balance sheet 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. This is the same as our approach in prior years.

Appendix B

Summary of communications




Date 	Nature 	Summary 
22 January 2020	Meeting	The audit team met with Veritau, recently appointed as the internal auditors of Middlesbrough Council (as the administering authority), to understand the scope of their planned work in respect of the Pension Fund.
4 February 2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
5 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
11 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Pensions Committee.
17 June 2020	Meeting	The audit team attended the meeting of the Pensions Committee, where amongst other agenda items management presented a paper on the impacts of Covid-19 on the Fund's investments.
22 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Pensions Committee.
30 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Corporate Affairs and Audit Committee.
14 August 2020	Meeting	The audit team met with management to discuss the status of our audit, significant audit findings to date and arrangements for completion of our audit.
26 November 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Corporate Affairs and Audit Committee.
9 December 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Pensions Committee.

In addition to the above specific meetings and reports, the audit team met with the management team multiple times throughout the audit to discuss the progress of the audit and audit findings. In line with government guidance and EY policy, meetings since the start of the Covid-19 pandemic have been held remotely.

Appendix C





Required communications with the Corporate Affairs and Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. 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 Corporate Affairs and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)

Appendix C




Required communications with the Corporate Affairs and Audit Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report (this report)
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and ▶ Material misstatements corrected by management 	Audit Results Report (this report)
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Corporate Affairs and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▶ A discussion of any other matters related to fraud 	Audit Results Report (this report)
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)

Appendix C

Required communications with the Corporate Affairs and Audit Committee (continued)




Our Reporting to you

Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report; and Audit Results Report (this report)
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report (this report)
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▶ Enquiry of the Corporate Affairs and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Affairs and Audit Committee may be aware of. 	Audit Results Report (this report)
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report (this report)

Appendix C

Required communications with the Corporate Affairs and Audit Committee (continued)

Our Reporting to you

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

Management representation letter

We include below a copy the management representation letter which we request is printed on the Authority's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with same date as the date of approval of the financial statements.

Management Representation Letter

[Date]

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

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 2020. 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 period from 1 April 2019 to 31 March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.
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 aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [management to insert rationale].

Management representation letter (continued)

Management Representation Letter (continued)

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
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 have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - ▶ Involving financial improprieties;
 - ▶ Related to laws or 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, or to avoid material penalties;
 - ▶ Involving management, or employees who have significant roles in internal control, or others; or
 - ▶ 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 all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.
4. We have made available to you all minutes of the Committee meetings of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 2019/20 to the most recent meeting on 9 December 2020.
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 end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. 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.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

Management representation letter (continued)

Management Representation Letter (continued)

8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

9. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, 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.

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.

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year 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 information disclosed on pages 98 to 101 and pages 127 to 135 of the Middlesbrough Council Statement of Accounts 2019/20.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling investments, including the use of collective investment vehicles and shared services

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

Management representation letter (continued)

Management Representation Letter (continued)

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2019 and dated 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the Fund's directly-held property assets 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.

L. Estimates - Property valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

2. We confirm that the significant assumptions used in making the valuation of directly held property estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate and reflect the expectations of the Fund.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the Covid-19 pandemic on valuations, and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the Covid-19 pandemic.

Yours faithfully,

Tony Parkinson, Chief Executive

Ian Wright, Director of Finance

Charlotte Benjamin, Director of Legal and Governance Services

Schedule of unadjusted audit differences



The following relates to the overstatement of investment assets in the financial statements:

	Dr (£'000)	Cr (£'000)
Change in market value	6,957	
Investment assets		6,957

Appendix E

Regulatory update

Since the date of our last report to the Corporate Affairs and Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Teesside Pension Fund 
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> ▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. ▶ We do not currently provide any non-audit services to you.

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