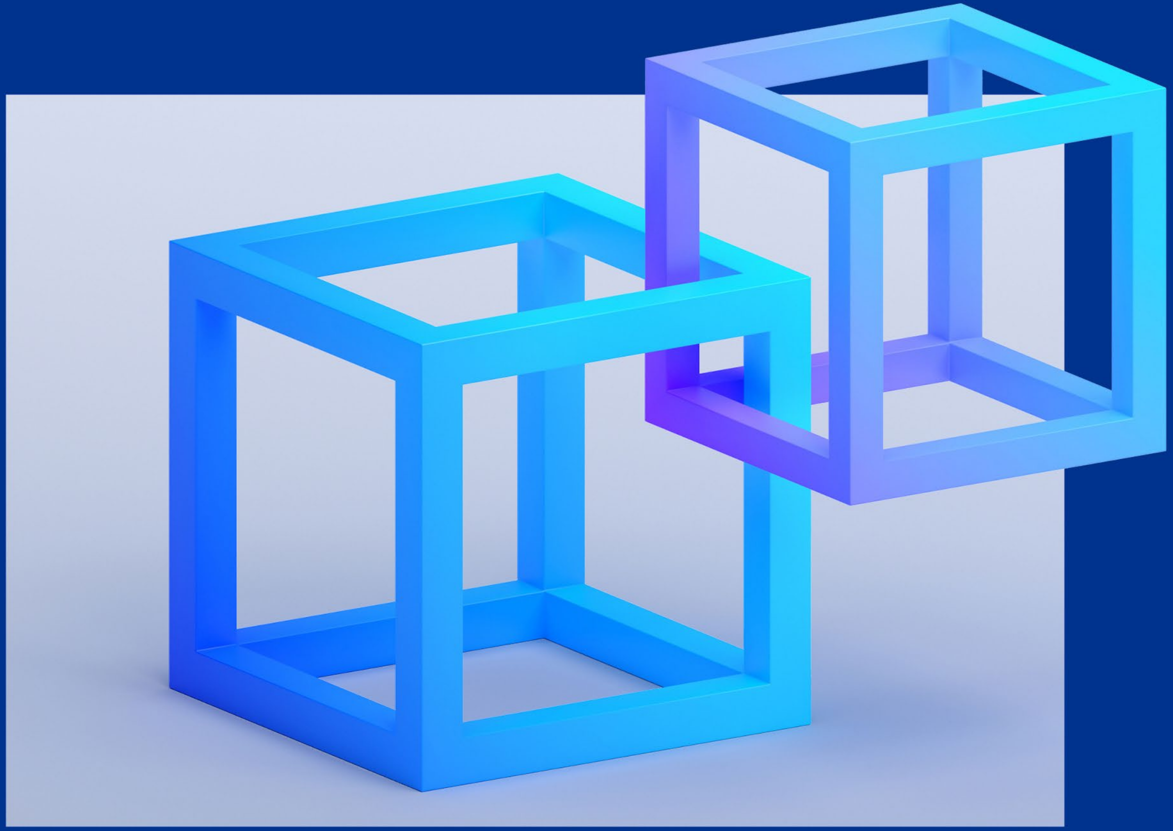
KPMG

South Yorkshire Pension Fund



Year End Report to the Audit & Governance Committee

Year end report for the year ended 31 March 2024

For presentation on 19 September 2024

Updated 19 November 2024

Introduction

To the Audit and Governance Committee of South Yorkshire Pension Fund

We were pleased to have the opportunity to meet with you on 19 September 2024 to discuss the results of our audit of the financial statements of South Yorkshire Pension Fund, as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions.

This report should be read in conjunction with our indicative audit plan and strategy report, issued on 26 April 2024.

We will be pleased to further elaborate on the matters covered in this report when we meet.

Status of our Audit

Subject to the Administering Authority's approval, provided that the outstanding matters noted on page 5 of this report are satisfactorily resolved, we expect to issue an unmodified Auditor's Report.

There have been no significant changes to our audit plan and strategy.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

Richard Lee

Richard Lee

Director KPMG LLP

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 management; and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of South Yorkshire Pension Fund (the 'Fund'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Administering Authority's Audit and Governance Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Fund's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is substantially complete.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit and Governance of the Administering Authority; 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.

Our audit findings

Significant audit risks	
Significant audit risks	**Our findings**
Management override of controls	No issues identified
Valuation of directly held property	We have not identified any issues in relation to the valuation of directly held property. We have utilised KPMG Real Estate experts as part of our work in this area.
Key accounting estimates	
Valuation of directly held property	We assessed as balanced the assumptions underpinning the valuation
Valuation of level 3 pooled investment vehicles	We agreed the value to investment manager confirmations and assessed the NAV statements as reliable for a sample.
Valuation of level 1 and 2 pooled investment vehicles	We verified the pricing at the year end to an independent pricing source (where available).

Uncorrected Audit Misstatements		
Understatement/ (overstatement)	**£m**	**%**
Net assets	59.5	0.5%
Net returns on investments	(59.5)	6.9%

Number of Control deficiencies	
Understatement/ (overstatement)	
Significant control deficiencies	0
Other control deficiencies	3

Outstanding matters

We are finalising our audit. Outstanding matters are set out on page 5.

Expenditure recognition

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

Expenditure in a pension scheme equates to payments to members and management expenses. There are no subjective issues concerning when expenses need to be recognised. Amounts involved cannot easily be manipulated through accounting policies, timing or other policies. There is little incentive for the Fund to manipulate the financial reporting of expenses. Therefore, in the absence of specific fraud risk factors, there is no risk of fraudulent financial reporting arising from the manipulation of expenditure recognition for the Fund.

Our audit findings (cont.)

Outstanding Matters as at the date of this Report
Audit completion procedures • Review of the final financial statements • Completion of our post balance sheet events review up to the date of sign off • Receipt of signed letter of representation and approved and signed financial statements

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

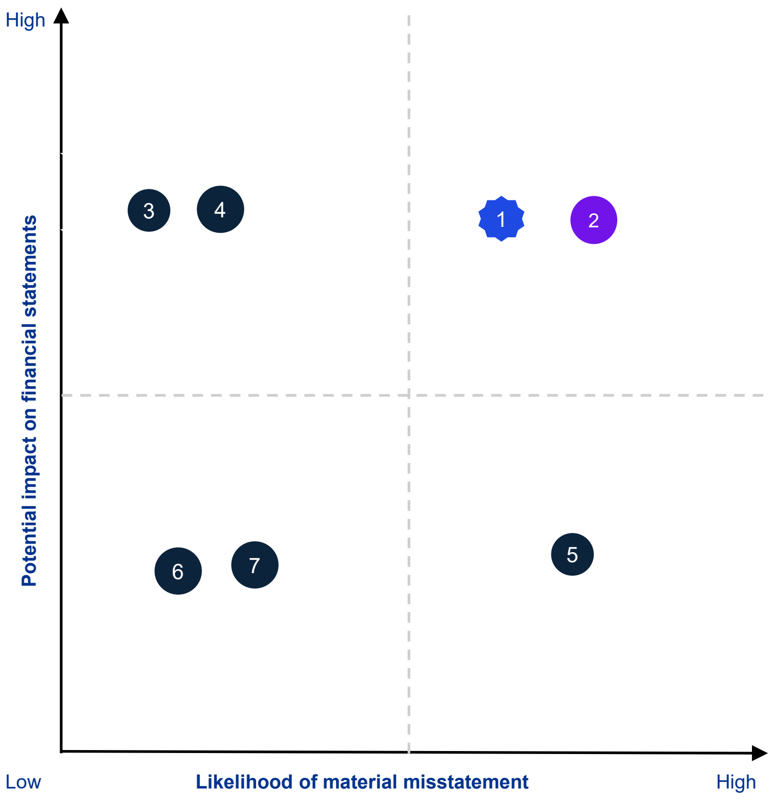
Our risk assessment draws upon our knowledge of the Fund, the industry and the wider economic environment in which the Fund operates.

We also use our regular meetings with senior management to update our understanding.

Following our risk assessment we concluded that the risk of material misstatement in respect of benefits is remote so this is no longer included as an other audit risk.

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, 2 and 3 investments are not complete, do not exist or are not accurately recorded
4.	Valuation of Level 1, 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.	The actuarial position of the scheme is not appropriately presented in the financial statements



KEY

- 1 Presumed significant risk
- 2 Significant financial statement audit risks
- 2 Other audit risks

See the following slides for the cross-referenced risks identified on this slide.

Audit risks and our audit approach

1 Management override of controls[a]

Fraud risk related to unpredictable way management override of controls may occur

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.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk.

We have

- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- We performed the following over journal entries and other adjustments:
  - Evaluated the completeness of the population of journal entries.
  - Determined high risk criteria and selected journals based on this criteria for testing.

We have not identified any significant transactions (if any) that are outside the normal course of business.

Audit risks and our audit approach (cont.)

1 Management override of controls[a]

Fraud risk related to unpredictable way management override of controls may occur

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.

Our findings

- We identified 12 journal entries and other adjustments meeting our high-risk criteria – our examination of these did not identify unauthorised, unsupported or inappropriate entries.
- We evaluated the accounting estimates in respect of the valuation of investments, and did not identify any indicators of management bias. See slide 10 to 16 for further discussion.
- Our procedures did not identify any significant unusual transactions.
- We have identified 53 transactions posted by the user 'BATCH'. We understand from our discussions that user 'BATCH' is the automated user reference applied when entering a journal using the import toolkit or for purchase ledger transactions. For journals this should then be updated after posting to record the correct user ID. We identified 5 non-purchase ledger transactions in the period April 2023 to June 2023 where this update did not take place. We understand from our discussions with management that the remaining 48 transactions are purchase ledger payment runs but we have not verified this. This does not impact our audit conclusions. See Appendix 6 for our recommendation.

Journal controls are now subject to enhanced scrutiny by auditors and must comply with a series of prescriptive criteria in order to be considered effective. We note that whilst management were able to evidence what they deem to be an effective review process, the journal control does not meet these strict criteria and the threshold set as per the auditing standards. We recommend management fully document the journals review process. This should include clearly defined criteria for selection of journals, confirmation that each journal selected has been reviewed along with the supporting documentation and that the posting is accurate and appropriate, and formal documentation of the review conclusions. See Appendix 6 for our recommendation and management's response.

Audit risks and our audit approach

2 Incorrect valuation of directly held property

Assessment of accounting estimate

Cautious | Neutral | Optimistic

Significant audit risk

An inappropriate amount is estimated for the value of property due to inappropriate assumptions, errors in the underlying data or inaccurate computation of the valuation estimate. The significant risk is driven by the market assumptions due to the subjectivity and complexity involved in their determination.

Our response

- We obtained the property valuation produced by the independent valuer as at 31 March 2024 directly from Jones Lang LaSalle (the property valuer).
- We assessed Jones Lang LaSalle as a management specialist and assessed their competency as a property valuer and their work for use as audit evidence.
- We involved property valuation specialists to evaluate the assumptions underlying the properties' valuations for a selection of the directly held property portfolio, holding direct discussion with Jones Lang LaSalle in respect of the underlying assumptions used for the valuation.
- The KPMG Real Estate team have challenged the valuer on the valuation inputs and reasons for value movement, considered any comparable evidence provided by the valuer and referred to our own internal sources of comparable data, market research, benchmark yields and MSCI data throughout our review. The KPMG Real Estate team evaluated a risk based sample of properties and concluded that the valuations were balanced and reasonable.

Our findings

Under the International Standards of Auditing, we are required to identify and evaluate the design and implementation of an internal control in relation to significant risks. Whilst the Trustee appoints a third party (Jones Lang LaSalle) to value the property, we did not identify an associated management review or other control that that meets the requirements of the auditing standards .

Audit risks and our audit approach

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

Other audit risk

Investments are held to pay benefits of the Fund. They are held with more than 100 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.

Our response

We have performed the following procedures in order to respond to the risk identified:

- We gained an understanding of the processes over the completeness, existence and accuracy of level 1, level 2 and level 3 investments. This included 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 obtained direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end.
- We vouched purchases and sales to investment manager and/or custodian reports.
- We recalculated the change in market value and compared this to the overall Fund investment return. We investigated any material deviations.

Our findings

See pages 12 to 15 for our findings.

Audit risks and our audit approach

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

Other audit risk

Investments are held to pay benefits of the Fund. They are held as pooled investments and cash with more than 100 investment managers. The investments are material to the financial statements (more than 95% 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.

Our response

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

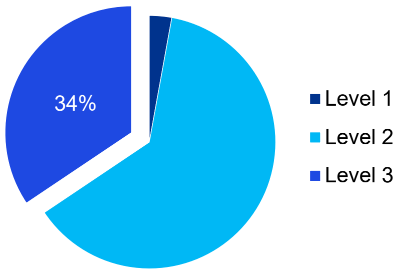
- **Level 1 & 2 Pooled Investment Vehicles**: We recalculated the value of the Level 1 and 2 pooled investments using published pricing of the pooled investment vehicles at the year end (where available).
- **Level 3 Pooled Investment Vehicles:** For each Level 3 pooled investment vehicle investment manager, we obtained the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouched the valuation to this. We further assessed the reliability of the NAV statement for a sample of Level 3 pooled investment vehicles 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 agreed 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.

Our findings

See pages 12 to 15 for our findings.

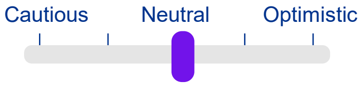
Audit risks and our audit approach (cont.)

Level 3 Investments



Type of security	Portfolio	Market value 2024 (£m)	Percentage of portfolio 2024%	Market value 2023 (£m)	Percentage of portfolio 2023%
Inputs are unobservable (i.e. market data is unavailable)					
Directly held property		508.5	4.6%	702.0	6.9%
Pooled Investment Vehicles		3,260.6	29.7%	2,681.7	26.3%
Other		1.3	<0.1%	1.3	<0.1%
Total		3,770.4	34.4%	3,385.0	33.2%

Our findings

Type of security	Our findings	Assessment of accounting estimate
Property	Refer to Slide 10 for Commentary and Conclusion	
Pooled investment vehicles	• The investment in Royal London Natural Capital was made after the date of the latest financial statements. We have therefore undertaken alternative procedures including assessing the year end valuation for reasonableness against the recent purchase price. • The availability of information means that the draft financial statements are prepared on the basis of valuations as at 31 December 2023 adjusted for known cash movements between 1 January 2024 and 31 March 2024. Our audit procedures involved obtaining valuations as at 31 March 2024. We have identified a difference of £46m between the values in the draft financial statements and those provided by the investment managers as at 31 March 2024. This is not material to our financial statements opinion. See page Appendix 4 for details. • The Fund subscribed £98.75m to the Royal London UK Real Estate Fund on 26 March 2024 and units in the Fund were purchased on 2 April 2024. As the units were not purchased until after the year end, the value of the investment was incorrectly treated as a pooled investment vehicle at 31 March 2024. See Appendix 5 for details.	

Key:
Current year

Audit risks and our audit approach (cont.)

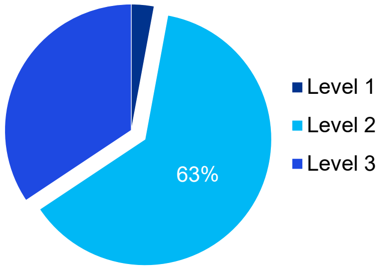
Level 3 Investments

Our findings (cont.)

Type of security	Our findings (cont.)
Pooled investment vehicles	• Our testing identified 8 loans with a value of £84,9m which were incorrectly classified as Level 3 Pooled Investment Vehicles in the draft accounts. These are direct loans in respect of individual building developments. They are valued at the lending amount as an appropriate proxy for fair value. They are therefore more appropriately classified as Direct Credit and Level 2 in the Fair Value Hierarchy. The impact in the prior year was £51.2m which is not material so no prior period adjustment is required. See Appendix 5 for details. We have agreed the value of these loans to the loan statements provided directly by the investment manager. • The Pension Fund use the quarterly monitoring reports to derive the value of the L3 PIVs in the financial statements. This does not include the cash and debtors with BCPP which are not allocated to individual funds but are part of the Pension Fund's share of the investments. The impact is an understatement of £22m. See Appendix 4 for details. • For 12 level 3 pooled investment vehicles with a value of £31.6m, we were unable to obtain investment confirmations directly from the investment managers. For these investments we have used investment confirmations obtained by the Pension Fund from the investment manager.

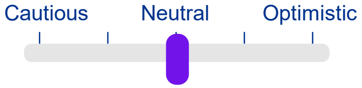
Audit risks and our audit approach (cont.)

Level 2 Investments



Type of security	Portfolio	Market value 2024 (£m)	Percentage of portfolio 2024 %	Market value 2023 (£m)	Percentage of portfolio 2023
Inputs are observable (i.e. market data is available)					
Pooled Investment Vehicles		6,880.6	62.8%	6,533.6	64.2%
Total		6,880.6	62.8%	6,533.6	64.2%

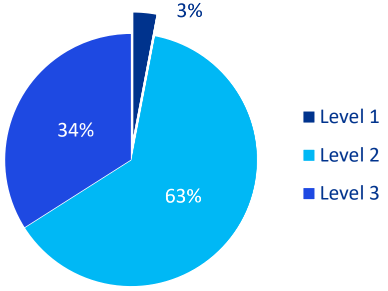
Our findings

Type of security	Our findings	Assessment of accounting estimate
Pooled investment vehicles (including hedge funds)	We obtained direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end. We verified the pricing of all of the level 2 pooled investment vehicles at the year end to an external pricing source. There are no matters arising from this testing.	

Key:
Current year

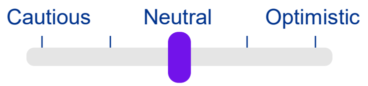
Audit risks and our audit approach (cont.)

Level 1 Investments



Type of security	Portfolio	Market value 2024 (£m)	Percentage of portfolio 2024%	Market value 2023 (£m)	Percentage of portfolio 2023 %
Unadjusted quoted prices, active market					
Cash		151.7	1.4%	97.0	1.0%
Pooled Investment Vehicles		158.9	1.5%	165.6	1.6%
Other		3.3	<0.1%	2.9	<0.1%
Total		313.9	2.9%	265.5	2.6%

Our findings

Type of security	Our findings	Assessment of accounting estimate
Cash	We have agreed investment cash balances to confirmations received directly from the bank and investment manager.	
Pooled investment vehicles	As the investments are held directly by the Fund and not via an investment manager, we obtained direct confirmations from your custodian to vouch the holdings and valuation of assets at the year end. We verified the pricing of the pooled investment vehicles at the year end to an external pricing source.	

Key:
Current year

Audit risks and our audit approach

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 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.

Our response

Our audit procedures over contributions included:

- Inspecting that secondary contributions are received into the Fund in accordance with the Fund's rates and adjustments schedule;
- For a selection of admitted bodies inspecting whether contributions are received into the Fund on a timely basis under the requirements through vouching contributions received to bank statements;
- Developing 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
- Vouching that there are 12 months of receipts in the year and assessing the trend of such receipts.

Our findings

There are no matters arising from our work in this area.

Audit risks and our audit approach

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

Other audit risk

- The majority of the Fund's transactions affect the cash balance it is therefore considered to be material by nature.

Our response

Our audit work included:

- Obtaining the bank confirmation directly from the bank;
- Inspecting and vouching the bank confirmation received directly from the bank to the audited entity balances within the bank reconciliation provided by the administrator; and
- Obtaining the bank reconciliation (where there are reconciling items) and vouching any significant reconciling items to supporting documentation.

Our findings

There are no matters arising from our work in this area.

Audit risks and our audit approach

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

Other audit risk

- The actuarial position is not recognised on the Statement of Net Assets but is disclosed in the Notes
- The value of the liability is an estimate involving the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective.

Our response

We performed the following procedures:

- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Tested the data provided to the scheme actuary to use within the calculation of the scheme valuation; and
- With the support of our own actuarial specialists, assessed whether the assumptions are compliant with the stated approach and reasonable under the flexibility provided by CIPFA and evaluated 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.

Our findings

We are satisfied the methodology is appropriate and that assumptions are balanced and consistent with the CIPFA Code. We are satisfied that the actuarial position is fairly presented in the notes to the financial statements.

Other matters

Annual report

The Pension Fund annual report will be issued later than the financial statements. 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.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

We have not completed any non-audit work at the Fund during the year.

See Appendix 3 for more details.

Audit Fees

Our PSAA proscribed 2023/24 audit scale fee for the audit of the Authority and the Fund was £148,276 plus VAT.

As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised. We propose charging an additional £9,500 to cover this work across the Authority and Fund (£6,420 Fund and £3,080 Authority).

We also propose charging an additional fee for the involvement of the KPMG VAT specialists in relation to the Irrecoverable VAT expense incurred (£3,972).

To date we have received three letters from other audit firms requesting that we undertake a programme of work on their behalf in respect of post retirement benefit obligations at the Fund's admitted and scheduled bodies. We will agree a fee variation with you in respect of these requests.

Appendices

Contents

Appendix 1: Required communications

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	OK	There were three adjusted audit differences with a impact on net assets of £99 million. See Appendix 5.
Unadjusted audit differences	OK	The aggregated impact on net assets of unadjusted audit differences would be £68.5m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix 4.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Fund management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	OK	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
Issue a report in the public interest	OK	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.

Type		Response
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	OK	None.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the statement of accounts.
Breaches of independence	OK	There are no independence issues. 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.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Fund's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	No significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	OK	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

Appendix 2: Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)	*2022/23 (£'000)*
Statutory audit	148,276	*45,969*
ISA315r	9,500	-
IAS19 assurance letters	TBC	-
VAT specialist	3,972	
TOTAL	**161,748**	*45,969*

Note: (a) Fee charged by Deloitte – your predecessor auditor.

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement).
- We also propose charging an aadditional fee for the involvement of the KPMG VAT specialists in relation to the irrecoverable VAT expense incurred.
- To date we have received three letters from other audit firms requesting that we undertake a programme of work on their behalf in respect of post retirement benefit obligations at the Fund's admitted and scheduled bodies. In addition work has been undertaken in respect of four bodies audited by KPMG.
- Additional fees will be subject to the fees variation process as outlined by the PSAA.

Appendix 3: 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 Director and audit staff is not impaired.

To the Audit and Givernance 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 and that the safeguards we have applied are appropriate and adequate 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

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	Principal threats to Independence	Basis of fee	Value of Services Delivered in the year ended 31 March 2024 £m	Value of Services Committed but not yet delivered £m
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.

Appendix 3: 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 Director and audit staff is not impaired.

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard 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 Risk 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 Risk Committee of the Group 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.

Appendix 4: Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Governance Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are ‘clearly trivial’, which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor’s report, individually or in aggregate. As communicated previously with the Audit and Governance Committee, details of all adjustments greater than £5.2m are shown below:

Uncorrected audit differences (£’000s)				
No.	**Detail**	**Fund Account Dr/(Cr)**	**Net Asset Statement Dr/(Cr)**	**Comments**
1	Dr Pooled Investment Vehicles (L3) Cr Change in Market Value	£(46.6m)	£46.6m	Being the valuation difference arising from the fact that the draft financial statements are prepared based on the valuation as at 31 December 2023 before the valuations as at 31 March 2024 were available.
2	Dr Pooled Investment Vehicles (L3) Cr Change in Market Value	£(21.8m)	£21.8m	Being the cash and debtors in respect of the Level 3 PIVs held with BCPP which are not reflected in the monitoring report used to prepare the accounts
Total		£(68.5m)	£68.5m	

KPMG

Appendix 5: Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Governance Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the latest financial statements.

Corrected audit differences (£'000s)				
No.	**Detail**	**Fund Account Dr/(Cr)**	**Net Asset Statement Dr/(Cr)**	**Comments**
1	Dr Investment Cash Cr Pooled Investment Vehicles (L3)	- -	£98.75m £98.75m	Being the adjustment to reclassify the balance in respect of the Royal London UK Real Estate from pooled investment vehicles to cash as units were not purchased until post year end.
2	Dr Investment Management Expenses Cr Current Liabilities	£0.40m -	- £0.4m	Adjustment to recognise as an expense irrecoverable VAT on Project Chip for consistency with the treatment in the Authority financial statements
3	Dr Direct Credit Cr Pooled Investment Vehicles (L3)	- -	£84.9m £84.9m	Being the adjustment to reclassify the balance in respect of direct loans held with CBRE from pooled investment vehicles to direct credit.
Total		£0.40m	£99.15m	

Corrected Disclosure adjustments	
Matter	**Comment**
Update to the corresponding disclosure notes for the reclassification of the Royal London investment above	
Update to the corresponding disclosure notes for the reclassification of the loans above	
The risk disclosures were updated to include non-sterling cash within the interest rate and liquidity risk disclosures and to treat all PIVs consistently	
The AVC disclosure was updated to remove the immaterial restatement of prior year amounts	

Appendix 6: Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
❶	**Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	**Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	**Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response
1	❷	Under the International Standards of Auditing, we are required to identify and evaluate the design and implementation of an internal control in relation to significant risks. Whilst the Trustee appoints a third party (Jones Lang LaSalle) to value the property, we did not identify an associated management review or other control that meets the requirements of the auditing standards.. We recommend that the Fund review and challenge the valuations provided by the valuer. This process should be fully documented.	The Fund appoints the external valuation specialist to value its properties, in order to provide the Fund with valuations that are carried out with appropriate professional expertise and to the required standards. Management review of the valuations is carried out internally by the Investment and Finance teams in relation to reviewing the valuation reports and details within them to ensure accuracy of the inputs used and sense check based on knowledge of the portfolio and raising any queries with the valuers as required. From discussion with the auditor, it would seem that the only way to meet the stringent requirements of the auditing standards for management review would entail the use of an internal valuation specialist to review the work of our appointed valuer. Clearly this would not be feasible and would not represent value for money, as this would in essence involve duplicating the work done by the appointed valuers. The Authority is satisfied that the controls we have in place for Fund property valuations are appropriate and sufficient.
2	❷	We note that whilst management were able to evidence what they deem to be an effective review process, the journal control does not meet the strict criteria and the threshold set as per the auditing standards. We recommend management fully document the journals review process. This should include clearly defined criteria for selection of journals, confirmation that each journal selected has been reviewed along with the supporting documentation and that the posting is accurate and appropriate, and formal documentation of the review conclusions.	We are satisfied that the journal controls in place across the Authority and Fund are robust and effective. Assurance over the adequacy of the controls in place and their consistent application is provided from regular internal audit review, the most recent of which concluded with substantial assurance. The controls include a two-stage process for input and review /approval of journals in the system. The first stage is when a member of staff inputs the journal, attaching a working paper and any supporting documents to the system. The second stage involves a different member of management reviewing all aspects of the journal prior to approval within the Main Accounting System. Should a member of management input the journal at stage 1, a different member of management authorises the journal at Stage 2 to ensure adequate separation of duties. The strict criteria and threshold set per the auditing standards would essentially require management to prepare a separate journal expectation and calculation for every journal, essentially duplicating the work, which would be overly onerous and would not add value to the process, as the current controls in place are sufficient to provide a thorough review process.

Appendix 6: Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response
3	❸	We understand from our discussions that user 'BATCH' is the automated user reference applied when entering a journal using the import toolkit. This should then be updated after posting to recorded the correct user ID. We have identified 5 journals where this update did not take place. We recommend that the finance team review the population of journals on a regular basis to identify all journals with the user 'BATCH'.	This was an issue limited to a small number of journals due to the process used for uploading large journal files into the system. It was discovered by management in May 2023, at which point it was immediately addressed by introducing a new step to our processes to ensure that the actual user ID was input to replace the automated BATCH reference. From June 2023 onwards there were no further journals posted with the BATCH reference, showing that the action taken has been effective. Additionally, management are liaising with the system supplier to request the system functionality is improved to replace the automated user reference with the user ID of the user who uploads the journal file rather than using BATCH in future.
4	❷	The Pension Fund use the quarterly monitoring reports to derive the value of the L3 PIVs in the financial statements. This does not include the cash and debtors with BCPP which are not allocated to individual funds but are part of the Pension Fund's share of the investments. We recommend that management ensure that the information provide by BCPP enables them to fully record the value of the assets held with them.	The issue with quarterly monitoring reports was discovered during the audit of the 2023/24 Fund statement of accounts. Following investigation, we are now in dialogue with Border to Coast to request that cash and accruals are included with the quarterly monitoring reports in future.

Appendix 7: 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 entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on pages 5, 8 and 17. We also considered the following matters required by 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* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

Appendix 8: 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 engagement lead 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

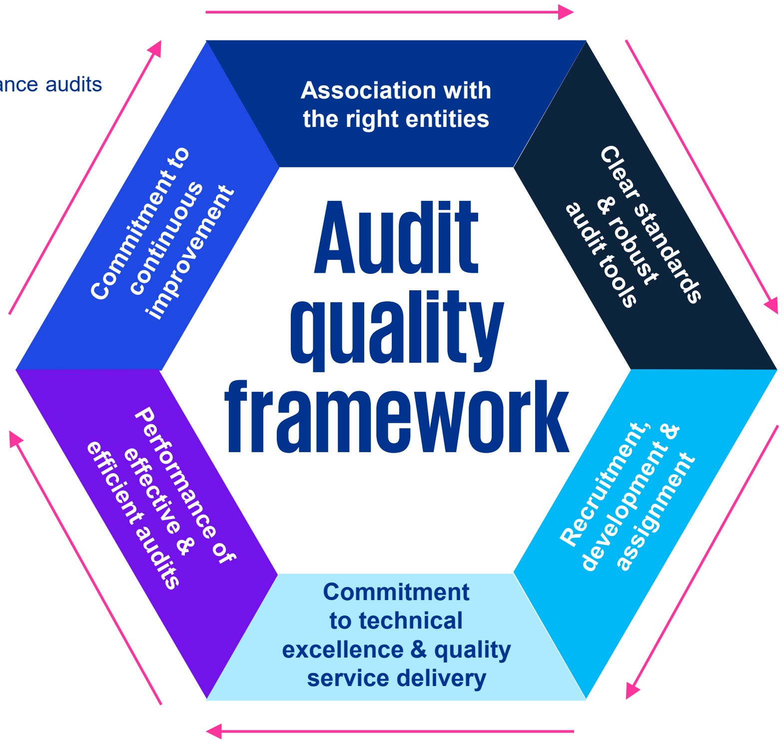
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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 clients 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 employed KPMG specialists and specific team members

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