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North Yorkshire Pension Fund
Status report to the Audit Committee on the 2020 audit

13 October 2020

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Contents

01 Status Report

Partner introduction	4
Changes to our risk rating from our planning report	6
Materiality	7
Scoping	8
Significant risk	9
Audit focus areas	11
Other findings	15
Maintaining audit quality	18
Purpose of our report and responsibility statement	20

02 Appendices

Audit adjustments	22
ISA 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	23
Fraud responsibilities and representations	24
Independence and fees	26
Outstanding items	27





Status report

A tailored, insightful and efficient audit
delivered by a team of pension audit
specialists

Partner introduction

The key messages in this report:

I have pleasure in presenting our Status Report to the Audit Committee (the 'AC') for the 2020 audit of the North Yorkshire Pension Fund (the "Fund").

At the time of issuing our planning report on 12 March 2020, the extent and impact of COVID-19 was unknown. We have revisited our risk assessment during the course of the audit and have provided the AC with details of the changes we have made to our audit plan on page 6. Except for these changes, our audit was carried out in accordance with the audit plan issued to the AC.

I would like to extend my thanks to Fund management for their assistance during the audit, especially given the logistical challenges of remote working. The regular communication we have had with management and the use of technology has allowed us to continue to deliver the audit with only a small number of items outstanding at the time of writing this report. We will update you verbally on the progress of these items during the meeting on 26 October 2020.

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

Audit scope

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the statutory financial statements of the Fund which are prepared under the Code of Practice on Local Authority Accounting 2019/20 ("the Code") issued by CIPFA; and
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention.

Status of the audit

We are currently progressing the audit towards completion. We have detailed the procedures still to be completed in Appendix 5.

Partner introduction

The key messages in this report (continued):

Audit Quality

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well-planned audit that raises findings early with those charged with governance.

We have supplemented our core pension audit team with the following specialists:

1. *Actuarial specialists*, who assessed the IAS 19 liability;
2. *IT specialists* who reviewed the general access and change management controls associated with the administration system; and
3. *Deloitte Real Estate specialists (DRE)*, with whom we consulted on our approach to benchmarking the property pooled investments held by the Fund.

Going concern

We are required to comment on the going concern basis of preparation of the financial statements in our audit report. As part of this process, details of the work we perform around the going concern assessment are detailed below:

- considered the statutory basis of the Fund;
- considered the results of the 2019 triennial valuation; and
- assessed the risk to the fund of non-receipt of contributions from its admitted bodies.

Our conclusion

Subject to the satisfactory receipt and the completion of the items in Appendix 5, we expect to issue an unqualified audit opinion on the financial statements of the Fund.

In reaching our conclusions we considered the control observations and the results from our testing on pages 10 to 14. In addition, we noted:

- the significant accounting judgements and estimates appear reasonable; and
- there are no uncorrected adjustments.

Nicola Wright
Audit Partner

Changes to our risk rating from our planning report

Impact on our audit

The table below summarises the key areas in which we have changed our audit plan in response to COVID-19 since our planning report.

Area	Increase of risk classification and/or change in controls based approach	Impact on our audit
Valuation of property pooled investment vehicles ('PIVs')	<p>In our planning report, we identified the valuation of investments as an area of audit focus. The Fund holds property PIVs within its investment portfolio.</p> <p>Subsequent to the issue of our planning report and prior to the Fund year end, the impact of COVID-19 resulted in surveyors including a 'material uncertainty' clause in their valuations due to the impact of COVID-19 on the property sector. As a result of COVID-19, there have been fewer market transactions resulting in less transparency and more judgement being involved in the preparation of property valuations.</p> <p>While our risk assessment has not changed relative to our planning report, this has meant we have had to perform additional procedures and testing in this area.</p>	<p>We have enhanced our testing of property PIVs in the current year and have consulted with our colleagues in Deloitte Real Estate in relation to our testing approach.</p> <p>Property PIVs with material uncertainty around their valuation accounted for 7.8% of the net assets at the year-end and therefore, in our judgement, that is not significant enough for an emphasis of matter to be added to our audit report.</p> <p>In addition, we have reviewed the disclosures in the draft financial statements around property fund valuations.</p>

In addition to the areas above, we have remained sceptical around the operation of controls during the lockdown period and we have confirmed that Fund controls continued to operate as expected. In addition, given the market uncertainty created as a result of COVID-19, we have continued to be robust in our assessment of the going concern of the Fund.

Materiality

Our approach to materiality

Basis of our materiality benchmark

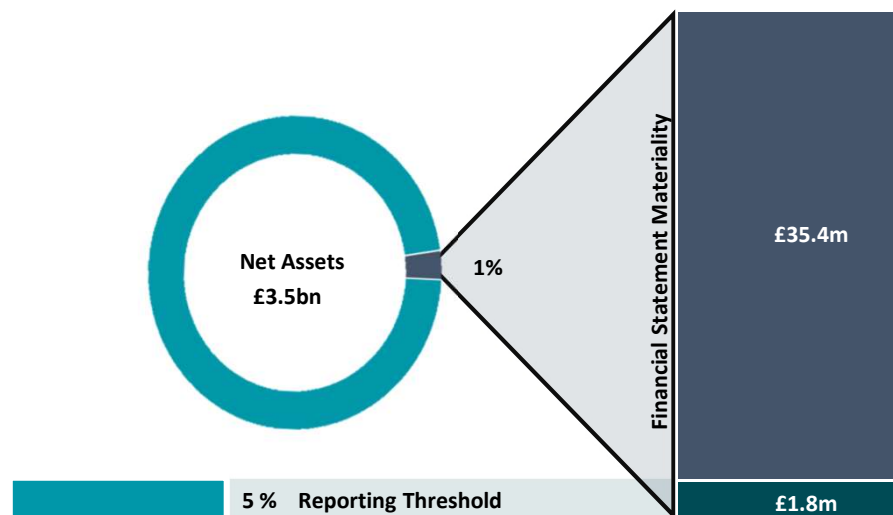
- We set materiality for our opinion on the financial statements at 1% (2019: 1%) of the net assets of the Fund.
- For the year ended 31 March 2020, we determined financial statement materiality to be £35.4m (2019: £23.1m).
- In the prior year, we had capped materiality to the lowest materiality advised to us by the auditors of the admitted bodies, grossed up by the percentage of the total Fund assets represented by this admitted body. We revised our approach to calculating materiality in the current year as this is our second year as auditors of the Fund with no significant issues identified.

Reporting to those charged with governance

- We report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- For the year ended 31 March 2020, we determined the reporting threshold for the financial statements to be £1.8m (2019: £300k).
- Auditing standards also require us to highlight any uncorrected disclosure deficiencies to enable the Audit Committee to evaluate the impact thereof.
- For avoidance of doubt, we have not identified any uncorrected misstatements or disclosure deficiencies to report to you (see Appendix 1), but should we do so from the remainder of our testing, we will report these to you.





















Materiality calculation






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



Scoping

Risk Dashboard

Risk Identified	Material Balance	Management Judgement	Proposed Approach	Fraud Risk	Further Details
 Significant Risk Management override of controls			D&I		Pg. 10
 Other Focus Area Completeness and accuracy of the asset transfer to Border to Coast			D&I		Pg. 12
 Other Focus Area Completeness and valuation of investments			D&I, OE		Pg. 13
 Other Focus Area Valuation of indirect property			D&I		Pg. 6
 Other Focus Area Completeness and accuracy of contributions			D&I		Pg. 14

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



**Significant
audit risk**

Significant risk

Management override of controls

Risk identified

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

Response of those charged with governance

The AC does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

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

Deloitte comment

We are currently finalising our documentation and testing around journal entries.

Except for the above, we have not identified any matters to report to the AC. If any findings arise from completion of this testing, we will provide a verbal update at the AC meeting on 26 October.

Deloitte response to significant risk identified

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

- Used Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Reviewed related party transactions and balances to identify if any inappropriate transactions had taken place; and
- Reviewed the accounting estimates for bias, such as year-end creditor and debtor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.

The following procedures are still outstanding:

- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Assessed whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year; and
- Tested the design and implementation of controls around the journals process and investment and disinvestment of cash during the year.



Audit focus areas

Areas of audit focus

Completeness and accuracy of the asset transfer to Border to Coast

Risk identified

Due to the Government announcement that Local Government Pension Schemes ('LGPS') must pool their assets together in order to reduce the cost of investing to the public purse, the Fund has agreed to become part of the Border to Coast pool. During the year, the Fund transferred directly held assets to the Border to Coast Global Equity and UK Equity Funds.

The transfer of these assets is an audit focus area given the need to determine the completeness and accuracy of the transfer of these assets.

Response of those charged with governance

The Fund engaged Legal & General ('LGIM') to provide oversight and to report to them about the transition process.

Deloitte comment

We have completed this testing with no matters to report to the AC.

Deloitte response to focus area identified

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

- Confirmed the completeness and accuracy of the values of the assets transferred by comparing the closing balances of the equity assets as per the client management breakdown and the LGIM transition report to the opening balances held at Border to Coast;
- Performed a review of the LGIM transition report, which provides an overview of the assets transferred to Border to Coast, in order to identify whether there are any significant issues to be noted; and
- Tested the design and implementation of key controls around asset transfers by reviewing the Border to Coast Type 1 internal control report and the custodian internal control report.

Areas of audit focus

Completeness and valuation of investments

Risk identified

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

Additionally, within this portfolio, there is a range of alternative investments. These funds do not have publicly available prices and are often infrequently priced, increasing the risk of stale pricing. As noted on page 6, due to the uncertainty created by the COVID-19 crisis and the underpinning of property funds with a 'material uncertainty' clause as at 31 March 2020, we have performed additional testing around the property PIVs.

Response of those charged with governance

The Fund appoints various investment managers and BNYM as custodian for these investments.

Deloitte comment

Management have valued the Border to Coast investments at the year-end using a value derived from the dealing price at 25 March rolled forward for market movements. In practice, it would be more appropriate to use the dealing price at 1 April rolled back to 31 March, however we do not consider the approach taken to be unreasonable. As the difference between the value used at 31 March and the price at 1 April is not material (movements of -3.9% and -4.6% in the unit price of the UK Equity and the Global Equity funds respectively), we do not propose taking an error to our schedule of misstatements. In subsequent years, we recommend that management value the Border to Coast funds using the closest dealing price to the year-end date, adjusted for market movements.

At the year-end, the indirect property portfolio with a material uncertainty around its valuation accounted for 7.8% of the net assets. In our judgement, that is not significant enough for an emphasis of matter to be added to our audit report.

We identified a stale pricing adjustment where the first draft financial statements included a value for the Permira Credit fund which was overstated when compared to the investment manager valuation statement – see Appendix 1. This error has been adjusted in the final draft financial statements.

The pensions team does not perform investment unit reconciliations but instead relies on the work done by the custodian. This increases the risk that an investment transaction goes unnoticed, as the change in market value is effectively a balancing figure in the annual reconciliation. We recommend that the pensions team performs a regular unit reconciliation of the investment holdings, thus ensuring completeness of transactions.

The internal control reports for Threadneedle and M&G are qualified, however we are satisfied that these qualifications have no impact on the year-end valuation of investments and the completeness of transactions during the year.

Except for the above, we have not identified any findings in terms of the completeness and valuation of investments to report to the AC.

Deloitte response to focus area identified

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

- Tested the design and implementation, and the operating effectiveness where applicable, of key controls over the completeness and valuation of investments by obtaining the investment manager internal control report (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agreed the year end valuations and sales and purchases totals in the accounts to the reports received directly from the investment managers and BNYM as custodian, and reconciled these to the individual confirmations received from the investment managers;
- Agreed registered funds and directly held investments to publicly available prices;
- Performed independent valuation testing for a sample of year-end alternative investment holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark;
- Ensured appropriate stale price adjustments have been posted to the financial statements;
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. purchases, sales, change in market value); and
- Tested the completeness of investments by agreeing a sample of purchases and sales transactions to the investment manager confirmations.

Areas of audit focus

Completeness and accuracy of contributions

Risk identified

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

As a result, we consider the completeness and accuracy of contributions to be an audit focus area.

Response of those charged with governance

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

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

Deloitte comment

We are currently finalising our testing around recalculating individual contribution deductions and reconciling active members numbers.

Except for the above, we have not identified any matters to report to the AC. If any findings arise from completion of this testing, we will provide a verbal update at the AC meeting on 26 October.

Deloitte response to focus area identified

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

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



Other findings

Other findings

Heywood Altair system – no formal Service Level Agreement (SLA)

Risk identified

It has been noted that the North Yorkshire County Council (the 'Council') are responsible for the hosting and maintenance of the Heywood Altair system, the main pension administration system for North Yorkshire Pension Fund. The Fund does not receive Service Auditor Reports (SARs) from the Council and there are no formal SLAs in place with them. There is also no independent monitoring from management at the Fund over the main pension administration system that is hosted externally. This leads to the Pension Fund receiving no assurance over the operation of key IT general computer controls including information security, change management and IT operations.

In mitigation, there are general SLAs in place within the Council that are used across all services that the Council has a business relationship with, therefore there are general expectations outlined between the Council and the Fund, although not specific to the needs of the Fund. The Council hosts a range of services for external organisations, therefore the Fund is able to gain some assurance over the security and operating effectiveness of the controls the Council holds over the underlying infrastructure of the Heywood Altair system.

Recommendation

Formal Service Level Agreements should be put in the place between the Council and the Fund, so as to ensure that the Fund receives assurance over the operation of key IT general computer controls.

Prior year findings

Follow up on prior year findings

Finding	Recommendation	Follow up
Heywood Altair system – no formal Service Level Agreement (SLA).	Formal Service Level Agreements should be put in place between the Council and the Fund, so as to ensure that the Fund received assurance over the operation of key IT general computer controls.	No change. We continue to report this finding in the current year – see page 16.
The pensions team does not perform a unit reconciliation of investment holdings, relying instead on reporting prepared by the global custodian, BNYM.	We recommend that the pensions team performs a regular unit reconciliation of the investment holdings, thus ensuring completeness of transactions.	No change. We continue to report this finding in the current year – see page 13.
The contributions workbook is not being returned to the pensions team on a timely basis, which can lead to errors in recording contributions expected against received. In addition, the workbook is not protected and employers may change the contribution rates, which may lead to contributions not being paid in line with the rates stipulated by the latest actuarial valuation.	We recommend that the pensions team formalises the requirement for the contributions workbook to be returned on a monthly basis by employers. We also recommend that the workbook’s prepopulated rates are protected in order to prevent changes.	The pensions team has created capacity so as to enable all team members to become familiar with the contributions cycle and be able to chase/reconcile/review contribution receipts at regular intervals. This has resulted in the contributions workbook being returned, and contribution payments being made, on a timely basis. In addition, the contributions workbook has had deficit funding amounts and contribution rates locked down to mitigate the risk around inaccurate payments.
A number of smaller employers had not paid contributions on time and the pensions team did not follow up on late payments due to other priorities. Contribution payments are collated by one member of staff and there is no cover if this staff member is absent. IN addition, there is no management review of the reconciliation of contributions.	We recommend that the pensions team performs a monthly reconciliation of missing contributions and implements a process for chasing relevant employers. We also recommend that tracking of contributions is extended to a number of members of the team to act as cover when needed. In addition, a senior member of the pensions team should review the reconciliation of contribution receipts.	See above.
Checks are not performed by the Fund on whether Independent Financial Advisers (IFAs) are appropriately qualified and registered with the Financial Conduct Authority (FCA).	We recommend that the benefits team perform an IFA check as part of their standard checks when a member decides to transfer out.	The FCA is no longer maintaining its IFA register, so most IFAs will not appear on the FCA register going forward in any case.



Maintaining audit quality

Our approach to quality

AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020, the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections, providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm-wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm-wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm-wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

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

We described the scope of our work in our proposed audit plan circulated to you on 12 March 2020.

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

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

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



Deloitte LLP

Statutory Auditor

Newcastle upon Tyne | 13 October 2020



Appendices

Key audit matters

Appendix 1: Audit adjustments

Current year and prior year audit adjustments

Detail	Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
Uncorrected misstatements identified in current year	-	-
Corrected misstatements identified in current year		
Stale price adjustment re. Permira Credit fund	(1.58)	1.58

Disclosure deficiencies

There were no corrected or uncorrected disclosure deficiencies to bring to the Audit Committee's attention for the current year.

Prior year misstatements and disclosure deficiencies

There were no corrected misstatements in the prior year.

Uncorrected misstatements related to:

[1] Differences between the BNYM custodian report and investment manager reports totalling £5,411k.

[2] Differences in the valuation of fixed interest securities between M&G and Bloomberg.

Disclosure deficiencies related to:

[1] The Aberdeen Standard Liquidity Fund (£7.0m year end value) is currently disclosed under Cash and cash equivalents in note 14a of the financial statements. As this is a pooled investment vehicle, it should really be disclosed under that heading. The result of the current classification is that £21.3m purchases and £14.4m sales are not presented in note 11a. While not considered material, this is a disclosure deficiency.

Appendix 2: ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Fund and management. It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Auditor's Responsibility

An auditor conducting an audit in accordance with ISAs (UK) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.

As part of our partner-led planning process, as an audit team we have considered the possible avenues of fraud within the Fund and have outlined our approach to each consideration below.

Consideration	Approach
Fraudulent posting of journal entries – the purposeful misstatement of the financial statements	We have outlined our approach to the mitigation of this risk on page 10.
Fraudulent valuation of investment assets - incentive to overstate asset values	We have outlined our approach to the mitigation of this risk on page 13.
Misappropriation of cash - disinvestments not processed in accordance with the investment mandate	In response to this risk, we performed a walkthrough of the disinvestment process and assessed the design and implementation of the identified controls. We inspected the investment mandate in place and the signed disinvestment instruction to ensure it has been processed appropriately. We then tracked the disinvestment proceeds to the Fund bank account.
Creation of fictional pensioner records and payments to non Scheme members	In response to this risk, we performed a walkthrough of the process and assessed the design and implementation of controls around pensioner set up and amendments to existing Altair records to ensure there are appropriate controls and enforced segregation of duties. In addition, we performed design and implementation testing of controls associated with payments made from the Fund bank account to ensure they are authorised in accordance with payment limits.
Circumvention of the review process within Altair	In response to this risk, we performed a walkthrough of the process and assessed the design and implementation of controls around the processing of retirement and transfers out cases to ensure there is segregation of duties. We also evaluated the controls around user access level reviews to ensure there is appropriate segregation between those performing a process and those reviewing the process and ensured that the same process cannot be performed and reviewed by the same person.
Pensioner existence – payment of pensions to deceased members	In response to this risk, we performed a walkthrough of the process and assessed the design and implementation of controls around the existence of pensioners to ensure the timely suspension of pensions to deceased members.

Appendix 3: Fraud responsibilities and representations

Responsibilities explained



Your responsibilities:

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



Our responsibilities:

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



Fraud characteristics:

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

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

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 3: Fraud responsibilities and representations (continued)

Inquiries

We have made the following inquiries regarding fraud:



Management:

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



Internal audit

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



The Audit Committee

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

Appendix 4: Independence and fees

A fair and transparent fee

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

Independence confirmation	<p>We confirm that the audit engagement team and others in the firm (as appropriate), Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.</p> <p>In considering the requirements of Auditor Guidance Note 01 (issued by the National Audit Office) and the Ethical Standard 2019 to report all significant facts and matters that may bear upon our integrity, objectivity and independence, though not meeting the defined criteria for an affiliate of an audited entity, we have taken account of the tax and internal audit services provided to Border to Coast Partnership by Deloitte. To this effect we have documented our assessment on the threats and safeguards concerned with the delivery of services to, and the receipt of fees from, Border to Coast Pension Partnership, along with our assessment on the opinion of a reasonable and informed third party on these services.</p>
Fees	<p>Our audit fee for the year ended 31 March 2020 is £19,206. The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we will be looking to discuss with management the current level of fee which we deem to be too low given the size and complexity of the body.</p> <p>The above fee also excludes the cost of providing IAS 19 letters to other local authorities that will be recharged by the Fund to the other local authorities. It also excludes the fee for the additional audit work we have had to do in relation to COVID-19 assurance. These fees are in the process of being quantified and will be discussed with management.</p> <p>The above fee excludes VAT.</p>
Non audit services	<p>In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy.</p> <p>We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.</p>
Ethical Standard 2019	<p>The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest ' where assets are greater than £1bn and there are 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subsidiaries will be prohibited.</p>

Appendix 5: Outstanding items

Items outstanding at the date of this report

Our final opinion is subject to completion of these items:

- Receipt of final version of the financial statements for our review
- Finalisation of our internal quality control procedures
- Partner and technical review clearance
- Going concern review
- Finalisation of our testing around journal entries
- Finalisation of our testing around recalculating individual contribution deductions and reconciling active members numbers
- Receipt of signed representation letter
- Satisfactory completion of our post year-end events review

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