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# South Yorkshire Pensions Authority

## Final report to the Pensions Authority Audit Committee on the 2020/21 audit

Issued on 13 August 2021

# Contents



# Partner introduction

## The key messages in this report:

I have pleasure in presenting our Final Report to the South Yorkshire Pensions Authority Audit Committee (the "AC") for the 2021 audit of South Yorkshire Pensions Authority (the "Authority") and South Yorkshire Pension Fund (the "Fund").

I would like to extend my thanks to Fund and Authority management for their assistance during the audit. The regular communication we have had with management and the use of technology has allowed us to continue to deliver the audit remotely in 2020/21.

We would like to draw your attention to the key messages of this paper:

**Audit quality is our number one priority.**

We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

A **robust** challenge of the key judgements taken in the preparation of the financial statements.

A strong **understanding** of your internal control environment.

A **well planned** and delivered audit that raises findings early with those charged with governance.

**Audit scope**

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the statutory financial statements of the Scheme. The financial statements are prepared under the Code of Practice on Local Authority Accounting 2020/21 ("the Code") issued by CIPFA and LASAAC;
- Consider the completeness of the disclosures in the Authority's Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work;
- Satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention.

**Status of the audit**

Our audit work is complete.

**Audit quality**

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well planned audit that raises findings early with those charged with governance. We have utilised specialists throughout our audit to support the robustness of our work in areas such as property, IT and the IAS 19 valuation.

# Partner introduction

## The key messages in this report (continued):

**Audit impact of COVID-19**

From March 2020, COVID-19 caused significant disruption to economic activity which has been reflected in global stock market fluctuations and, in turn, in the valuation of pension scheme assets. In light of the changes that the pandemic has had on our day to day lives and working arrangements, we have reviewed key benefit controls to ensure that, during the year under audit, they were still operating in line with our understanding.

Appropriate disclosure has been made within the financial statements around the impact of COVID-19. As communicated to you in our planning report, we have also completed our going concern procedures. Our work in this area is naturally ongoing up until the financial statements are signed.

**Our conclusion**

We are complete and will issue an unqualified audit opinion on the financial statements of both the Authority and the Fund.

In reaching our conclusions, we considered the control observations and the results from our testing on pages 8 to 17. In addition, we noted:

- The significant accounting judgements and estimates appear reasonable;
- We did not identify any significant weaknesses from our work on value for money; and
- Uncorrected adjustments are shown in Appendix 1.

**Nicola Wright**
**Audit Partner**

# Materiality

## Our Approach to Materiality – Fund

### Basis of our materiality benchmark

- We set materiality for our opinion on the financial statements as £98.6m (2020: £81.5m), based on professional judgement, the requirement of auditing standards and the net assets of the Fund. These figures are based on the 31 March 2021 revised draft financial statements.
- We have used 1% of Fund net assets as the benchmark for determining our materiality levels for 2021.

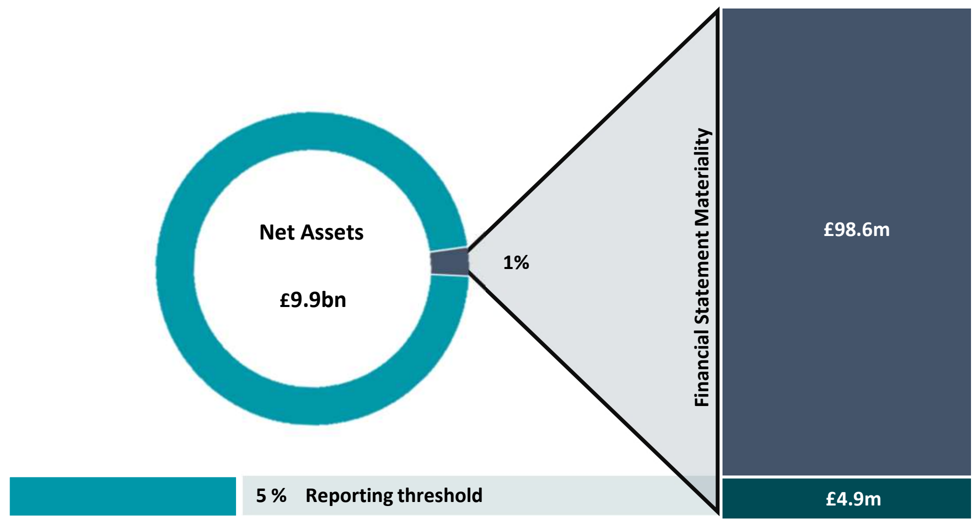
The basis for our materiality calculations is the same as the previous year.

### Reporting to those charged with governance

- Within this report, as part of our audit of the financial statements, we communicate all misstatements found in excess of our reporting threshold (“RT”) of £4.9m. This threshold is set at 5% of our materiality level above.
- Misstatements below these thresholds are reported if we consider them to be material by nature.
- During the course of the audit, we proposed an adjustment of £130m to the valuation of alternative investments (related to the use of stale prices), which has been updated. In addition, we have proposed a further stale price adjustment of £9.7m, which has not been updated and has been included in Appendix 1.

### Materiality calculation

Although materiality is the judgement of the audit partner, the AC members must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



# Materiality

## Our Approach to Materiality – Authority

**Basis of our materiality benchmark**

- We set materiality for our opinion on the financial statements as £117k (2020: £119k), based on professional judgement and the requirement of auditing standards. These figures are based on the 31 March 2021 draft financial statements.
- We have used 2% of gross expenditure as at 31 March 2021 as the benchmark for determining our materiality levels.

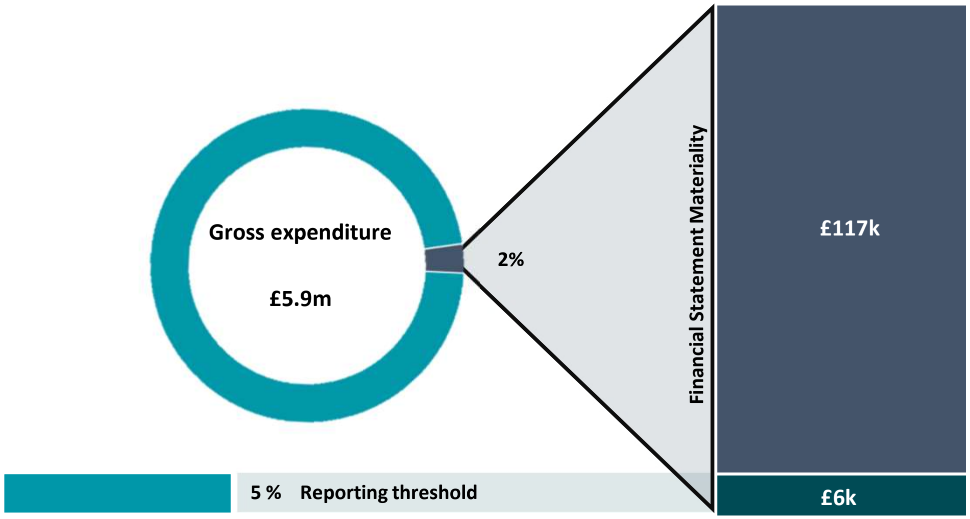
The basis for our materiality calculations is the same as the previous year.

**Reporting to those charged with governance**

- Within this report, as part of our audit of the financial statements, we communicate all misstatements found in excess of our reporting threshold ("RT") of £6k. This threshold is set at 5% of our materiality level above.
- Misstatements below these thresholds are reported if we consider them to be material by nature.
- There have been no uncorrected misstatements or disclosure deficiencies.
- During the course of the audit, we proposed an adjustment to the net pension liability of £417k as a result of the adjustment made to the pension fund asset value, which has also been amended.

**Materiality calculation**

Although materiality is the judgement of the audit partner, the AC members must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



# Scoping

## Significant Risks and Audit Focus Areas Dashboard

| Risk Identified | Material Balance | Management Judgement | Proposed Approach | Fraud Risk | Further Details |
|---|---|---|---|---|---|
| **Significant Risk**<br>Valuation of directly held commercial property - Fund | ✓ | ⚠ | D&I | ✗ | Page 9 |
| **Significant Risk**<br>Management override of controls – Fund & Authority | ✗ | ⚠ | D&I | ✓ | Page 11 |
| **Audit Focus Area**<br>Valuation of pensions liability – Authority | ✓ | ⚠ | D&I | ✗ | Page 13 |
| **Audit Focus Area**<br>Completeness & accuracy of contributions – Fund | ✓ | ⚠ | D&I | ✗ | Page 14 |
| **Audit Focus Area**<br>Completeness of investment transactions and valuation of alternatives – Fund | ✓ | ⚠ | D&I | ✗ | Page 15 |
| **Audit Focus Area**<br>Completeness & accuracy of expenditure - Authority | ✓ | ⚠ | D&I | ✗ | Page 16 |
| **Audit Focus Area**<br>Value for money - Authority | ✗ | ⚠ | N/A | ✗ | Page 17 |

**Significant risks:** risks which require a tailored, elevated audit response in terms of nature, timing and extent of audit testing. Significant risks are based on professional judgement and the results of the risk assessment procedures we have performed.

**Audit focus areas:** risks which require additional audit consideration beyond that of normal risks, but where the potential for material misstatement or the likelihood is lower than that of a significant risk.

| | | |
|---|---|---|
| Significant Risk | Low levels of management judgment/complexity | **D&I** Design and Implementation |
| Other area of audit focus | Medium levels of management judgement/complexity | **OE** Operating Effectiveness |
| | High degree of management judgement/complexity | |

# Significant audit risks

# Significant risks

## Valuation of directly held commercial property – Fund

**Risk identified**

The Fund has a significant holding in directly held UK properties (31 March 2021 valued at £762m, split into Commercial property of £580m, and agricultural property of £182m). The valuation of these properties is based on assumptions such as rental returns and occupancy rates, geographical location and market trends.

Trading conditions in the retail sector have increased the uncertainty, and level of judgement, in the valuations of properties in this sector. These have been impacted significantly by the COVID-19 pandemic - with rental holidays, closure of offices and retail outlets as well as falling demand across the real estate market causing uncertainty across the year. These uncertainties are predominantly present in the commercial property portfolio, and we have therefore pinpointed our significant risk to commercial property, with the agricultural property portfolio being an area of audit focus.

**Deloitte response to risk identified**

In order to address the significant risk, our audit procedures consisted of the following:

- Tested the design and implementation of controls around the valuation of direct properties;
- Assessed the reliability, competence and capabilities of JLL;
- Vouched the Fund financial statements to the direct third party confirmation provided by JLL and confirmation of title deeds to ensure the properties are held in name of the Fund;
- Agreed all purchases made during the Fund year to supporting evidence (there were no sales); and
- Prepared an expectation of the year end valuation for properties held by the Fund using comparable market indices and compared the expectation to the valuation provided by JLL. This did not identify any property movements that were outside of our reporting threshold. Deloitte Real Estate (DRE) selected four properties of particular interest and then reviewed in detail the valuation of this population to ensure it was materially correct. This included assessing the assumptions detailed in the JLL valuation report.

**Response of those charged with governance**

The Fund has engaged JLL to assist in the valuation of the direct property holdings. There are regular valuation meetings held between Fund management and the valuers to monitor Fund property.

# Significant risks

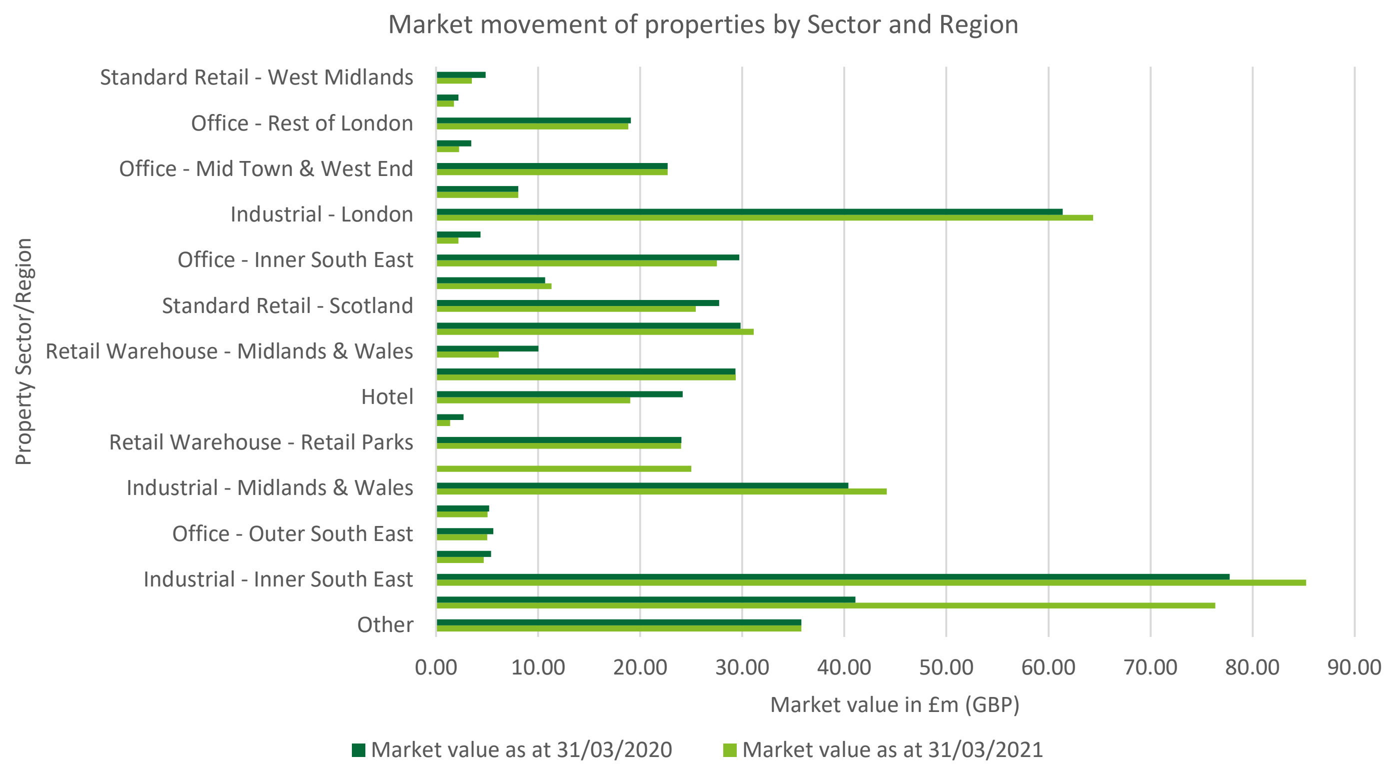
## Valuation of directly held commercial property – Fund

**Conclusion**

We have not identified any issues to report to the AC as a result of our audit testing although we have some insights which we have noted below.

Our analytical review of individual property movements against comparable market indices over the year identified some properties which fell outside of our audit threshold, although none of them exceeded our reporting threshold. Our audit threshold is based on the value of the asset and our materiality levels. In addition, DRE highlighted four properties where the movement year on year should be investigated further.

In response to this, we engaged DRE to assist the audit team to review appropriate audit evidence, supporting the assumptions, approach and methodology adopted by JLL in respect of four properties, which represents 10% of the portfolio. For all of the properties, DRE performed an in-depth review of the assumptions, approach and methodology within the valuation. Although all of the properties sampled were within the tolerable range, one was deemed to be towards the lower end of the reasonable range (due to the yield applied being low considering the weakness in the retail market), whereas another one was deemed to be the upper end of the reasonable range (due to the yield applied being conservative given location and secure term of the contract).



# Significant risks

## Management override of controls – Fund and Authority

**Risk identified**

In accordance with ISA 240 (UK), management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

**Response of those charged with governance**

The financial reporting process in place has an adequate level of segregation of duties.

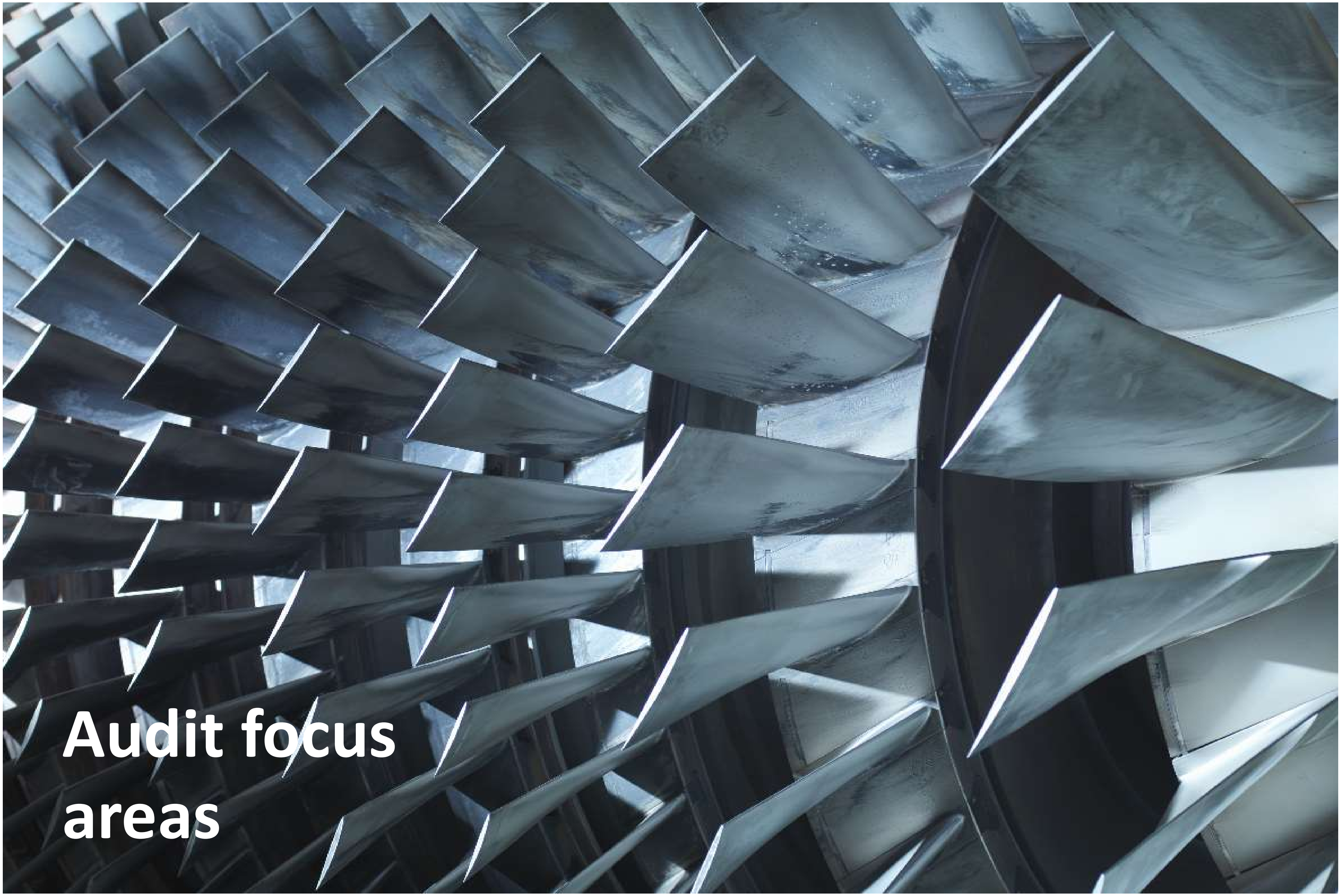
**Deloitte comment**

We have not identified any issues over the segregation of duties in place at the Fund or Authority or identified any incentives for the accounting staff to misstate the Authority or Fund accounts.

**Deloitte response to significant risk identified**

In order to address the significant risk, we carried out the following audit procedures:

- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Ensured that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Reviewed related party transactions and balances to identify if any inappropriate transactions have taken place; and
- Reviewed the accounting estimates for bias, such as the valuation of unlisted investments, that could result in material misstatement due to fraud. This included reviewing whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.
- Completion of the testing of a sample of journals. In order to do this, we used Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund and Authority. This uses intelligent algorithms that identify higher risk and unusual items; and
- Completion of the testing of the design and implementation of controls around the journals process and investment and disinvestment of cash during the year.



# Audit focus areas

# Audit focus areas

## Valuation of pension liability – Authority

**Risk identified**

The net pension liability is a material element of the Authority's balance sheet. The valuation of the Fund relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Authority's valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should reflect the profile of the Authority's employees, and should be based on appropriate data.

**Response of those charged with governance**

The Authority has engaged Mercer Limited to assist with this valuation.

**Deloitte comment**

The pension asset values submitted to the actuary were based on the draft asset values. There was subsequently a material adjustment to the pension fund asset values as set out earlier in this report.

As a result, the Authority has obtained an updated pension valuation report from Mercer which resulted in an increase in the Authority's share of the asset value of £417k. This has reduced the net pension liability included on the Authority's balance sheet. This has been adjusted in the financial statements.

**Deloitte response to risk identified**

In order to address this area of audit focus, our audit procedures consisted of the following:

- Obtained an understanding of the design and implementation of the key controls in place in relation to review of the assumptions by the Authority;
- Evaluated the competency, objectivity and independence of Mercer Limited, the actuarial specialist;
- Reviewed the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used;
- Evaluated the roll forward approach used by the actuary to ensure that this is appropriate;
- Reviewed the pension related disclosures in the financial accounts; and
- Ensured the pension assets and membership information is consistent with those as per the Pension Fund financial statements.

# Audit focus areas

## Completeness and accuracy of contributions – Fund

**Risk identified**

There is some complexity surrounding the accuracy and completeness of employee and employer contributions received by the Fund. The employer primary and secondary contribution rates are dictated by the actuarial valuation and these vary between the contributing employers. Employee contributions are based on varying percentages of employee pensionable pay – this can vary month to month and the Fund has no oversight of the individual employer payrolls.

As a result of this, we have made the accuracy and completeness of contributions an area of audit focus.

**Response of those charged with governance**

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are accurate and complete.

**Deloitte comment**

From performing the procedures above, we have no matters to bring to the attention of the AC.

**Deloitte response to risk identified**

In order to address this area of audit focus, our audit procedures consisted of the following:

- Reviewed the design and implementation of key controls over the contribution process;
- Performed an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- For a sample of active members, we recalculated individual contribution deductions to ensure these are being calculated in accordance with the rates stipulated in the LGPS Regulations for employee contributions and the recommendations of the actuary for employer contributions;
- Tested that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions;
- Tested the reconciliation of the total number of active members between the membership records and the employer payroll records; and
- For a sample of monthly contributions paid, checked that they have been paid within the due dates per the LGPS Regulations.

# Audit focus areas

## Completeness of investment transactions and valuation of alternative investments – Fund

**Risk identified**

The Fund holds a large and highly material portfolio of investments and, due to the ongoing changes and numerous transactions within this portfolio, we consider that there is an increased risk of material misstatement.

Additionally, within this portfolio is a range of alternative investments, including private equity and debt funds, as well as limited partnerships and hedge funds. At 31 March 2021, these totalled c.£1.7bn. These funds do not have publicly available prices and are often infrequently priced increasing the risk of stale pricing. As a result of this, we consider the completeness and valuation of these to be an area of audit focus.

**Response of those charged with governance**

The Fund has an in-house investment team with significant experience in managing and valuing these types of investments. Controls are in place to ensure prices are up to date and accurate.

**Deloitte comment**

We have obtained 99.9% of the 31 March 2021 third party investment confirmations by value. A total of £3.6m remains unconfirmed at the date of this report.

The alternative investments are often subject to stale pricing, due to infrequent pricing. Most of these investments were included in the 31 March 2021 draft financial statements at 31 December 2020 prices. Accounting standards allow stale pricing, provided no more up-to-date information is available. During our testing, we identified a material stale price adjustment of £130m. This was subsequently amended in the final version of the financial statements.

We have no further matters to bring to the attention of the AC.

**Deloitte response to risk identified**

In order to address this area of audit focus, our audit procedures consisted of the following:

- Reviewed the design and implementation of key controls over the completeness and valuation of investments by obtaining the investment manager and custodian internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Reviewed the design and implementation of key controls over the completeness and valuation of investments performed by the in-house investment team;
- Agreed the year end valuations as reported in the financial statements to the reports received directly from the investment managers;
- Ensured appropriate stale price adjustments have been posted to the financial statements;
- Agreed registered funds and directly held investments to publicly available prices;
- Reviewed the Type 2 report for Border to Coast Pensions Partnership and performed walkthroughs to independent evidence for key transactions and investments;
- For publicly quoted securities (bonds), we have agreed a sample to publicly available prices;
- Perform independent valuation testing for a sample of year end alternative fund holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark; and
- Test the completeness of investments by agreeing a sample of sales and purchases transactions to the investment manager confirmations and/or to cash.

# Audit focus areas

## Completeness and accuracy of expenditure – Authority

**Risk identified**

The Authority administers the Pension Fund and in doing so incurs various administration, investment and governance related expenditure. This is the purpose of the Authority and expenditure is therefore the key balance within the entity. All Fund related expenditure incurred is recharged to the Fund.

As the driving balance within these financial statements, there is a greater risk of material misstatement and a greater risk of management under/overstating this balance, we therefore consider this to be an area of audit focus for the Authority.

**Response of those charged with governance**

There are controls in place around expenditure to ensure that all expenditure is approved and correctly treated.

**Deloitte comment**

From performing the procedures above, we have no matters to bring to the attention of the AC.

**Deloitte response to risk identified**

In order to address this area of audit focus, our audit procedures consisted of the following:

- Obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and accuracy of expenditure;
- Reviewed expenditure against the prior year figures and queried any significant discrepancies;
- Tested a sample of expenditure incurred during the year back to supporting evidence;
- For the same sample, ensured that the matching recharge to the Fund was correct and qualified for recharge in line with any recharge agreement in place; and
- Performed focused testing in relation to the completeness including detailed reviews of accruals, trade creditors and post year end payments.

# Audit focus areas

## Value for Money ('VfM') – Authority

**Risk identified**

We are required to consider the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues such as the Authority's planned move to Oakwell House and the replacement of the Authority financial management, HR and payroll and investment software; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

**Response of those charged with governance**

There are adequate controls in place around Value for Money to ensure that all criteria are met.

**Deloitte comment**

We have completed our work on VfM and have included the commentary within Appendix 5. We have not identified any significant weaknesses and we will issue the Annual Auditor's Report on completion of the audit.

**Deloitte response to risk identified**

In order to address this area of audit focus, our audit procedures consisted of the following:

- Held meetings with the Head of Finance and Corporate Services and Director;
- Reviewed the draft Annual Governance Statement;
- Reviewed the governance and financial planning processes in place at the Authority;
- Considered other issues identified through our other audit work; and
- Consideration of the Authority's and Fund's results.

# Other risks

# Other Risks

## Other audit considerations

| Area of focus | Description | Audit response |
|---|---|---|
| **Going Concern** | As auditors, we are required to confirm in our audit report that the going concern basis of the financial statements is appropriate. | Our testing to address this risk included:<br>• examined the latest publically available information regarding the financial position of the principal employers;<br>• analysed the latest funding position of the Fund; and<br>• reviewed minutes of the Audit Committee meetings. |
| **Fraud** | In our Audit Report in the financial statements we are now required to directly report on the extent to which the audit was considered capable of detecting irregularities, including fraud and other matters of non-compliance with laws and regulations. | Our testing to address the risk included:<br>• performed procedures to assess the risk of management override as detailed on page 11;<br>• reviewed the controls in place surrounding fraud risks including disinvestments; and<br>• agreed 99.8% of investments to third party investment confirmations (aiming to agree 100% before signing). |
| **GMP Equalisation** | The High Court judgement on 26 October 2018 confirmed that UK pension schemes should provide equal benefits for men and women for service from May 1990 despite inequalities in GMP legislation. In November 2020, there was an additional ruling made in respect of equalising transfer values. | Our testing to address the risk included:<br>• confirmed with the Fund Actuary any changes in the assessment of the impact of GMP Equalisation on the Fund, including the impact of the transfers ruling; and<br>• confirmed that appropriate disclosures have been made in the financial statements. |
| **Brexit** | During the Scheme year, the UK have left the European Union ("EU").<br><br>The impact of Brexit may be felt across the Scheme and its operations, for example through withholding taxes and the impact on the going concern of the Fund. | Our testing to address the risk included:<br>• assessed the fair value of assets as at the Fund's year-end date;<br>• reviewed minutes of the Audit Committee meetings and the going concern assessment; and<br>• confirmed that appropriate disclosures have been made in the financial statements. |

# Maintaining audit quality

## Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

| | |
|---|---|
| The role of audit | • Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)<br>• Deloitte fully supports an independent review into the role of auditors<br>• The Government's Brydon Review considers UK audit standards and how audits should evolve |
| Would it be better to have audit only firms? | • Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit<br>• Our investment in audit innovation, training and technology is greater because of the multidisciplinary model |
| Is the current audit market uncompetitive? | • We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders<br>• There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering<br>• The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies |
| Independence and conflicts from other services | • Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients<br>• Deloitte invests heavily in systems, processes and people to check for potential conflicts<br>• We have governance in place to assess any areas of potential conflict, including where required to protect the public interest<br>• Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue) |
| Deloitte | • Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest<br>• Our Impact Report and Transparency Report are available on our website https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html<br>• Our response to the latest AQR report was provided in our Planning Report. |

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the AC discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

### The scope of our work

Our observations are developed in the context of our audit of the Fund accounts.

We described the scope of our work in our proposed audit plan circulated to you on 18 February 2021.

The audit insights and other findings of this report provide details of additional work we have performed alongside the audit of the Fund accounts.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the AC.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and Scheme risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the Fund accounts and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

**Nicola Wright**

for and on behalf of Deloitte LLP

Newcastle upon Tyne | 13 August 2021

# Topical matters

# Topical matters

## Department for Work and Pensions (DWP) – taking action on climate risk

Prior to the approval of the Pension Schemes Act 2021, the Department for Work and Pensions (DWP) opened a consultation on regulations covering the new climate risk powers contained within the Act. Under the proposed regulations, the UK Government has announced its intention to make Task Force on Climate-related Financial Disclosures (TCFD) disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. It is proposed that the following schemes should be in scope of the mandatory climate change governance and TCFD reporting requirements:

**(a) trust schemes with £1 billion or more in net assets**
**(b) authorised master trusts**
**(c) authorised schemes providing collective money purchase benefits**

These qualifying schemes will have to produce and publish a TCFD report. We have included some detail on the recommended content of the TCFD report within this update.

The Minister for Pensions and Financial Inclusion, Guy Opperman stated "I whole-heartedly welcome the Chancellor's announcement of the TCFD Roadmap in November 2020 outlining the steps that the UK Government and regulators will take towards rolling out mandatory climate reporting requirements across its regulated community. This means that, come 2023, the vast majority of assets will be invested with pension scheme trustees, asset managers, and insurers who are disclosing climate- related financial risks and opportunities in line with recommendations by the TCFD."

Regulations would require trustees to meet climate change governance requirements which underpin the 11 recommendations of the TCFD and to report on how they have done so. We have included a separate slide on the TCFD recommendations for reference. Statutory guidance, will set out how trustees should meet the requirements and report in line with the TCFD recommendations. Where trustees choose to diverge from statutory guidance, they need to be able to explain their reasons for doing so in their TCFD report.

With almost £2 trillion in assets under management, all pension schemes are exposed to climate-related risks. It is important to note, the government sees stewardship of assets, including engagement with higher carbon firms and voting at Annual General Meetings (whether directly or via asset managers), as entirely legitimate responses to the climate risk revealed through TCFD-aligned disclosures. Indeed, holding such assets places trustees in an influential position to steward firms towards lower-carbon business practices, which is why government advocates collaboration with business, as opposed to divestment.


The **four core** elements of TCFD disclosures are shown in the diagram and these form the basis of the required pension scheme disclosures.

**1. Governance -** Trustees must establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme. They must also establish and maintain processes for the purpose of satisfying themselves that persons undertaking governance on their behalf or those who advise or assist the trustees with respect to governance, are taking adequate steps to identify, assess and manage climate-related risks and opportunities which are relevant to the scheme. In their annual TCFD report, trustees must describe how such oversight is maintained.

**2. Strategy-** Trustees must identify and assess the impact of climate-related risks and opportunities which they consider will have an effect over the short term, medium term and long term on the scheme's investment strategy and (where it has one) the scheme's funding strategy. Short, medium and long term are such periods as the trustees deem appropriate, taking into account the scheme's liabilities and its obligations to pay benefits. The trustees need to document the above in their TCFD report.

# Topical matters

## Department for Work and Pensions (DWP) – taking action on climate risk

**3. Risk management** - Trustees must establish and maintain processes for the purpose of enabling them to identify, assess and effectively manage climate-related risks which are relevant to the scheme. They must also ensure that management of climate-related risks is integrated into their overall risk management of the scheme. In their annual TCFD report, trustees must describe these processes and how they are integrated into the trustees' overall risk management of the scheme.

**4a. Metrics** -Trustees must select and as far as they are able to calculate an absolute emissions metric and an emissions intensity metric in respect of the scheme's assets. Draft statutory guidance proposes that trustees should use total emissions and carbon footprint metrics – calculating scope 1, and 2 and 3 greenhouse gas emissions (scope 3 is not included in the first year). Trustees must also select one additional climate change metric to calculate in respect of the scheme's assets. Draft statutory guidance suggests a range of measures, including an implied temperature rise or climate value at risk measure. Trustees must review their selection of metrics from time to time as appropriate to the scheme. The trustees need to document the above in their TCFD report and this must be disclosed in line with the requirements noted in the **Disclosure** section of this update.

**4b. Targets** - Trustees must set a non-binding target for the scheme in relation to at least one of the metrics which they have selected to calculate. On an annual basis they must measure performance against the target (as far as are they are able) and taking into account the scheme's performance they must decide whether to retain or replace the target. In their annual TCFD report, trustees must describe the target or targets which they have set, and the performance of the scheme against them.

Despite the common core principles of TCFD, the DWP acknowledged that the continuing rapid evolution of methodologies still poses the risk that different approaches could lead to different results being calculated for the same portfolio/assets. The Department indicated it will be consulting later on the use of one particular metric, 'implied temperature rise' (ITR) which is emerging as potentially the most useful and powerful.

We have detailed below a number of other matters of note contained within the DWP paper.

**Scenario analysis** - Trustees must, as far as they are able, undertake scenario analysis assessing the impact on the scheme's assets and liabilities, the resilience of the scheme's investment strategy and (where it has one) the scheme's funding strategy for at least two scenarios – one of which corresponds to a global average temperature rise of between 1.5 and 2°C inclusive on pre-industrial levels. In their annual TCFD report, trustees must describe the most recent scenarios they have analysed, the potential impact on the scheme's assets and liabilities and the resilience of the scheme's investment strategy and (where it has one) funding strategy in those scenarios, and their reason for not carrying out a new scenario analysis if they have not done one. Trustees should carry out scenario analysis as far as they are able in relation to all the scheme's relevant assets. Following the initial consultation in August 2020, the DWP have confirmed that they have made changes to the original proposal and will require that scenario analysis must be carried out in the first year that trustees are subject to the requirements and every three years thereafter. In the intervening years, trustees must do an annual review of their scenario analysis and carry out fresh analysis where they consider it appropriate to do so.

**Trustee knowledge and understanding** - Trustees must have the appropriate degree of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks and opportunities in respect of occupational pension schemes, for the purposes of enabling them to properly exercise their functions. These principles will be prescribed matters for the purposes of the Pensions Act 2004.

**Disclosure** - Trustees are required to publish their TCFD report on a publicly available website, accessible free of charge. The Chair of trustees must sign the report. The TCFD report must be referenced from – but need not be included in – the Annual Report. Members must be told via any annual benefit statement they receive that the report has been published and where they can locate it. Trustees of DB schemes must also provide this information to members via the scheme funding statement.

Trustees must also provide TPR with the website address where they have published their most recent TCFD report via the annual scheme return form. Where trustees have not yet published their first report, they must inform TPR whether the period for doing so has ended. Trustees must also provide TPR with the website address of their published Statement of Investment Principles ("SIP") and (where applicable) implementation statement and published excerpts of the Chair's Statement in the annual scheme return form.

# Topical matters

## Department for Work and Pensions (DWP) – taking action on climate risk

**Penalties –** there will be a mandatory penalty for complete failure to publish any TCFD report and other penalties would be subject to TPR discretion. Penalties in relation to climate change governance, reporting and publication could be imposed without recourse to the Determinations Panel, in a similar way to the penalty regime that applies under the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The requirements to reference the TCFD report from the Annual Report and inform members about the TCFD report's availability would be subject to the existing penalty regime in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. The requirements to inform TPR of the website address of the published TCFD report – or that the period for publishing the report has not ended – and of the website address of the published SIP, implementation statement (where applicable) and excerpts of the Chair's Statement would be subject to the penalty regime in section 10 of the Pensions Act 1995.

### Scope and timing of TCFD policy

The DWP paper has outlined two tests as to whether a pension scheme is in scope.
We have included details directly from the DWP paper below.

#### Threshold test

| The condition | Governance requirement | Disclosure Requirements | |
|---|---|---|---|
| *If* | *Trustees must meet the climate change governance requirements for* | *Trustees must publish a TCFD report* | *Trustees must include a link to the report in:* |
| On 1st scheme year end date to fall on or after 1 March 2020:<br><br>the scheme has relevant assets ≥ £5bn | Current scheme year from 1 October 2021* to end of that scheme year.<br><br>*And*<br><br>[unless scheme's relevant assets are <£500m on the scheme year end date]<br><br>Next full scheme year to begin after 1 October 2021 to end of that scheme year.<br><br>And so on. | Within 7 months of the end of the scheme year which is underway on 1 October 2021†.<br><br>*And*<br><br>Within 7 months of the end of the next scheme year to begin after 1 October 2021†<br><br>And so on | The Annual Report and Accounts produced for that scheme year |
| On 1st scheme year end date to fall on or after 1 March 2021:<br><br>the scheme has relevant assets ≥ £1bn | Current scheme year from 1 October 2022* to end of that scheme year<br><br>And so on | Within 7 months of the end of the scheme year which is underway on 1 October 2022†.<br><br>And so on. | |
| From any scheme year end date to fall on or after 1 March 2022<br><br>The scheme has relevant assets ≥ £1bn | The beginning of the scheme year which is one scheme year and a day after that scheme year end date | Within 7 months of end of that full scheme year† | |

* unless audited accounts have not been obtained in respect of that scheme year, in which case they apply from the date they are obtained.
† unless scheme's relevant assets are zero on the scheme year end date.

For

#### Authorisation test

| The condition | Governance requirement | Disclosure Requirements | |
|---|---|---|---|
| *If* | *Trustees must meet the climate change governance requirements for* | *Trustees must publish a TCFD report* | *Trustees must include a link to the TCFD report from* |
| On or after 1 October 2021, the scheme is [or becomes] an authorised master trust<br><br>*Or*<br><br>On or after 1 October 2021 the scheme is [or becomes] an authorised scheme providing collective money purchase benefits | Current scheme year which is underway to the end of that scheme year.<br><br>*And*<br><br>[unless scheme is both no longer authorised and relevant assets at previous scheme year end are <£500m]<br><br>Subsequent scheme years. | Within 7 months of the end of the scheme year which is underway.<br><br>*And*<br><br>Within 7 months of the end of subsequent scheme years. | The Annual Report and Accounts produced for that scheme year |

Schemes fall out scope through no longer being authorised and/or having assets of less than £500m

| The condition | Governance requirement | Disclosure Requirements | |
|---|---|---|---|
| *If* | *Trustees' climate governance requirements* | *Trustees TCFD report publishing duties* | *Trustees must include a link to the TCFD report from* |
| After 1st October 2021 the scheme<br><br>Ceases to be an authorised master trust<br><br>*Or*<br><br>Ceases to be an authorised scheme providing collective money purchase benefits<br><br>*And*<br><br>Has relevant assets < £500m at end of previous scheme year | End with immediate effect | End with immediate effect | N/A |
| On scheme year end date falling after 1 October 2021<br><br>The scheme has relevant assets <£500m and is not an authorised scheme. | End with immediate effect | Must be met within 7 months of the end of the scheme year†<br><br>And fall away thereafter. | The annual report and accounts produced for that scheme year |

† unless scheme's relevant assets are zero on the scheme year end date

**Deloitte response:** The DWP document is vast and we have provided only a short summary of the key details. The full consultation document can be found [Taking action on climate risk: improving governance and reporting by occupational pension schemes – response and consultation on regulations - GOV.UK (www.gov.uk)]. We recommend that the trustees review the full guidance and familiarise themselves with the full requirements of the legislation.

In order to comply with the legislation there is a requirement to amend governance arrangements, consider the impact on investment strategy, identify and manage investment risks and obtain the relevant data from scheme advisers. All reporting duties are ongoing, except requirements to conduct scenario analysis, calculate metrics and set and review performance against targets.

Based on the proposed scope and timing of the policy on the left, we expect this to come in to force for the year ended 31 March 2022 financial statements, although the government has not yet set a firm deadline for LGPS.

# Topical matters

## TCFD recommendations and supporting recommended disclosures

Within our topical update *'Department for Work and Pensions (DWP) – taking action on climate risk'* we have made reference to the fact that regulations would require trustees to meet climate change governance requirements which underpin the 11 recommendations of the TCFD and to report within their TCFD report how they have done this. We have therefore included below a reminder of the recommendations and the supporting recommended disclosures.

| Governance | Strategy | Risk Management | Metrics and Targets |
|---|---|---|---|
| Disclose the organization's governance around climate-related risks and opportunities. | Disclose the actual and potential and opportunities on the organization's businesses, strategy, and financial planning where such information is material. | Disclose how the organization identifies, assesses, and manages climate-related risks. | Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. |
| **Recommended Disclosures** | **Recommended Disclosures** | **Recommended Disclosures** | **Recommended Disclosures** |
| a) Describe the board's oversight of climate-related risks and opportunities. | a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. | a) Describe the organization's processes for identifying and assessing climate-related risks. | a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. |
| b) Describe management's role in assessing and managing climate-related risks and opportunities. | b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. | b) Describe the organization's processes for managing climate-related risks | b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. |
| | c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. | c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management. | c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. |


Appendices

# Appendix 1: Uncorrected Audit Adjustments – Fund

## Uncorrected audit adjustments

| Detail | Debit/ (credit) Fund Account £m | Debit/ (credit) Net Asset Statement £m |
|---|---|---|
| **Uncorrected known misstatements identified in current year** | | |
| **[1]** Stale price adjustment alternative investments | (9.7) | 9.7 |
| **Uncorrected judgemental misstatements identified in current year** | | |
| No significant uncorrected judgemental misstatements | | |
| **Total** | **-** | **-** |

**Uncorrected disclosure deficiencies**

No significant deficiencies identified.

# Appendix 1: Uncorrected Audit Adjustments – Authority

## Uncorrected audit adjustments

| Detail | Debit/ (credit) Comprehensive income and expenditure £k | Debit/ (credit) Balance sheet £k | Debit/(credit) Reserves £k |
|---|---|---|---|
| **Uncorrected known misstatements identified in current year** | | | |
| No unadjusted misstatements identified | | | |
| **Uncorrected judgemental misstatements identified in current year** | | | |
| No unadjusted misstatements identified | | | |
| **Total** | | | |

**Uncorrected disclosure deficiencies**

No significant deficiencies identified

# Appendix 2: Fraud responsibilities and representations

## Responsibilities explained

**Your Responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and the Audit Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

**Our Responsibilities:**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the valuation of directly held commercial property as a key audit risk within the Fund and management override for both the Fund and the Authority.

**Fraud Characteristics:**

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

**We will request the following to be stated in the representation letter signed on behalf of the Audit Committee:**

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 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.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and Authority and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 2: Fraud responsibilities and representations (continued)

## Inquiries

We will make the following inquiries regarding fraud:

**Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Fund and Authority.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the Fund and Authority.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund and Authority.
- We plan to involve management from outside the finance function in our inquiries.

**Internal Audit**

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.

**The Audit Committee**

- How the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and Authority and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the Fund and Authority.
- The views of the Audit Committee on the most significant fraud risk factors affecting the Fund and Authority.

# Appendix 3: Independence and fees

## A Fair and Transparent Fee

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

| | |
|---|---|
| **Independence confirmation** | We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and Authority and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2021 in our final report to the Audit Committee.<br><br>In considering the requirements of Auditor Guidance Note 01 (issued by the National Audit Office) and the Ethical Standard 2019 to report all significant facts and matters that may bear upon our integrity, objectivity and independence, though not meeting the defined criteria for an affiliate of an audited entity, we have taken account of the tax and internal audit services provided to Border to Coast Partnership by Deloitte. To this effect we have documented our assessment on the threats and safeguards concerned with the delivery of services to, and the receipt of fees from, Border to Coast Pension Partnership, along with our assessment on the opinion of a reasonable and informed third party on these services. |
| **Fees** | Our initial audit fee for the year ended 31 March 2021 is £31,833 for the Fund and the Authority. The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we are in discussion with the Authority regarding the current level of fee which we deem to be too low given the size and complexity of the body, and which also needs to take into account the revised approach to Value for Money reporting in the current year.<br><br>We have agreed an additional fee of £17,000 for the 2019/20 audit, related to additional work resulting from COVID-19, as well as delays incurred in connection to COVID-19, which will be submitted to the PSAA for approval shortly.<br><br>The above fee also excludes the cost of providing IAS 19 letters to other local authorities that will be recharged by the Fund to the other local authorities.<br><br>The above fees exclude VAT and out of pocket expenses. |
| **Non audit services** | In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy.<br><br>We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |
| **Ethical Standard 2019** | The FRC has recently released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are more than 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited. |

# Appendix 4: Draft representation letter

**South Yorkshire Pensions Authority and South Yorkshire Pension Fund**

This representation letter is provided in connection with your audit of the financial statements of South Yorkshire Pension Authority (the "Authority") for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Authority as of 31 March 2021 and of the results of its operations, other comprehensive income and expenditure, and its cash flows for the year then ended in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

In addition to the above, this representation letter is provided in connection with your audit of South Yorkshire Pension Fund (the "Fund") for the purposes as to whether the financial statements of the Fund show a true and fair view of the financial transactions of the Fund during the period from 1 April 2020 to 31 March 2021 and of the amount and disposition at the end of the Fund period of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the period, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm, to the best of our knowledge and belief, the following representations.

**Financial statements**

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the "Code").
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of Covid-19 on the Fund, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS 24 "Related party disclosures".
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed, including disclosure of the impact that Covid-19 has had over the Authority and Fund financial statements.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.
6. We confirm that the financial statements have been prepared on the going concern basis. As a local authority, the South Yorkshire Pensions Authority (including the Fund) cannot be dissolved without statutory prescription and it is assumed that the Authority will continue to operate for the foreseeable future.. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority's and Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. We confirm that all of the disclosures within the Annual Governance Statement have been prepared in accordance with the relevant legislation and guidance.
8. We have considered the valuation of the Authority's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation of the entire portfolio in the current year.
9. To the best of our knowledge and belief the Fund holds title to all Property included in its Net Assets Statement at 31 March 2021.

**Information provided**

10. We have provided you with all relevant information and access.
11. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
12. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
13. 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.
14. We are not aware of any fraud or suspected fraud that affects the Authority or Fund and involves:
    i. management;
    ii. employees who have significant roles in internal control; or
    iii. others where the fraud could have a material effect on the financial statements.
15. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority and Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 4: Draft representation letter

16. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.

17. We have disclosed to you the identity of the Authority and Fund's related parties and all the related party relationships and transactions of which we are aware.

18. There are no claims in connection with litigation which have been or are expected to be received.

19. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

20. We confirm that:

    i. we consider that the Authority and Fund have appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and

    ii. we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.

21. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Fund should change.

22. 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. We also confirm that we are not aware of any matters which have arisen that would require a report to The Pensions Regulator.

23. We have drawn to your attention all correspondence and notes of meetings with regulators.

24. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Authority and Fund's financial statements.

25. We confirm that:

    i. all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;

    ii. all settlements and curtailments have been identified and properly accounted for;

    iii. all events which relate to the determination of pension liabilities have been brought to the actuary's attention;

    iv. the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the Authority's best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;

    v. the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and

    vi. the amounts included in the financial statements derived from the work of the actuary are appropriate.

26. Based upon advice from our actuaries we do not consider that any adjustment to the Authority's pension liabilities arising from GMP equalisation is required as amounts involved are not considered to be significant.

27. We confirm that, under section 27 of the Pensions Act 1995, no Committee member of the Authority or Fund is connected with, or is an associate of Deloitte LLP, which would render Deloitte LLP ineligible to act as auditor to the Authority and Fund.

28. You have been informed of all changes to the Fund rules.

29. We confirm we have disclosed all stock-lending programmes in place.

30. No transactions have been made which are not in the interests of the Fund members or the Fund during the Fund year or subsequently.

31. We confirm that the Fund does not hold investments in the Principal or Participating employers in excess of 5% of the net assets of the Fund.

32. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully,

Signed on behalf of South Yorkshire Pensions Authority and South Yorkshire Pension Fund

# Appendix 5: VfM arrangements

## Financial Sustainability

| Approach and considerations | Commentary |
|---|---|
| We have considered how the Authority plans and manages its resources to ensure it can continue to deliver its services, including:<br>• How the Authority ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans, and builds these into them;<br>• How the Authority plans to bridge its funding gaps and identifies achievable savings;<br>• How the Authority plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;<br>• How the Authority ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and<br>• How the Authority identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans. | The Authority recognised a surplus on the provision of services for the year of £172,000. At 31 March 2021, the Authority had net liabilities of £12.2m (31 March 2020: £11.1m), net current assets of £1.6m (31 March 2020: £0.9m), and cash of £0.4m (31 March 2020: £0.4m). The net liability position is driven by the pensions liability and therefore is not considered a risk. The Authority's useable reserves have increased by £600,533 to £1,611,267. The reserves have been earmarked to finance the major capital projects planned by the Authority, the most significant being the refurbishment and fit-out of the new office premises in 2021/22.<br><br>There has been limited impact of the Covid-19 pandemic on the Authority. The Authority has implemented remote working during the year in line with the national guidance and incurred additional costs in relation to the purchase of IT equipment. However, as their expenditure is recharged to the Pension Fund, there has been no impact on the overall financial sustainability of the Authority.<br><br>The Authority has a thorough annual financial planning and forecasting process. The financial plan is considered as part of the overall operational planning process and this process is lead by the Director and Head of Finance & Corporate Services. The Authority has a balanced Medium Term Financial Strategy for 2020/21 to 2022/23. In preparing the 2020/21 budget, the Authority has performed a full review of the base budget due to the significant changes that have occurred over the previous two years. This involved reviewing both the internal and external environments to ensure that all financial pressures were identified and factored in to the budget. The 2020/21 budget is linked to the corporate objectives and has been prepared to ensure the Authority has sufficient resources to deliver services. |

# Appendix 5: VfM arrangements (continued)

## Financial Sustainability (continued)

**Commentary**

Due to the nature of the Authority, the expenditure incurred is funded by the Pension Fund in accordance with regulations. The Authority is, therefore, less exposed to the wider constraints on the public sector financial environment. As such, there is no funding gap or savings plans to consider. The Pension Fund is currently in surplus and has net assets of £9bn and therefore has sufficient resources to fund the expenditure of the Authority.

The Authority has a detailed risk management process. This includes a Risk Framework and a RAG rating system is used. The Authority maintains a risk register which is regularly reviewed and challenged by the Pensions Authority and the South Yorkshire Local Pension Board. The only red rated risk is the 'impact of climate change on the value of the Fund's investment assets and its liabilities'. The Authority has a climate change policy in place and is considering alternative investment approaches as part of the investment strategy review.

The Authority reports the corporate performance on a quarterly basis, which includes a review of the financial position and an analysis of the actual expenditure incurred compared to budget. This allows the Authority to identify any changes in demand throughout the year.

# Appendix 5: VfM arrangements (continued)

## Governance

| Approach and considerations | Commentary |
|---|---|
| We have considered how the Authority ensures that it makes informed decisions and properly manages its risks, including:<br>• how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;<br>• how the body approaches and carries out its annual budget setting process;<br>• how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;<br>• how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and<br>• how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour. | As set out on the previous page, the Authority has a detailed risk management process in place. The Authority maintains a Risk Management Framework and risk register which are reviewed on a quarterly basis by the Pension Authority. The risks identified are allocated to an owner to implement the mitigating actions. Due to the Covid-19 pandemic, the risk register was reviewed and risks identified relating to the pandemic were added to the risk register.<br><br>The Authority has a series of policies covering internal controls, including a whistleblowing and anti-fraud policy. These policies are readily available for all staff to review on the Authority's website.<br><br>The Authority engaged Hymans Robertson in July 2020 to perform an assessment of where they stand in relation to their legal requirements in respect of the LGPS, as well as the expectations of The Pensions Regulator and the themes emerging from the LGPS Scheme Advisory Board's Good Governance project. The overall conclusion was that 'the Authority is extremely well run and that its governance framework is excellent'.<br>The report made five recommendations:<br>• consider adopting a funding objective;<br>• consider reviewing the LGPS employer discretion policy to include all areas over which it has discretion;<br>• review the arrangements whereby the roles of clerk, Monitoring Officer and s37 Officer are filled to ensure access to the expert advice and support;<br>• amend the Local Pension Board Constitution to require that a member of the Board may not also be an observer at meetings or sub-committees of the Authority; and<br>• the Learning and Development Policy be extended to cover all those who attend Pension Committee and Board. |

# Appendix 5: VfM arrangements (continued)

## Governance (continued)

**Commentary**

The annual budget setting is conducted as part of the annual planning exercise for which the Head of Finance and Director have executive responsibility. National and local guidance is assessed and used to form the basis of a number of assumptions in the plan. Current year performance is evaluated with notable variances explained to determine any ongoing impact. The budget seeks to explain year on year movements and any pressures are identified. There is a clear process in place to set the annual budget and this is approved by the Board and Audit Committee.

The Authority produces a quarterly corporate performance report which includes a review of the actual outturn position against the budget, and details any significant variances. This is reported to the Pension Authority quarterly, which ensures there is sufficient oversight of the budget monitoring process. The report also includes non financial information and reports on how the Authority is achieving against its corporate plans.

The Authority has a number of policies in place to ensure it makes properly informed decisions which are detailed within the Authority's Constitution. The Authority has an approved decision methodology for investment and divestment decisions, which includes approval by finance personnel, and other key factors. Where necessary, decisions will be reviewed by the executive management team for comment and to determine if the proposal should be approved. Business cases with supporting information are submitted to the relevant committee for approval. This allows for challenge and transparency before decisions are approved.

The Authority has a number of staff policies in place including a code of conduct. These are all contained within the Constitution and are readily available for all staff to access. Declarations of interest are maintained for all senior members of staff and decision making officers.

# Appendix 5: VfM arrangements (continued)

## Improving economy, efficiency and effectiveness

| Approach and considerations | Commentary |
|---|---|
| We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:<br>• How financial and performance information has been used to assess performance to identify areas for improvement;<br>• How the Authority evaluates the services it provides to assess performance and identify areas for improvement;<br>• How the Authority ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and<br>• Where the Authority commissions or procures services, how the Authority ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Authority assesses whether it is realising the expected benefits. | The Authority assesses its performance through quarterly Corporate Performance Reports which consider a number of measures including corporate, investment, pension administration and financial metrics. There is also quarterly reporting on the performance of the Pension Fund investments. These reports are presented to the Pensions Authority.<br><br>The Authority engage CEM Benchmarking on an ad hoc basis to perform benchmarking reviews in areas such as pensions administration and investments. CEM Benchmarking performed an investments review for the six years up to March 2020. This showed the investments were performing ahead of the LGPS median with regards to the net total return. The report also placed the six year performance in the positive value added, low cost quadrant of the cost effectiveness chart.<br><br>The most significant partnership that the Authority is part of is the Border to Coast Pensions Partnership (‘BCPP’). The Authority is both an investor in products and an owner in the company. BCPP currently manages 63.5% of the Pension Fund assets. BCPP provide monthly and quarterly reports to the Authority outlining their performance and compliance with mandates agreed with the Authority. These are reviewed by the Director.<br><br>BCPP have an annual internal controls review undertaken by KPMG who have produced an Independent Service Auditor’s Assurance Report on Investment Management Control System for the period 1 January 2020 to 31 December 2020. This report is qualified due to a lack of documentation regarding the approval and monitoring of access rights to the system. We do not deem this to be a risk to value for money as there have been no issues identified through the monthly and annual monitoring of the BCPP investments. |

# Appendix 5: VfM arrangements (continued)

## Improving economy, efficiency and effectiveness (continued)

### Commentary

The Authority performs an annual review of BCPP. They have an annual review meeting involving the BCPP portfolio managers, senior management and the Authority's investment advisory panel and produce an annual review report. This covers the investment performance and the delivery of the partnership against the principles and the Authority's objectives. The annual report review includes a number of recommendations to ensure the partnership continues to provide the Authority with the expected benefits. The key recommendations were:

- The Authority and Company should work together to provide a quantitative analysis of the value added for SYPFA by the pooling process;
- The Authority should seek to agree quarterly investor calls for each internally managed funds so that officers from all investors can gain greater understanding of the factors driving the positioning of the portfolios; and
- The Authority should keep under continual review the lot sizes being achieved within the Alternative portfolios and if at the next annual review the lot size is not achieving the targeted level, the Authority will seek proposals from the Company to address this.

The Authority has plans in place to address each of the recommendations to ensure that the best value is gained from the pooling partnership.

Deloitte.