

Havering Pension Fund External Audit Plan

Year ended 31 March 2024

11 June 2024



11 June 2024



Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford RM1 3BB

Dear Audit Committee Members,

Havering Pension Fund External Audit Plan

We are pleased to attach our Audit Plan for the forthcoming meeting of the Audit Committee. The purpose of this report is provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for Havering Pension Fund. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Audit Committee and Management and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 25 July 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in blue ink that reads "MARK HODGSON". The signature is written in a cursive, slightly slanted style.

Mark Hodgson
For and on behalf of Ernst & Young LLP
Enc

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Havering Pension Fund in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee and management of Havering Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

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

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Management override and incorrect posting of investment income journals	Fraud risk	No change in risk or focus	As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. We believe that the management override of controls is most likely to affect in year Investment Income, specifically through incorrect journal postings.
Valuation of complex investments (unquoted investments)	Significant risk	No change in risk or focus	The Fund's Investments includes a significant balance of Level 3 investments such as unquoted pooled investment vehicles, property and private equity. The Pension Fund held £276 million Level 3 investments as at 31 March 2024. Judgements are taken by Investment Managers to value those investments whose prices are not publicly available. There is a risk that these are materially misstated given the complexity of the measurement and degree of estimation involved.
IAS26 Disclosure - Actuarial Present Value of Promised Retirement Benefits	Inherent risk	No change in risk or focus	Every three years, a formal valuation of the whole Fund is carried out under the Local Government Pension Scheme Regulations 2013 to assess and examine the ongoing financial position of the Fund. The last fund valuation was 31 March 2022 as the fund's liability was recalculated by the actuary and was used to set employer contribution rates and underpin investment management strategy. IAS26 requires post-employment benefits plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including demographic and financial key assumptions. The estimate is based on a roll-forward of data from the previous triennial valuation in 2022, updated where necessary, and takes into account various factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the fund. We consider there is a risk around the estimation process, data used and assumptions used by the actuary when valuing the fund which is reflected in the IAS26 disclosures.

Overview of our 2023/24 audit strategy

Materiality

Planning materiality

£9.7m

Materiality has been set at £9.7 million (prior year was £9.0 million), which represents 1% of the net assets of the scheme as disclosed in the 2023/24 draft accounts. This is the same % we applied in the prior year. The Pension Fund is a public interest entity and a major local authority based on its size and as such, we have determined that planning materiality of 1% is an appropriate level.

Performance materiality

£7.3m

Performance materiality has been set at £7.3 million (prior year was £6.7 million), which represents 75% of materiality. This is the upper end of our range based on the low level of errors identified in previous years and is consistent with the level we applied in the prior year.

Audit differences

£0.5m

We will report all uncorrected misstatements relating to the primary statements (Net Assets Statement and Pension Fund Account) greater than £0.5 million (prior year was £0.4 million). Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.



Overview of our 2023/24 audit strategy

Audit scope

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

- ▶ Our audit opinion on whether the financial statements of Havering Pension Fund (the Pension Fund) give a true and fair view of the financial transactions during the year ended 31 March 2024 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2024; and
- ▶ Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of London Borough of Havering.

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

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

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of Havering Pension Fund's audit, we will discuss these with management as to the impact on the scale fee.



Overview of our 2023/24 audit strategy

Audit scope (Cont.)

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Effect of ISA (UK) 315

The Financial Reporting Council (FRC) has published revisions to International Standards on Auditing (UK) 315, *Identifying and Assessing the Risks of Material Misstatement*. The standard is effective for audits of financial statements for periods ending on or after 15 December 2021. ISA 315 was effective from 2022/23 financial statements for Havering Pension Fund.

The revisions have a significant impact on our scope and approach, requiring auditors to:

- ▶ Enhance the audit risk assessment process
- ▶ Better focus responses to identified risks
- ▶ Evaluate the impact of technology on key processes supporting the production of the financial statements, particularly where a fully or partially substantive audit approach has been taken previously.

For the audit of the Pension Fund, we have historically taken a fully substantive approach. We adopted this approach because it was more efficient to perform a greater extent of substantive testing rather than relying on controls.

The revisions to ISA 315 recognise the criticality of technology to the processing of transactions, and now require us, as auditor, to identify and evaluate the design and implementation of IT general controls, including for processes where we have not sought to place IT- reliance in past audits.

We intend to take a fully substantive audit approach for 2023/24 audit.

Overview of our 2023/24 audit strategy

Audit scope (Cont.)

Effect of ISA (UK) 240

Effects of ISA (UK) 240 In May 2021, the FRC issued the revised ISA (UK) 240, The Auditor's Responsibilities Relating to Fraud in the Financial Statements to clarify the responsibilities of auditors. The standard is effective for audits of financial statements for periods beginning on or after 15 December 2021. It was effective from 2022/23 financial statements for Havering Pension Fund.

The revisions have a significant impact on our approach, requiring auditors to:

- ▶ Increase focus on professional scepticism
- ▶ Remain alert and investigate further if there are conditions that indicate evidence provided to the auditors may not be authentic or has been tampered with
- ▶ When considering if actual or suspected fraud is material, consider both qualitative and quantitative characteristics of the fraud
- ▶ Consider if specialist skills are required to perform risk assessment, audit procedures or evaluate evidence obtained
- ▶ Increase discussion amongst the audit team including the exchanging of ideas as to how management or others within the entity could perpetrate or conceal fraud.

Management and those charged with governance should expect to see a more interactive approach to risk assessment including additional enquiries of those within an entity who deal with allegations of fraud raised by employees or other parties', discussions over the entities perceived risk of material fraud and any specific risks to the industry or sector the audit client is within.

Timeline

We are working with the Pension Fund to deliver the audit ahead of 30 November. In Section 06 we include a provisional timeline for the audit.

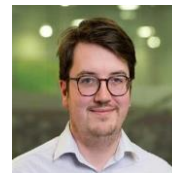
Key Audit Partner and senior audit team



Partner - Mark Hodgson

The Engagement Partner has overall responsibility for:

- The audit and its performance
- The auditor's report that is issued on behalf of EY
- The overall quality of the audit



Senior Manager - Jacob McHugh

The Manager has responsibility for management of the audit and ensuring that it is adequately resourced to meet both its time and budget constraints. They will also support the individual engagement team members to complete timely high quality audit fieldwork.



02 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error *

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to penetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address those identified risks of fraud
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements

Our response to significant risks

Management override and incorrect posting of Investment Income journals

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have considered the specific areas where this risk may be manifested. Fund income is a key metric for measuring the performance of the Pension Fund. We consider that management has an incentive to increase in year income reported in the financial statements and is in a unique position to influence the posting of year end investment journals. There is therefore a risk this may result in misstatements either due to fraud or error.

We believe that the risk of management override of controls is most likely to affect in year investment income, specifically through incorrect journal postings.

What will we do?

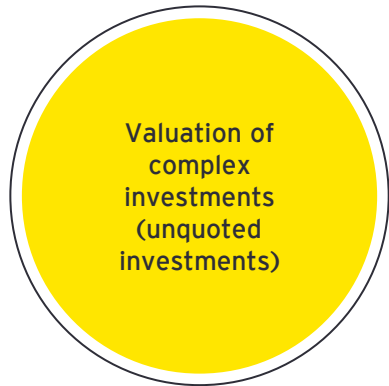
We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.

To respond to the specific fraud risk we have identified relating to the incorrect posting of investment income journals we will perform the following additional audit procedures:

- ▶ Undertake a review of the reconciliation to the fund manager and custodian reports for investment income to investigate any significant reconciling differences;
- ▶ Re-perform the detailed investment income note using the reports we have acquired directly from the custodian or fund managers; and
- ▶ Reconcile holdings included in the Net Assets Statement back to the source reports.

Our response to significant risks

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



Financial statement impact

Misstatements that occur in relation to complex investments valued at Level 3 fair value hierarchy such as unquoted equities, property and pooled investment could affect the valuation of the Net Assets.

Total of Level 3 investments held by the Fund at 31 March 2024 was £276 million (PY was £251 million), over 29% of the overall Fund.

What is the risk, and the key judgements and estimates?

The Fund's investments include unquoted pooled investment vehicles such as private equity, infrastructure and property investments.

Judgements are made by the investment managers to value these investments whose prices are not publicly available. The material nature of this type of investment, means that any error in judgement could result in a material valuation error.

Our response: Key areas of challenge and professional judgement

Our approach will focus on:

- ▶ Analysing a schedule of investments to ensure correct classification, presentation and disclosure of items in the financial statements and corresponding notes.
- ▶ Understanding and evaluating of the work of management's experts.
- ▶ Evaluating the ISAE 3402 report for Custodian and/or Fund Managers where applicable.
- ▶ Reviewing the latest audited accounts for the relevant Fund Managers to ensure there are no matters arising that highlight weaknesses in the funds valuation.
- ▶ Where the latest audited accounts are not as at 31 March 2024, making inquiry of what procedures management have performed to take account of this risk, performing analytical procedures and checking the valuation output for reasonableness against our own expectations.
- ▶ Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used.
- ▶ Reviewing investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 3 Investments have been appropriately made in the financial statements.

What else will we do?

- ▶ Perform triangulation work to agree amount per the financial statements to Fund Manager and to Custodian.
- ▶ Testing accounting entries have been correctly processed in the financial statements.
- ▶ Assessing topside adjustments and/or journal entries for evidence of management bias and evaluate for business rationale.
- ▶ If necessary, our internal valuation specialists will support our work in this area.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

IAS 26 Disclosure - Actuarial Present Value of Promised Retirement Benefits

IAS26 requires post-employment benefits plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including demographic and financial key assumptions.

The estimate is based on a roll-forward of data from the previous triennial valuation in 2022, updated where necessary, and takes into account various factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the fund.

We consider there is a risk around the estimation process, data used and assumptions used by the actuary when valuating the fund which is reflected in the IAS26 disclosures.

Our response: Key areas of challenge and professional judgement

Our approach will focus on:

- ▶ Assessing the competence of management's actuary, Hymans Robertson.
- ▶ Engaging with the NAO's consulting actuary, PwC, and our EY Pensions Advisory Team to review the IAS26 approach and assumptions applied by management's actuary are reasonable and compliant with IAS26.

What else will we do?

- ▶ Ensuring that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.

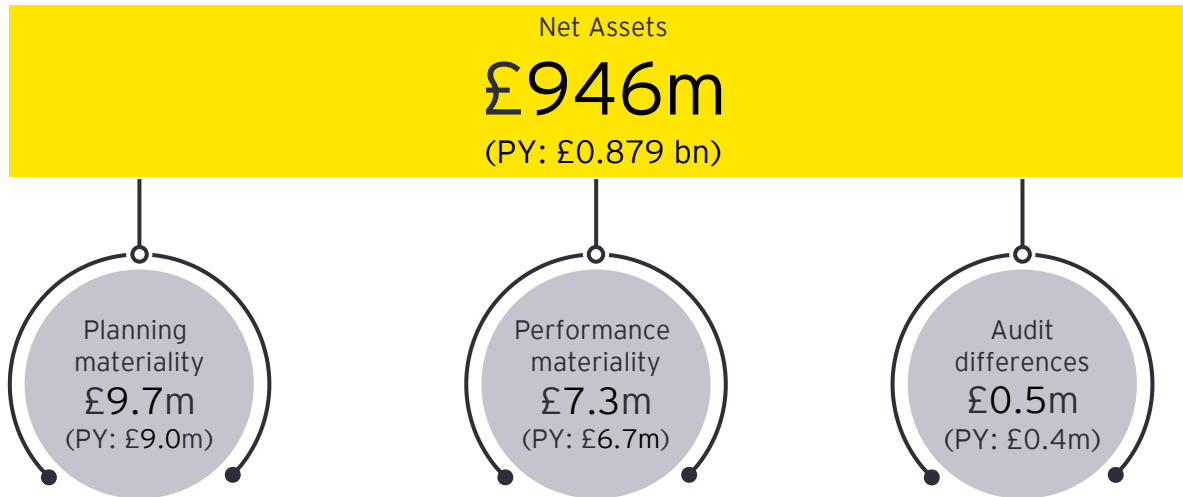


03 Audit materiality

Materiality

Group materiality

For planning purposes, materiality for 2023/24 has been set at £9.7 million. This represents 1% of the Pension Fund's net assets disclosed in the 2023/24 draft accounts. It will be reassessed throughout the audit process. In an audit of a Pension Fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from the pension liabilities. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.3 million which represents 75% of group materiality. We have considered factors such as the number of errors in the prior year, the adequacy of the control environment, and any significant changes in 2023/24 when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

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



04 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers the Financial statement audit.

Our opinion on the financial statements:

- ▶ whether the financial statements give a true and fair view of the Fund Account and Net Asset Statement for the Pension Fund for the period in question, including on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the published financial statements of Havering County Council; and
- ▶ whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- ▶ whether other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Audit process and strategy

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.
- ▶ Reliance on the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work.

Our initial assessment of the key processes across the Pension Fund has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We will review Internal Audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



05

Audit team

Use of specialists

Audit team

The engagement team is led by Mark Hodgson (Partner In Charge), who has significant experience on Local Government Pension Fund audits. Mark is supported by Jacob McHugh (Engagement Manager), who is responsible for the day-to-day direction of audit work and are the key points of contact for the finance team. The audit team will be led by Meenu T Scaria (Lead Senior).

Our approach to the involvement of specialists, and the use of their work

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

Area	Specialists
Pension Fund valuation and disclosures	Hymans Robertson (Havering Pension Fund Actuary)
	PwC (Consulting Actuary to the NAO on behalf of audit providers)
	EY Pension Advisory Team
Investment valuation	The Pension Fund's Custodian and Fund Managers

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

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

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



06

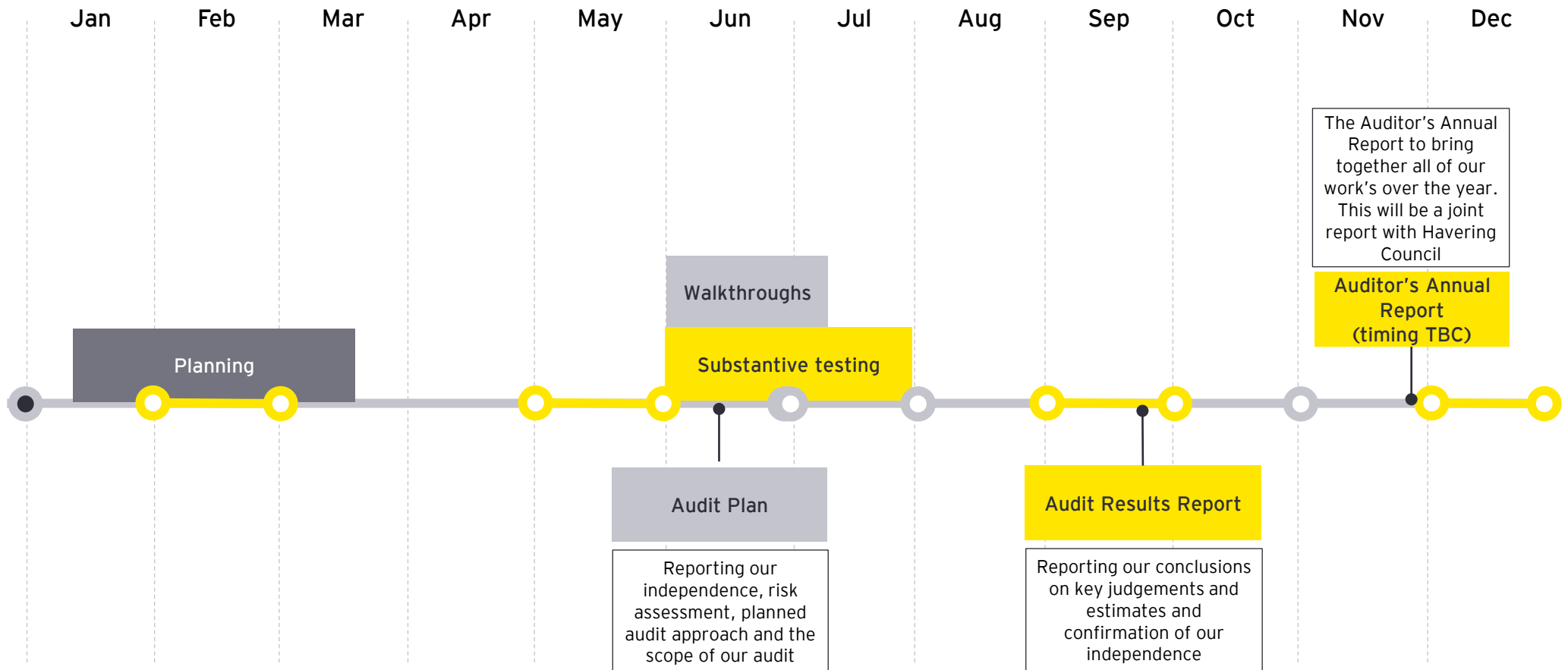
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

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





07 Independence

Introduction

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. For accounting period ended 31 March 2024 non-audit fees subject to the fee cap cannot exceed 70% of the average audit fees for the past three years.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

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

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

Self review threats

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

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

Management threats


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

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

Other threats

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

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



Other communications

EY Transparency Report 2023

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2023 and can be found here: [EY UK 2023 Transparency Report](#).



08 Appendices

Appendix A – Fees



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

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

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.
- ▶ The Pension Fund complies with PSAA's Statement of responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Pension Fund should have regard to paragraph 27 of the Statement of responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements.

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

	Scale fee 2023/24	Prior Year 2022/23
	£'s	£'s
Total Fee - Code Work	85,945	24,795
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	TBC	26,990
Total audit	85,945	51,785
Additional work required for specific additional procedures (Note 2)	TBC	TBC
Additional fee in respect of work on behalf of admitted body auditors (recharges to the Pension Fund) (Note 3)	TBC	TBC
Total fees	TBC	TBC

All fees exclude VAT

(1) We do not believe that the scale fee for 2022/23 fully reflected the true costs of the audit, including changes in the audit market and increases in regulation, which we will continue to submit through the PSAA. In addition, the scale fees for both 2022/23 and 2023/24 do not include the work in respect of ISA (UK) 315.

(2) For 2023/24 there are a number of risk factors to the audit as outlined within this audit plan. The final fee will be subject to determination by PSAA. This also applies to 2022/23 audit which we have not concluded.

(3) We plan to charge an additional fee to take into account the work required to respond to IAS19 assurance requests from Admitted bodies and their auditors. The Pension Fund can recharge this fee to the relevant admitted bodies.

Appendix B – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Plan - 25 July 2024 - Audit Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	Audit Results Report - 16 October 2024 - Audit Committee

Appendix B – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report - 16 October 2024 - Audit Committee
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - 16 October 2024 - Audit Committee
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - 16 October 2024 - Audit Committee
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ 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 ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	Audit Results Report - 16 October 2024 - Audit Committee

Appendix B – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report - 16 October 2024 - Audit Committee
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> ▶ Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided.] <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' integrity, objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees 	<p>Audit Plan - 25 July 2024 - Audit Committee</p> <p>Audit Results Report - 16 October 2024 - Audit Committee</p>

Appendix B – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Fund's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report - 16 October 2024 - Audit Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit Results Report - 16 October 2024 - Audit Committee
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report - 16 October 2024 - Audit Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - 16 October 2024 - Audit Committee
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report - 16 October 2024 - Audit Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - 16 October 2024 - Audit Committee
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - 16 October 2024 - Audit Committee

Appendix C – Additional audit information

Regulatory update

Our objective is to form an opinion on the Fund's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Appendix C – Additional audit information (cont'd)

Other required procedures during the course of the audit

Procedures required by the Audit Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Report.

Procedures required by the UK Listing Rules and the Disclosure and Transparency Rules (DTR)

- ▶ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice

We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.

Purpose and evaluation of materiality

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

Materiality determines:

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

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

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

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