South Yorkshire Pensions Authority

Status report to the Pensions Authority Audit Committee on the 2021/22 audit

Issued on 20 July 2022

Contents

Status report

Executive summary

The key messages in this report (1/2)

Nicola Wright
Lead audit partner

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.

I have pleasure in presenting our Status Report to the South Yorkshire Pensions Authority Audit Committee for the 2021/22 audit of South Yorkshire Pensions Authority (the "Authority") and South Yorkshire Pension Fund (the "Fund").

Audit scope

Our reporting responsibilities as auditor of the Fund and Authority are to:

- Form an opinion on the statutory financial statements of the Fund and Authority. The financial statements are prepared under the Code of Practice on Local Authority Accounting 2021/22 ("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 currently ongoing., with review and quality processes underway. We have detailed the procedures still to be completed in Appendix 2 and will provide a verbal update at the meeting on 28 July 2022 on status.

Independence

We confirm we are independent of the Authority and Fund and that our objectivity has not been compromised for the year ended 31 March 2022.

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 are utilising specialists throughout our audit to support the robustness of our work in areas such as property valuations, IT and the IAS 19 valuation.

Executive summary

The key messages in this report (2/2)

Our conclusion

Our audit work is currently progressing towards completion. We will update you on the progress of the outstanding items during the meeting on 28 July 2022.

Russian invasion of Ukraine

The Russian invasion of Ukraine is impacting upon global financial markets. To date the most significantly affected investments have been those directly linked to Russia and Ukraine – government bonds issued by those countries and companies based there or with significant operations there. Many emerging markets funds also have some exposure to Russia.

As a result of this, we have reviewed the impact of this event during the course of our audit with a particular focus on valuation and liquidity risk, reputational risk and disclosure. We are satisfied that the impact on the Fund and any exposure to these investments is minor in nature.

Thank you

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 is allowing us to continue to deliver the audit. We will update you verbally on the progress of the outstanding items during the meeting on 28 July 2022.

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the Fund advisors where activities have been delegated by the Audit Committee.
- Assess the completeness of disclosures, including consistency with disclosures required under the Code of Practice on Local Authority Accounting in the UK.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

Materiality

Our approach to materiality – Fund

BASIS OF OUR MATERIALITY BENCHMARK

- We set materiality for our opinion on the financial statements as £106.7m (2021: £98.6m), based on professional judgement, the requirements of auditing standards and the net assets of the Fund. These figures are based on the 31 March 2022 draft financial statements.
- We have used 1% of Fund net assets as the benchmark for determining our materiality levels.

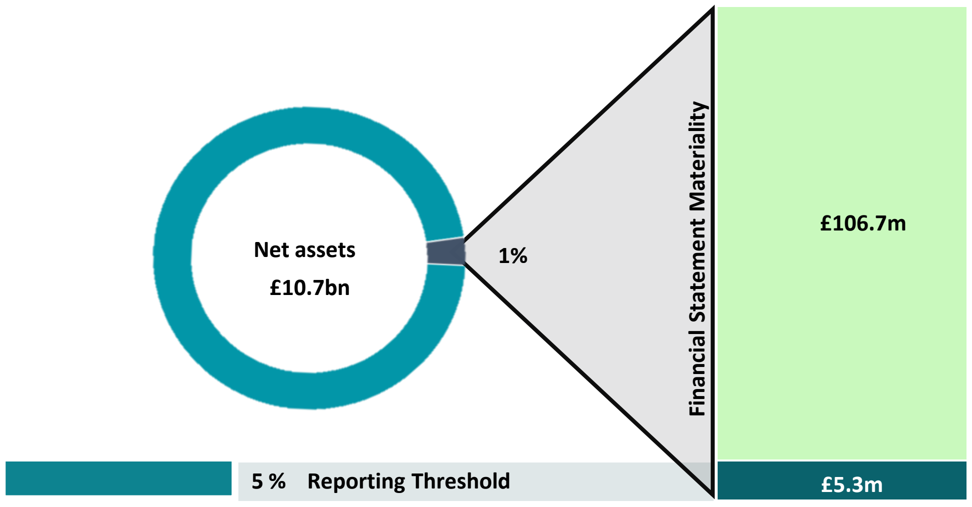
The basis for our materiality calculations is the same as the previous year.

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 £5.3m. This threshold is set at 5% of our materiality level above.

MATERIALITY CALCULATION

Although materiality is the judgement of the audit partner, the Audit Committee 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 £127k (2021: £117k), based on professional judgement and the requirement of auditing standards. These figures are based on the 31 March 2022 draft financial statements
- We have used 2% of gross expenditure per the 31 March 2022 draft financial statements as the benchmark for determining our materiality levels.

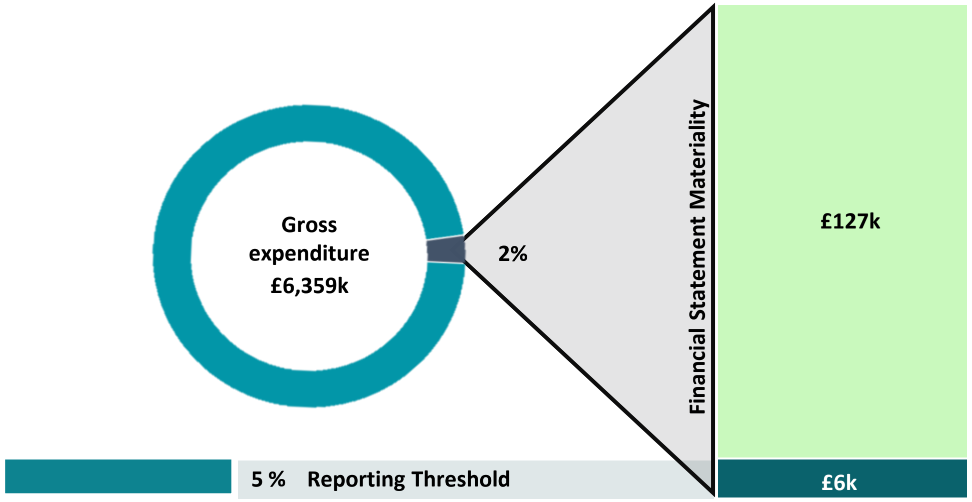
The basis for our materiality calculations is the same as the previous year.

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.

MATERIALITY CALCULATION

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



Significant audit risks

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.

During the 2021/22 financial year, the accounting system was upgraded to Advanced Financials and the Fund and Authority general ledger balances were migrated accordingly. We have raised the completeness of transfer as an area of audit focus on page 20.

Response of those charged with governance

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

Deloitte comment

We are finalising our testing in this area.

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.

As noted in Appendix 2, our journals testing for the Fund and review of accounting estimates for the Authority are ongoing.

Deloitte response and challenge

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

- 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;
- tested the design and implementation of controls around the investment and disinvestment of cash during the year; and
- performed a retrospective review of accounting estimates to assess the historic accuracy of management's estimates.

At the date of this report, the following procedures remain outstanding:

- complete our use of Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Scheme. This uses intelligent algorithms that identify higher risk and unusual items;
- review the accounting estimates for bias, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicated a possible bias on the part of management;
- substantively test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. As part of our work in this area, we perform an analysis of journal entries which enabled us to focus on journals meeting specific pre-determined parameters determined during our audit planning; and
- test the design and implementation of key controls in place around journal entries and key management estimates.

Significant risks

Valuation of directly held commercial property pinpointed to offices, retail and hotels – Fund

Risk identified

The Fund has a significant holding in directly held UK properties both freehold and leasehold. The valuation of these properties is based on assumptions such as rental returns and occupancy rates, geographical location and market trends. Due to the specialist nature of this investment type, the valuation is more challenging for us to assess as auditor and requires specialist involvement as part of our audit response.

As the economy continues to recover from the impact of COVID-19, we expect there to be more market transactions resulting in more transparency and less judgement being involved in the preparation of property valuations. Due to the specialist nature of this investment type and the increased risk factors in the current year we have retained the significant audit risk in respect of this balance.

We have disaggregated our risk to specifically focus on following sectors:

- **Offices:** Whilst values have not been as hard hit as expected by the transition to home working, there seems to be an inherent belief on the part of landlords that the office sector will bounce back. However, this may not be the case and things will become clearer over the second half of 2022, as more and more people are returning to the office.
- **Retail/ Retail warehouses:** Whilst some valuations have begun to level off as the economy has adjusted to the new retail market, the market is yet to adjust to the potential shift to flexi leases and turnover rents which may have an impact on valuations.
- **Hotels:** There is residual risk here as the return to international/business travel is unproven. In recent months there has been evidence of capital targeting hotels, but this is mainly due to a perception that there will be distress as business support unwinds, meaning that investors can be comparatively cheap.

All other properties sectors are considered to be stable and have therefore been assessed as an audit focus area.

Significant risks

Valuation of directly held commercial property (offices) - Fund

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.

Deloitte comment

Our testing is ongoing in this area.

Our analytical review of individual property movements against comparable market indices over the year identified some properties which fell outside of our audit threshold. Our audit threshold is based on the value of the asset and our materiality levels. In addition, we highlighted one further property for further testing through our discussion with Deloitte Real Estate (‘DRE’).

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 6 properties. For all of the selected properties, DRE are performing an in-depth review of the assumptions, approach and methodology within the valuation. We are currently awaiting their report to conclude on this area.

Deloitte response and challenge

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

- assessed the reliability, competence and capabilities of JLL Limited;
- vouched the Fund financial statements to the direct third party confirmation provided by JLL, including an assessment of post balance sheet events and the impact on the valuation of direct property;
- agreed 100% to confirmations on land registry that title deeds were held and in the name of the Fund/Authority and vouch disposals to appropriate support; and
- prepared an expectation of the year end valuation of each property held by the Fund/Authority using comparable regional market indices and compared the expectation to the valuation provided by JLL. For offices, hotels, retail and retail warehouses properties, where properties had a significant difference to our expected valuation we utilised Deloitte Real Estate (DRE) to challenge the valuations provided by JLL and assess the detail and assumptions within the valuation report to support the valuations provided;

At the date of this report, the following procedures remain outstanding:

- utilise DRE to risk profile the property portfolio to assess whether there are properties of audit interest and assessed the appropriateness of the methodology and assumptions used by JLL in the valuation of a sample of properties held in the office, retail and hotel sectors.
- assess the design and implementation of controls around the valuation of direct properties;

Audit focus areas

Audit focus areas – Fund (1/3)

Completeness and accuracy of contributions

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.

Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed the design and implementation of key controls over the contribution process; and
- 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.

At the date of this report, the following procedures remain outstanding:

- for a sample of active members, we recalculate 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;
- test that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions; and
- for a sample of monthly contributions paid, checked that they have been paid within the due dates per the LGPS Regulations.

Conclusion

We are finalising our testing in this area.

Audit focus areas – Fund (2/3)

Completeness of investment transactions and valuation of alternatives

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, there is considered 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 2022 these totalled c.£2.3bn. These funds do not have publicly available prices and are often infrequently priced increasing the risk of stale pricing.

Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- 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. We are currently awaiting the Border to Coast review;
- 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 independently from the investment managers;
- agreed registered funds and directly held investments to publicly available prices;
- ensured appropriate stale price adjustments have been posted to the financial statements; and
- obtained and audit a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. sales, purchases, change in market value).

At the date of this report, the following procedures remain outstanding:

- 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 cashflows and an appropriate index as a benchmark. There are 9 remaining queries outstanding on a sample of 49; and
- test the completeness of investments by agreeing a sample of sales and purchases transactions to the investment manager confirmations and to the bank statements.

Conclusion

We are finalizing our testing in this area.

The alternative investments are often subject to stale pricing, due to infrequent pricing. Most of these investments were included in the 31 March 2022 draft financial statements at 31 December 2021 prices. Accounting standards allow stale pricing, provided no more up-to-date information is available. During our testing, we identified an immaterial stale price adjustment of £9.5m.

Audit focus areas – Fund (3/3)

Valuation of directly held agricultural and commercial property not held in offices, retail and hotels

Risk identified

There is a risk that directly held agricultural property and commercial property not held in offices, retail and hotels are not held at fair value as the valuation of these investments includes an element of judgement on the part of the chartered surveyor appointed by the investment manager.

Deloitte response and challenge

Our procedures to assess this risk included:

- prepared an expectation of the year end valuation of each property held by the Scheme using comparable regional market indices and comparing the expectation to the valuation provided by JLL. Where properties have a significant difference to our expected valuation we will refer them to DRE;
- assessed the design and implementation of controls around the valuation of direct properties;
- vouched the Fund financial statements to the direct third party confirmation provided by JLL, including an assessment of post balance sheet events and the impact on the valuation of direct property;
- confirmed directly with the Fund's legal advisers that the title deeds are held for all properties; and
- assessed the reliability, competence and capabilities of JLL.

Conclusion

We have not identified any issues to report to the Audit Committee as a result of our audit testing.

We are currently awaiting responses from JLL to queries, and will report to you if any matters arise that we believe should be brought to the attention of the Audit Committee.

Audit focus areas – Fund and Authority (1/1)

Completeness of transfer following the migration of accounting system to Advanced Financials

Risk identified

During the 2021/22 year, the accounting system was upgraded to Advanced Financials and the Fund and Authority general ledger balances were migrated accordingly. There is a risk of loss of data, and as a result we consider the completeness of transfer of accounting data an area of audit focus.

Deloitte response and challenge

Our procedures to assess this risk include:

- review the design and implementation of key controls over the migration process;
- perform 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 following the accounting system migration to Advanced Financials;
- review the specific accounting system migration controls and gain assurance over the accuracy and completeness of Fund and Authority general ledger balances following the migration;
- involve our IT specialists in the review of the migration process; and
- review the reconciliation of balances report to ensure completeness of transfer.

Conclusion

We are finalising our testing in this area.

Audit focus areas – Authority (1/2)

Valuation of pension liability

Risk identified

The net pension liability is a material element of the Authority's balance sheet. The actuarial valuation of the liability relies on a number of assumptions and an 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. There is a risk that the IAS 19 liability may be misstated as a result of inappropriate or incomplete membership data being provided to the actuary, or as a result of inappropriate demographic or Fund specific actuarial assumptions. In addition, there has been a change in actuary from Mercer to Hymans Robertson in the current year.

Deloitte response and challenge

Our procedures to assess this risk include:

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

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Conclusion

We are awaiting the final report from our internal actuarial specialist, however we have not identified anything to bring to the attention of the Audit Committee at this time.

Audit focus areas – Authority (2/2)

Value for Money ('VfM')

Risk identified

We are required to consider the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the 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; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Deloitte response and challenge

Our procedures to assess the risk included the following:

- Holding meetings with the Head of Finance and Corporate Services and Director;
- Reviewing the draft Annual Governance Statement;
- Considering other issues identified through our other audit work;
- Gaining an understanding of the arrangements around the implementation of the new finance system; and
- Considering the Authority's and Fund's results for the financial year.

Conclusion

Our Value for Money work is ongoing, and will be reported in our Auditor's Annual Report, which we will issue following completion of our work.

Other risks

Other risks (1/1)

Other risk	Area of Focus	Risk and procedures
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: • Examined the latest publicly available information regarding the financial position of the principal employer; • Analysed the latest funding position of the Fund; and • Reviewed minutes of key meetings.
Fraud	In our Audit Report in the financial statements we are 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 this risk included: • Performed procedures to assess the risk of management override as detailed on page 10; • Reviewed the controls in place surrounding fraud risks including disinvestments; • Agreed 95.9% of investments to third party investment confirmations; • Reviewed the financial statement disclosures by testing to supporting documentation to assessing compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements; • Performed analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; • Enquired of the Audit Committee and pension and authority management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and • Reviewed minutes of Audit Committee meetings and reviewed correspondence with the Pensions Regulator.
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, it was also ruled that Schemes must revisit, and where necessary, top-up historic transfer values which have been calculated on an unequal basis.	Our planned testing to address this risk includes: • Confirming with the Fund Actuary any changes in the assessment of the impact of GMP Equalisation on the Fund, impact of the transfers ruling; and • Confirmed that appropriate disclosures have been made in the financial statements.

Maintaining audit quality

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) • Deloitte fully supports an independent review into the role of auditors • The Government's Brydon Review will consider 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. • 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 • 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 • 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 • Deloitte invests heavily in systems, processes and people to check for potential conflicts • We have governance in place to assess any areas of potential conflict, including where required to protect the public interest • 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 Audit Committee and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest • 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 • 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 Audit Committee 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 and Authority accounts.

We described the scope of our work in our audit plan circulated to you on 21 February 2021.

Use of this report

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 Audit Committee.

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.

Other relevant communications

Our topical matters provide the Audit Committee with some insight in to relevant topical events in the pensions industry.

We will update you if there are any significant changes to the 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 | 20 July 2022

Topical Matters

Key audit matters

Topical matters

New, consolidated and simplified enforcement policy and updated prosecution policy published by TPR

KEY DETAILS

On 4 May 2022, The Pensions Regulator (TPR) published for consultation its new, consolidated and simpler draft enforcement policy and an updated prosecution policy to help stakeholders understand the regulator's approach.

The enforcement policy simplifies and consolidates previous policies for public sector and occupational pension schemes or all types i.e. defined benefit, hybrid and defined contribution pension schemes. Both policies have been updated to include the new powers granted to the regulator in the Pensions Schemes Act 2021 and to reflect knowledge and experience gained by TPR using the existing enforcement powers. The principal aim is for TPR to be clearer about all its enforcement powers through more streamlined policy documents.

The new powers aim to strengthen the TPR's regulatory framework, allowing it to gather evidence more efficiently and respond to events or conduct that could affect schemes. The Pensions Scheme Act 2021 also introduced several sanctions and deterrents against conduct that could put members' pensions at risk or impede the regulator's investigations. **Deloitte have previously provided a topical update slide on the The Pensions Scheme Act 2021 and this can be provided again on request.**

Speaking about the policy updates David Fairs, TPR's Executive Director of Regulatory Policy, said: "We want to be clear with the pensions industry about our approach to enforcement and prosecution. With our new powers to help us ensure savers' money is secure, we felt it was timely to review our existing policies and consolidate them where possible, so they are easier to navigate. These two policies explain what targets or those affected by enforcement action should expect from TPR, from the point of our opening an investigation through to the conclusion of any enforcement action. We've simplified, consolidated and clarified the way in which our regulated community accesses important information about enforcement."

Enforcement policies for automatic enrolment, master trust authorisation and upcoming CDC schemes are not included in new draft enforcement and prosecution policies discussed above.

Deloitte view: The above consultation closed on **24 June 2022**. The Audit Committee should familiarise themselves with the draft policy documents and the powers available to the TPR around enforcement and prosecution and consider responding to the consultation should they consider this appropriate to do so.

Article source: TPR website

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Appendices
Key audit matters

Appendix 1: Audit Adjustments - Fund

Uncorrected audit adjustments

Detail	Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
Uncorrected		
[1] Stale price adjustment alternative investments	(9.6)	9.6
Total	**(9.6)**	**9.6**

Corrected disclosure deficiencies

No significant disclosure deficiencies identified.

Appendix 1: Audit Adjustments - Authority

Uncorrected audit adjustments

Detail	Debit/ (credit) CIES £m	Debit/ (credit) Balance Sheet £m
No uncorrected misstatements have been identified through the testing completed to date	-	-

Corrected disclosure deficiencies

No significant disclosure deficiencies identified to date

Appendix 2: Outstanding items

Items outstanding at the date of issue of this report

Our final opinion is subject to completion of these items.

FUND	**AUTHORITY**
• Finalisation of our design and implementation procedures on contributions, benefits and investments	• Pension liability: Receipt of Deloitte Actuary review of the IAS 19 report
• Investments: Finalisation of alternatives valuation testing	• Pension liability: Finalisation of our design and implementation procedures on the IAS 19 reports
• Investments: Receipt of results of detailed assessment of a sample of directly held properties from DRE	
• Investments: Final reconciliation of sales and purchases to third party confirmations	
• Investments : Procedures identified on page 15 of this report.	
• Investments: Procedures identified on page 12 of this report.	
• Investments: finalisation of existence testing (receipt of remaining investment manager confirmations)	
• Management override of controls: Completion of journals testing and related D&I	**BOTH**
• Membership data testing	• Completion of migration of Integra to Advanced Financials
• Contributions: Finalisation of payslip testing	• Completion of journals testing
• Contributions: Finalisation of due date testing	• Satisfactory completion of our post year-end events review
• Benefits: Finalisation of detailed lump sum testing	• Finalisation of our internal quality control procedures
• IAS 26: Receipt of DTRB review of the IAS 26 report	• Partner, quality and technical review
	• Receipt of signed management representations letter
	• Going concern review

Appendix 3: Our other responsibilities explained

Fraud responsibilities

Your responsibilities:

- The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, 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 pinpointed to offices, retail and hotels as a key audit risk within the Fund, and management override of controls for both the Fund and the Authority.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations

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.

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 entity.
- Management's communication, if any, to the Trustee regarding its processes for identifying and responding to the risks of fraud in the entity.
- 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 entity.
- 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 entity, and to obtain its views about the risks of fraud.

The Audit Committee

- How the Audit Committee exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity 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 entity.
- The views of the Audit Committee on the most significant fraud risk factors affecting the entity.

Appendix 4: 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 2022 in our final report to the Audit Committee. 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 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 2022 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. The above fee excludes the cost of providing IAS 19 letters to other local authorities that will be recharged by the Fund to the other local authorities. The above fees exclude VAT.
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. 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 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 5: Value for Money deadline extension

Letter to the Audit Committee highlighting Value for Money deadline extension

Dear Audit Committee

The National Audit Office issued guidance to auditors on 14 December 2021 setting out the timetable for completion of work on arrangements to secure value for money for 2021/22. This extended timetable reflected the impact of the ongoing pandemic on preparers and auditors of accounts. Therefore we have not yet issued our Auditor's Annual Report, but we expect to do so no later than September 2022. Under the 2020 Code of Audit Practice, we are required to provide this letter setting out the reasons for the Auditor's Annual Report not being issued at the same time as the audit opinion.

Yours faithfully

Nicola Wright

Nicola Wright
Partner

Deloitte.

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