



**Teesside Pension
Fund
Audit Planning Report**

Year ended 31 March 2021
July 2021



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

July 2021

Dear Corporate Affairs and Audit Committee Members

Audit Planning Report

We are pleased to attach our Audit Planning Report which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Corporate Affairs and Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks. On conclusion of our planning procedures, if required, we will communicate to the Committee any changes to our risk assessment.

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

We welcome the opportunity to discuss this report with you on 23 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

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

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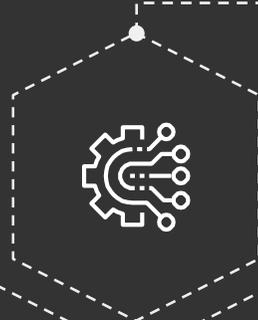
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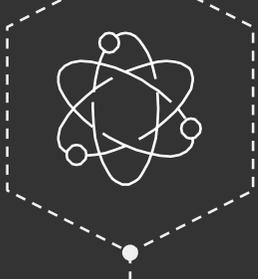
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Corporate Affairs and Audit Committee and management of Teesside Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Corporate Affairs and Audit Committee and management of Teesside Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Affairs and Audit Committee and management of Teesside Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

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

Audit risks and areas of focus

| Risk/area of focus | Risk identified | Change from PY | Details |
|--|------------------|----------------------------|---|
| Misstatements due to fraud or error | Fraud risk | No change in risk or focus | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. |
| Valuation of unquoted pooled investment vehicles | Significant risk | No change in risk or focus | 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. |
| Valuation of directly held property | Significant risk | No change in risk or focus | The Fund has a significant portfolio of directly held property investments. The valuation these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements. |

Overview of our 2020/21 audit strategy

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

Materiality

Planning
materiality

£45.6m

Materiality has been set at £45.6m, which represents 1% of Net Assets per the 20/21 draft accounts. 2019/20 planning materiality was £37.4m based on 1% of net assets per the 19/20 financial statements.

Performance
materiality

£34.2m

Performance materiality has been set at £34.2m, which represents 75% of materiality. 2019/20 performance materiality was £28.0m which was 75% of planning materiality.

Audit
differences

£2.3m

We will report all uncorrected misstatements relating to the primary statements (fund account and net asset statement) greater than £2.3m. 2019/20 audit differences threshold was £1.9m. Other misstatements identified will be communicated to the extent that they merit the attention of the Corporate Affairs and Audit Committee.

Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Teesside Pension Fund give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- ▶ Our opinion on the consistency of the Fund's financial statements, which are included within the Fund's Annual Report, with the published financial statements of Middlesbrough Council (the administering authority).

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

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

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

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

Taking the above into account, and as articulated in this Audit Planning Report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit. Our professional standards require us to determine where our assessment of risk and the work needed to meet our professional responsibilities changes. In those circumstances we seek additional fee for the additional work undertaken. You will be aware that scale fees have not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting and auditing standards, such as ISA 540(UK) (revised) - Estimates and ISA 570(UK)(revised) going concern, as well as the new NAO Code requirements on the Value for Money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Teesside Pension Fund's audit, we will discuss these with management as to the impact on the scale fee.



02 Audit risks



Audit risks

Our response to significant risks

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

Misstatements due to fraud or error*

Financial statement impact

Misstatements that occur in relation to fraud or error would affect the fund account and net asset statement. Net assets had the following balances in the 2020/21 draft financial statements:

Net assets: £4.6bn

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 have not identified any specific fraud risks in our planning, however we will continue to update our risk assessment throughout our audit.

What will we do?

- ▶ Identifying fraud risks during the planning stages
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address those identified risks of fraud
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Assessing accounting estimates for evidence of management bias
- ▶ Evaluating the business rationale for significant unusual transactions

Our response to significant risks (continued)

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

What will we do?

- ▶ Document and walkthrough the process and design of the controls over the valuation process
- ▶ Obtain third party confirmations of the valuation of unquoted pooled investments at the reporting date from the investment managers. We will also cross-check the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian
- ▶ Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk
- ▶ Compare the movement in valuation of investments in unquoted investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigate any unusual variances
- ▶ Agree a sample of purchases and sales of unquoted pooled investments during the period to supporting evidence
- ▶ Review the basis of valuation for unquoted investments and ensure it is in line with the accounting policy

Our response to significant risks (continued)

Valuation of directly held property

What is the risk?

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

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

What will we do?

- ▶ Document and walkthrough the process and design of the controls over the valuation process
- ▶ Obtain the valuation report from the external valuer (Cushman and Wakefield) and reconcile to the valuations used within the financial statements
- ▶ Assess the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts
- ▶ Engage EY Property experts to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Going Concern Compliance with ISA 570

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.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Pension Fund will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Pension Fund is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

What will we do?

The revised standard requires:

- ▶ Auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias
- ▶ Greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements
- ▶ Improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Pension Fund are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements
- ▶ A stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern
- ▶ Necessary consideration regarding the appropriateness of financial statement disclosures around going concern

The revised standard extends requirements to report to regulators where we have concerns about going concern.

Audit risks

Ongoing impact of Covid-19

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

Other potential impacts of Covid-19

The ongoing disruption to daily life and the economy as a result of the pandemic will continue to have a pervasive impact upon the financial statements, which will need to reflect the impact of the pandemic upon the Fund's financial position and performance. We have not identified further significant risks or areas of audit focus relating to Covid-19, other than those set out previously in this plan, but wish to highlight the wide range of ways in which Covid-19 has or could impact the financial statements.

This includes, but is not limited to:

- ▶ Contributions - the income from contributions may be impacted by the increased unemployment levels in the region as a result of Covid-19 pandemic.
- ▶ Valuation of investments - the valuation of investments may be made more difficult due to the market volatility brought about by the impact of Covid-19.
- ▶ Annual Report - the widespread use of home working is likely to change the way internal controls operate. The Annual Report will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on their ability to complete the planned programme of work for 2020/21.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on our ability to complete the audit as efficiently as normal. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will also be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

The changes to audit risks and audit approach will change the level of work we perform. This will impact the audit fee. We will agree changes to the audit fee with management and report back to the Corporate Affairs and Audit Committee.



03

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £45.6m. This represents 1% of the Fund's net assets at 31st March 2021 per draft financial statements. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £34.2m (2019/20 £28.0m) which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Assets Statement.

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



04

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

2. Consistency opinion

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

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

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

Internal audit

We will regularly meet with Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements. As we adopt a substantive strategy we do not rely on the work of internal audit.



05

Audit team



Audit team

Audit team

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

Michael Mason will be the manager responsible for the day-to-day direction of audit work and is the key point for contact for the finance team. Mark Rutter is the Engagement Manager for our audit of the Council.

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

| Area | Specialists |
|---|--|
| Valuation of directly held property investments | Cushman and Wakefield (management's valuation specialists) EY Valuations Team |
| Pension liability disclosures | Aon Hewitt (management's actuarial specialists) EY Actuaries |

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

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

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



06

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

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

| Audit phase | Timetable | Audit committee timetable | Deliverables |
|---|-----------|---------------------------|--|
| Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes Interim audit testing | June/July | Audit Committee | |
| Year end audit testing | Jul | Audit Committee | Audit Planning Report |
| Year end audit testing continued | Aug | | |
| Year end audit testing continued Audit Completion procedures | Sep | Audit Committee | Audit Results Report Audit opinions and completion certificates |



07

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
|---|---|
| Planning stage | Final stage |
| <ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence; and ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. | <ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues. |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's Ethical Standard or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we do not provide any non-audit services to the Fund.

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

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

Self review threats

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

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

Management threats

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

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

Other threats

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

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

Other communications

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

EY Transparency Report 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 year end 30 June 2020: [EY UK 2020 Transparency Report](#)



08

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

| | Planned fee 2020/21 | Final fee 2019/20 |
|--|------------------------|----------------------|
| | £ | £ |
| Scale Fee - Code work | 21,972 | 21,972 |
| Rebasing of the scale fee to deliver an audit to meet regulatory requirements (Note 1) | 33,359 | 33,359 |
| IAS 19 Procedures - Code (Note 2) | 8,500 | 6,000 |
| IAS 19 Procedures - Non-Code (Note 2) | - | 2,000 |
| Total Fee - Covid-19 impact (Note 3) | 2,000 to 5,000 | 12,498 |
| Revisions (Revised auditing standards ISA 540 and ISA 570) (Note 4) | 3,500 to 6,000 | N/A |
| Total audit fee | TBC | 75,829 |

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Fund; and
- The Pension Fund has an effective control environment.

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

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

- (1) We wrote to management and the Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report in 2019/20 highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 onwards and set out some of the factors informing this discussion. We were unable to agree a scale fee variation with management and submitted our proposal to PSAA to make a determination. PSAA have not yet made this determination. The base fee set by PSAA for our 2020/21 audit is £21,972.
- (2) A fee is 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. Management may opt to recharge such fees to the relevant member bodies. In 2019/20, the provision of IAS 19 assurances to the auditor of the Care Quality Commission was not covered by the NAO Code of Audit Practice (2015) and we performed this work under a separate engagement agreement between ourselves and the Pension Fund. From 2020/21, this work is now covered by the new NAO Code of Audit Practice (2020) and the fee is reflected within the fee for IAS 19 work performed under the Code of Audit Practice.
- (3) In 2019/20 the scale fee variation related to the impact of the Covid-19 pandemic and the additional audit procedures that we were required to undertake to issue our audit opinion. These included general inefficiencies arising from the remote audit process and the additional work and consultation undertaken to address the impact of Covid-19 on the going concern status of the Pension Fund. We were unable to agree the additional fee with management but the total variation has been submitted to PSAA for determination. We note that Covid-19 is likely to continue to have an impact on our 2021 audit.
- (4) Revised auditing standards in relation to going concern and estimates has increased the level of work we need to perform in these areas. This will require additional fee to be charged in 2020/21 onwards which will be agreed with management and reported to the Audit Committee.

Appendix B

Required communications with the Audit Committee

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

| | |  Our Reporting to you |
|-------------------------------------|--|--|
| Required communications |  What is reported? |  When and where |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Planning Report (this report) |
| Significant findings from the audit | <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 |

Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|-------------------------|---|--|
| Required communications |  What is reported? |   When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▶ The adequacy of related disclosures in the financial statements | Audit Results Report |
| 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 |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▶ A discussion of any other matters related to fraud | Audit Results 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 |

Appendix B

Required communications with the 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 |
| 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 |
| 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 Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of. | Audit Results Report |
| Internal controls | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit | Audit Results Report. |

Appendix B

Required communications with the Audit Committee (continued)

| | | |  Our Reporting to you |
|--|---|---|--|
| Required communications |  What is reported? |  When and where | |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit Results Report | |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise. | Audit Results Report | |
| Auditors report | Any circumstances identified that affect the form and content of our auditor's report. | Audit Results 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 | |

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting;
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ Reading other information contained in the financial statements, including the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.



Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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