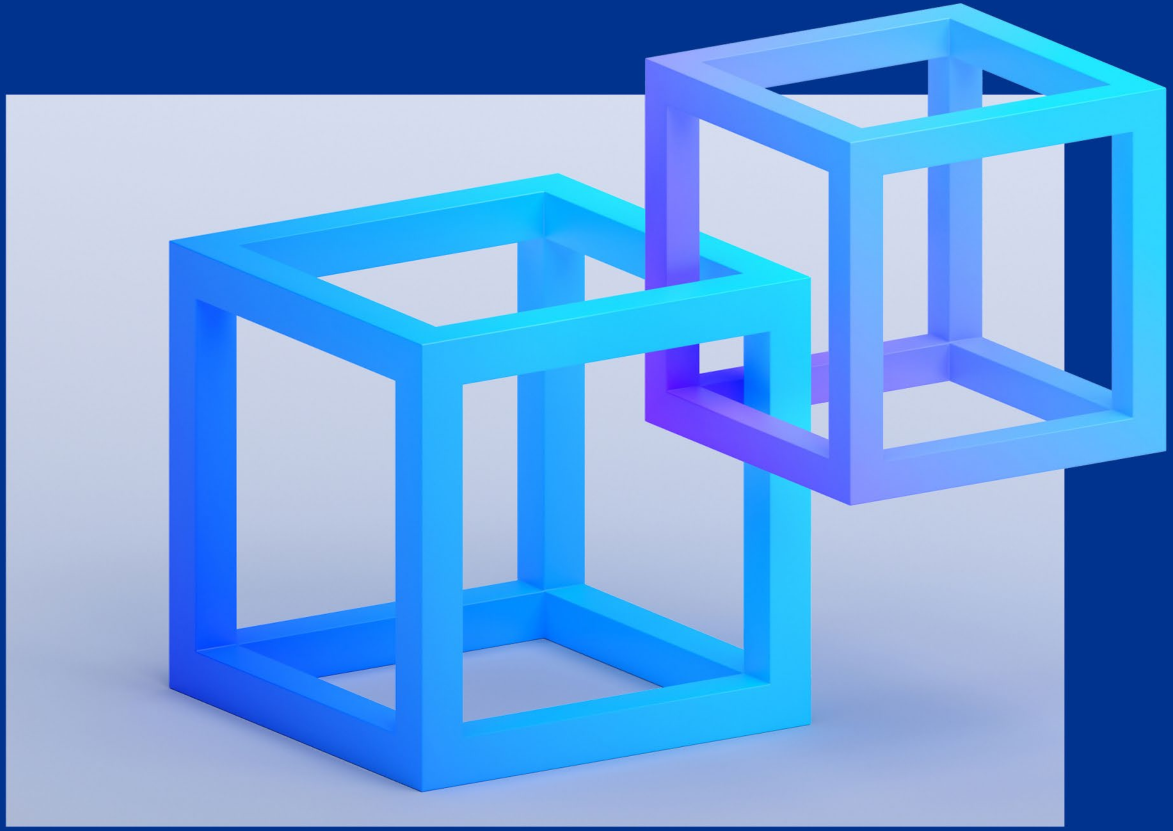
KPMG

South Yorkshire Pension Fund



Report to the Audit and Governance Committee

Indicative audit plan and strategy for the year ended 31 March 2024

26 April 2024

Introduction

To the Audit and Governance Committee of South Yorkshire Pension Fund

We are pleased to have the opportunity to share with you our Audit Strategy Document in relation to the financial statements of South Yorkshire Pension Fund (the Fund), as at and for the year ending 31 March 2024.

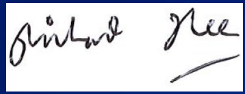
This report outlines our risk assessment and planned audit approach. Our planning activities are still ongoing and we will communicate any significant changes to the planned audit approach subsequently. We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

The engagement team

Richard Lee is the engagement director for the audit. He has 20 years of local government audit experience. Richard will lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include Lizzie Wharton as Senior Manager. Lizzie has more than 15 years of local government and pension scheme audit experience.

Yours sincerely,



Richard Lee

26 April 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. The audit undertaken in the current year is dependent on the finalisation of the previous auditor's work over historical financial statements.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of South Yorkshire Pension Fund and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the Fund financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of the Fund’s total assets which we consider to be appropriate given the sector in which the Fund operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as the fact that this is our initial audit when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £76.5m / 75% of materiality driven by our expectations of a normal level of undetected or uncorrected misstatements in the period.

We will report misstatements to the Audit and Governance Committee including:

- Corrected and uncorrected audit misstatements above £5.1m.
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually and in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised by the predecessor auditor and management’s response to those findings.

Materiality

	Group
Materiality for the financial statements as a whole	£102m 1% of total assets
Procedure designed to detect individual errors at this level	£76.5m
Misstatements reported to the Audit and Governance Committee	£5.1m

Fund Materiality

£102m

1% of pension fund’s total assets of £10.2bn

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

- We will maintain communication led by the engagement director and senior manager throughout the audit. We set out below the form, timing and general content of our planned communications:
  - Kick-off meeting with management in November 2023 where we outlined our audit approach and discuss management's progress in key areas
  - Audit and Governance Committee meeting in July 2024 where we present our final audit plan
  - Status meetings with management throughout the audit where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues
  - Closing meeting with management in September 2024 where we discuss the auditor's report and any outstanding deliverables
  - Audit and Governance Committee meeting in September 2024 where we communicate audit misstatements and significant control deficiencies

Key developments in the year

Key developments	KPMG's response
Investment system We understand that the investments software provider went into liquidation during the year and the Fund is no using an in house developed excel based system.	Our IT specialists will evaluate the impact of the transition on our understanding of the IT environment.
Agricultural property We understand that the agricultural property forming part of the Fund's direct property holdings has been disposed of during the year.	We will confirm the disposal directly with the investment manager and trace the investment proceeds.

Significant risks and other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the pension fund, the industry and the wider economic environment in which the Fund operates.

We also use our regular meetings with senior management to update our understanding and take input from and internal audit reports.

Due to the current levels of economic uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Audit and Governance Committee.

Significant risks

1 Management override of controls

2 An inappropriate amount is estimated for the value of directly held property

Other audit risks

3 Level 1, level 2 and level 3 investments are not complete, do not exist or are not accurately recorded

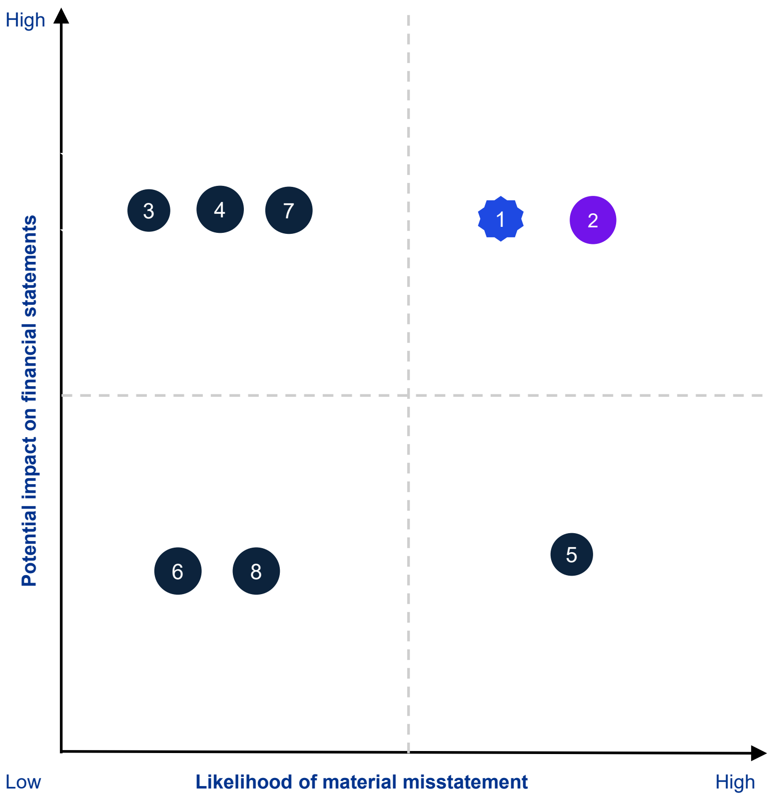
4 Valuation of level 1, level 2 and other level 3 investments is misstated

5 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule

6 Cash balances are not completely identified, accurately recorded or do not exist.

7 Benefits that have fallen due are not completely identified, do not exist or are not accurately recorded

8 The actuarial position of the scheme is not appropriately presented in the financial statements



KEY

1 Presented significant risk

2 Significant financial statement audit risks

3 Other audit risks

Audit risks and our audit approach

1 Management override of controls(a)

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Planned response

As part of our audit procedures we will gain an understanding of the financial reporting process.

- Our audit methodology incorporates the risk of management override of controls as a default significant risk.
- In line with our methodology, we will evaluate the design and implementation of controls over journal entries and post-closing adjustments.
- We will assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- We will assess the business rationale and the appropriateness of the accounting for significant transactions (if any) that are outside the normal course of business, or are otherwise unusual.
- We will evaluate the selection and application of accounting policies.
- With regards to the financial reporting and journals process, we will perform the following over journal entries and other adjustments:
  - Evaluate the completeness of the population of journal entries.
  - Determine high risk criteria and select journals based on this criteria for testing.

Audit risks and our audit approach

2 An inappropriate amount is estimated for the value of directly held property

Significant audit risk

- An inappropriate amount is estimated for the value of directly held property due to inappropriate assumptions, errors in the underlying data or inaccurate computation of the valuation estimate.
- The significant risks of material misstatement relating to fair values of directly held property is driven by the market assumptions due to the subjectivity and complexity involved in their determination.

Planned response

- We will engage our property valuation specialists as described below.
- We will obtain the property valuation produced by the independent valuer as at 31 March 2024 directly from Jones Lang LaSalle (the property valuer).
- We will assess Jones Lang LaSalle as a management specialist and assess their competency as a property valuer and their work for use as audit evidence.
- We will engage property valuation specialists to review the assumptions underlying the properties' valuations for a selection of the directly held property portfolio. We will meet Jones Lang LaSalle to discuss the underlying assumptions used for the valuation.
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used. Whilst the Fund appoints a third party (Jones Lang LaSalle) to value the directly held property, based on our planning and risk assessment procedures we do not expect to be able to identify an associated management review or other control that can be relied on to reduce the level of our audit testing.

Audit risks and our audit approach (cont.)

3 Level 1, level 2 and level 3 investments are not complete, do not exist or are not accurately recorded

Other audit risk

- Level 1, level 2 and level 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Fund. They are held with more than 80 investment managers across a number of asset classes including directly held property and pooled investment vehicles. The investments are material to the financial statements (more than 99% of the Statement of Net Assets) and therefore there is a risk of material misstatement.

Planned response

- As part of our audit procedures we will gain an understanding of the processes over the completeness, existence and accuracy of level 1, level 2 and level 3 investments. This will include gaining an understanding of the control environment at the Custodian (HSBC) and at Borders to Coast by reviewing their internal controls reports to identify any control deficiencies that would impact our audit approach.
- We will obtain direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end.
- We will vouch purchases and sales to investment manager and/or custodian reports.
- We will recalculate change in market value and compare this to the overall investment return stated in the Pension Committee's report for consistency with the amounts reported in the financial statements. We will investigate any material deviations.

Audit risks and our audit approach (cont.)

4 Valuation of Level 1, 2 and other Level 3 investments is misstated

Other audit risk

- Valuation of Level 1, 2 and other Level 3 investments is misstated
- Investments are held to pay benefits of the Fund. They are held as pooled investment vehicles with more than 80 investment managers. The investments (excluding directly held property) are material to the financial statements (93% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to fair values of level 1 and 2 pooled investments, due to the estimation uncertainty resulting from the pricing of these investments.
- There is a risk of material misstatement relating to fair values of level 3 pooled investments, due to the estimation uncertainty resulting from unobservable inputs to these investments.

Planned response

Our approach in relation to valuation for different types of investments is as follows:

- **Level 1 & 2 Pooled Investment Vehicles**: We will recalculate the value of the Level 1 and 2 pooled investments using published pricing of the pooled investment vehicles at the year end (where available).
- **Level 3 Pooled Investment Vehicles:** For each Level 3 pooled investment vehicle investment manager, we will obtain the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouch the valuation to this. For a sample of Level 3 pooled investment vehicles, we will assess the reliability of the NAV statement by:
  - Obtaining and inspecting the latest audited financial statements for the underlying funds where available;
  - Inspecting the audit report to confirm that it is unqualified and that the audit has been carried out by a reputable audit firm; and
  - Comparing the unaudited pricing information at the year end to the audited financial statements valuation. Where the audited financial statements are not as at the Fund year end date, we will agree them to unaudited pricing information at that date and reconcile significant movements to the Fund year end date agreeing movements to quarterly NAV/transaction statements.

Audit risks and our audit approach (cont.)

5 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule

Other audit risk

- Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule
- Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Revenue in a pension fund equates to contributions receivable. This revenue is recognized based on specific instructions as set out in the appropriate schedule(s). There are no subjective issues concerning when contributions need to be recognized. Amounts involved cannot easily be manipulated through accounting policies, issue of credit notes, timing or other policies. There is little incentive for the Fund management to manipulate the financial reporting of contributions. Therefore, in the absence of specific fraud risk factors, the presumption that fraudulent revenue recognition is a significant risk is rebutted for pension fund audits.

Planned response

As part of our audit procedures we will gain an understanding of the processes over the contribution payment arrangements between the admitted and scheduled bodies and administering authority, and also the effectiveness of the Fund's contribution monitoring arrangements.

As part of risk assessment procedures, we will carry out re-performance checks for a selection of members on normal employee and employer contributions by reference to their pensionable salary and rates.

Our audit procedures over contributions will include:

- For a risk based sample of admitted bodies we will inspect whether contributions are received into the Fund on a timely basis in accordance with the Regulations and the Fund's rates and adjustments schedule by vouching contributions received to employer returns and to bank statements;
- We will develop an expectation of the normal employer and employee contributions receivable in the year reflecting changes in active members in the year, increases in pensionable salary and any changes in the contributions rates in the year and compare these to actual employer and employee contributions received in the year; and
- We will vouch that there are 12 months of receipts in the year.

Audit risks and our audit approach (cont.)

6 Cash balances are not completely identified, accurately recorded or do not exist

Other audit risk

- Cash balances are not completely identified, accurately recorded or do not exist.
- The balance of cash and cash equivalents is usually material.
- The majority of the Fund's transactions affect the cash balance it is therefore considered to be material by nature.

Planned response

Our audit will include:

- Obtain the bank confirmation directly from the bank.
- Inspect and vouch the bank confirmation received directly from the bank to the audited Fund balances within the bank reconciliation.
- Obtain the year end bank reconciliation and vouch any significant reconciling items to supporting documentation.

Audit risks and our audit approach (cont.)

7 Benefits that have fallen due are not completely identified, do not exist or are not accurately recorded

Other audit risk

- Benefits that have fallen due are not completely identified, do not exist or are not accurately recorded.
- Pension payroll is usually material in size to the financial statements.
- Benefits are made up of a large number of individual member transactions.

Planned response

Planned response

As part of our audit procedures we will gain an understanding of the processes over the calculation and authorisation of benefit payments and transfers out and the processing of the pensioner payroll.

Our audit procedures over pension payments will include:

- Develop an expectation of the pensions paid in the year reflecting changes in pensioner members in the year, the annual pension increases in the year and compare these to actual pensions paid in the year;
- Inspect that there are 12 months of pension payments in the year;
- Vouch pensioners per the membership statistics to the number of pensioners paid per the final month's pensioner payroll and the amount paid per the nominal ledger to the final month's pensioner payroll.

As other benefit payments and payments to and on account of leavers are not material to financial statements our audit procedures will include:

- Verifying the consistency of membership movements per the administrator database to payments made per the nominal ledger;
- Evaluation of after date payments to ensure there are no material unrecorded liabilities and to ensure cut off is correct.

Audit risks and our audit approach (cont.)

8 The actuarial position of the scheme is not appropriately presented in the financial statements

Other audit risk

- The actuarial position of the scheme is not appropriately presented in the financial statements
- The actuarial position is not recognised on the Statement of Net Assets but is disclosed in the Notes

Planned response

We will perform the following procedures:

- Evaluate the competency, objectivity of the fund actuary to confirm their qualifications and the basis for their calculations;
- Test the data provided to the fund actuary to use within the calculation of the scheme valuation;
- Compare the key assumptions applied with those used by the administering authority and inquire of the South Yorkshire Pension Authority (the Administering Authority) audit team if there are any matters arising from their evaluation of the assumptions; and
- With the support of our own actuarial specialists, evaluate the calculation of the liability for compliance with the requirements of IAS26 and the approach outlined in the disclosure note; and carry out a high level assessment of the calculated figure on a roll forward basis.

Other significant matters related to our audit approach

Additional reporting

The audit is undertaken to comply with the Local Audit and Accountability Act 2014, which places additional responsibilities on auditors, as well as further requirements to report to the National Audit Office.

Our audit responsibilities under the Code of Practice in respect of the Fund, are as follows:

We read any other information published alongside the Administering Authority's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.

We consider our other duties under legislation and the Code, as and when required, including: ·

- Giving electors the opportunity to raise questions about your 2023/24 financial statements, consider and decide upon any objections received in relation to the 2023/24 financial statements;
- Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
- Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or ·
- Issuing an advisory notice under Section 29 of the Act.

As part of our procedures on other information, we will obtain and read your pension fund annual report and climate change disclosures. We will consider whether there is a material inconsistency between this information included in the annual report and the financial statements, or with our knowledge obtained in the audit; or whether this information appears to be materially misstated.

Mandatory communications - additional reporting

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily OK	We have identified issues that we may need to report -	Work is completed at a later stage of our audit so we have nothing to report

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence. We are required to report that Richard Lee has a close family member who is a member of the South Yorkshire Pension Fund. We do not believe this presents an independence conflict.
Issue a report in the public interest		We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters to date.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the financial statements and use of resources as well as those other matters highlighted above.

Mandatory communications

Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation at page 21 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Appendix

Audit team and rotation

Your audit team has been drawn from our Public Sector team and Pensions Centre of Excellence and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.

Richard Lee is the director responsible for our audit. He will lead our audit work, attend the Audit and Governance Committee and be responsible for the opinions that we issue.

Lizzie Wharton is the senior manager responsible for our audit. They will co-ordinate our audit work, attend the Audit and Governance Committee and coordinate our work on the audit.

Surbhi Gupta and Sudhanshu Dadhich are the in-charges responsible for our audit. They will be responsible for our audit planning and on-site fieldwork. They will complete work on more complex sections of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:

4

years to transition

This will be Richard's first year as your engagement lead. Richard is required to rotate every five years.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
Property Specialist	As the Fund has directly held property, KPMG will engage Property Specialist. The services of the specialist will be used to determine the appropriateness of the valuations of the properties held by the pension fund.
Actuarial specialist	KPMG will engage Actuarial Specialist, to determine the compliance of the disclosure of the promised retirement benefits liability of the pension fund with the requirements of IAS26.
IT specific team member	Given this is a first year audit and we are unfamiliar with the IT environment, we will be utitlising our IT team to gain an understanding of the key financial systems and processes within the Fund.

Fees

Audit fee

Our scale fees for the year ending 31 March 2024 are

Pension Fund	**2023/24 (£'000)**
Financial statements [(1)]	148,276
ISA 315 (R) [(2)]	TBC

(1) The fee covers both the Authority and the Fund

(2) The scale fees agreed with the PSAA do not take into account the impact of ISA315 (Revised). We expect compliance with ISA315R to increase audit hours by between 10% and 20% for our pension fund audits. We will agree a fee variation in respect of ISA351R with you once we have a clearer idea of the impact for your audit.

Billing arrangements

Fees will be billed in accordance with a billing schedule agreed with the PSAA.

Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- Draft financial statements and supporting audit information including a trial balance and supporting schedules being prepared to an appropriate standard and available on the due dates;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

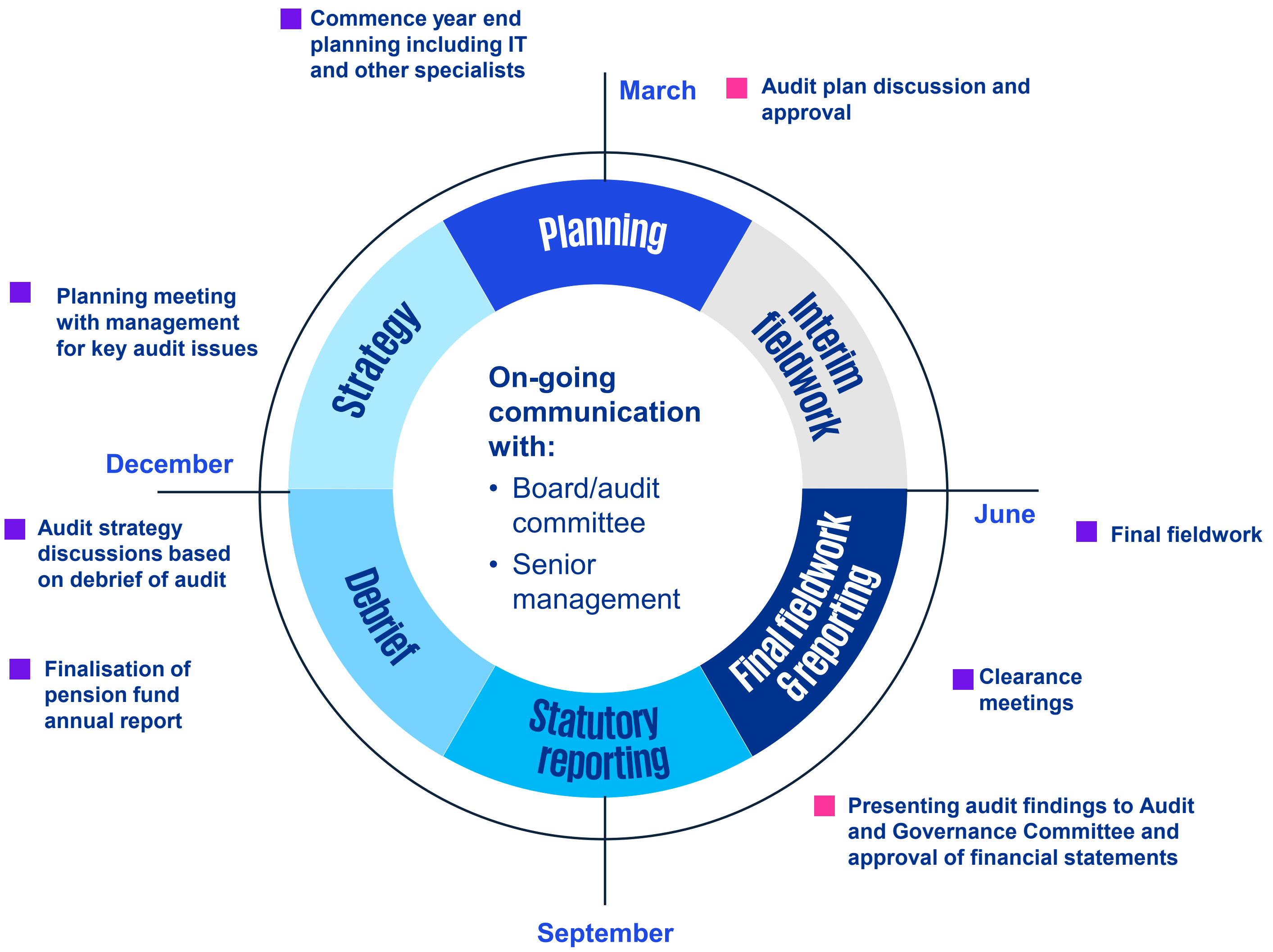
Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible. Any variations to the above plan will be subject to the PSAA fee variation process.

Audit cycle & timetable

Our schedule November 2023 – December 2024

Key:
- Timing of A&RC communications
- Key events



Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Governance Committee members

Assessment of our objectivity and independence as auditor of South Yorkshire Pension Fund

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a director not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

No non-audit services have been provided to the Fund during the year ended 31 March 2024 and we have not committed to providing any such services.

We note that the Fund is one of 11 partner funds in the Border to Coast Pension Partnership (BCPP). BCPP is an audit client of KPMG LLP and KPMG LLP also provides AAF 01/20 assurance reporting for BCPP. These do no constitute non-audit services in respect of the Fund but we include them here in the interest of completeness.

Description of scope of services	Threats and safeguards	Basis of fee	Value of Services Delivered in the year ended 31 March 2024 £	Value of Services Committed but not yet delivered £
AAF 01/20 reporting for Border to Coast Pension Partnership	BCPP is not considered an affiliate of the Fund and therefore provision of this service is not a threat to our independence	Fixed	£136,300	Entering year 3 of an 8 year call-off contract with future fees approximately £1.5m total (excluding inflation) for the remaining years.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

Application of the FRC Ethical Standard 2019

The FRC Ethical Standard 2019 became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Governance Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Governance Committee of the Administering Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

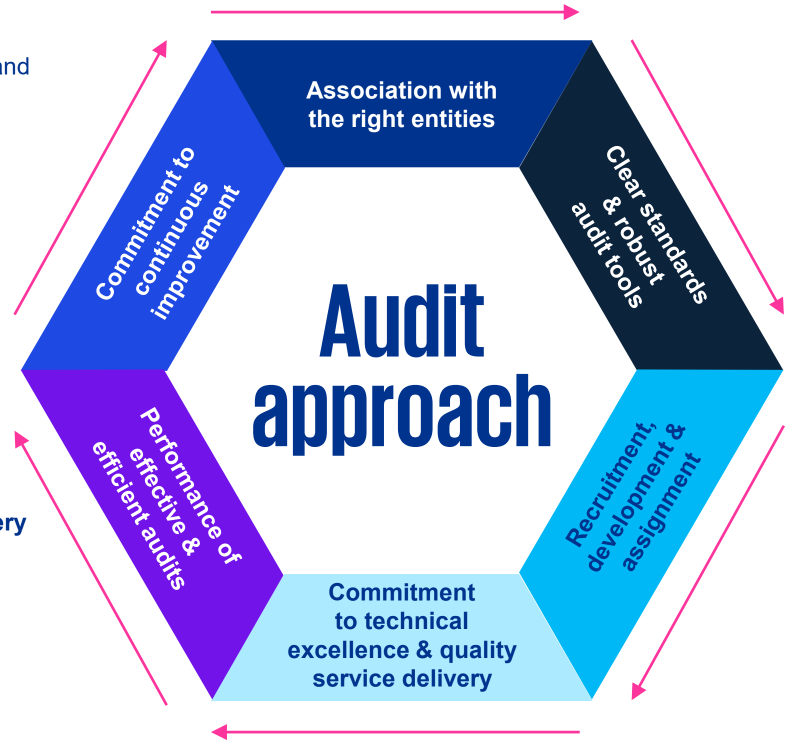
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

ISA (UK) 315 Revised: Overview

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

A key area of focus for the auditor will be understanding how the Pension Fund responded to the observations communicated to those charged with governance in the prior period.

Where an Pension Fund has responded to those observations a re-evaluation of the control environment will establish if the responses by Pension Fund management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by Pension Fund , or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether Pension Fund actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the Pension Fund control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the Pension Fund and our assessment of the risks of material misstatement due to fraud.

Area	Our approach following the revisions
Risk assessment procedures and related activities	[1] Increased focus on applying professional scepticism – the key areas affected are: • the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence, • remaining alert for indications of inauthenticity in documents and records, and • investigating inconsistent or implausible responses to inquiries performed. [2] Requirements to perform inquiries with individuals at the Pension Fund are expanded to include, amongst others, those who deal with allegations of fraud. [3] We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.
Internal discussions and challenge	We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.

Newly effective standards [and relevant IFRIC items]

Standards	Expected impact: High	Expected impact: Moderate	Expected impact: Low	Expected impact: None	Effective for years beginning on or after: 1 Jan 2023	Effective for years beginning on or after: 1 Jan 2024
IFRS 17 Insurance Contracts, including amendments Initial Application of IFRS 17 and IFRS 9 – Comparative Information					✓	
Definition of Accounting Estimates – Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors					✓	
Disclosure Initiative: Accounting Policies – Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements					✓	
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes					✓	
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)						✓
Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)						✓

BEPS (Base erosion and profit shifting) – also called global minimum tax, is an OECD agreement to implement to global tax framework which ensures that a minimum amount of tax is paid around the world.
UK tax law implementing the OECD treaty expected to be issued later in 2023 with an effective date of 1st January 2024. IASB issued ED IAS 12 *International Tax Reform – Pillar Two Model Rules – Proposed amendments to IAS 12 income taxes* to provide a temporary exception from the recognition of deferred taxes arising from BEPS – Pillar two as well as proposes additional disclosures. Currently we would only expect qualitative disclosures about the impact of BEPS on the group and the progress the group has made in identifying any quantitative effects.

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