Deloitte.

North Yorkshire Pension Fund

Planning report to the Audit Committee on the 2022 audit

Issued on 10 March 2022

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Contents

Partner introduction

The key messages in this report

I have pleasure in presenting our Planning Report to the Audit Committee for the 2022 audit of the North Yorkshire Pension Fund (the 'Fund'). We would like to draw your attention to the key messages in this paper.

Audit quality is our number one priority

We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

A **robust** challenge of the key judgements taken in the preparation of the financial statements.

A strong **understanding** of your internal control environment.

A **well planned** and delivered audit that raises findings early with those charged with governance.

Changes in the year

Based on our discussions with the finance team, we have been made aware of the following significant developments:

- Further investment transfers to Borders to Coast Pension Partnership ('BCPP') (circa £414m). We will review the transfer of assets, as well as the internal control reports of BCPP and the investment custodian, Bank of New York Mellon ('BNYM'), to ensure the accuracy of the transactions.

The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the 2021/22 Code") applies in the current year. There have been no major regulatory changes to the accounting requirements of the Fund in the current year.

The Russian invasion of Ukraine is impacting upon global financial markets. To date the assets most significantly affected have been those directly linked to Russia and Ukraine – government bonds issued by those countries and companies based there or with significant operations there. Whilst at this time we do not believe the impact on the Fund to be significant, we will be mindful of these developments during the course of our audit with a particular focus on valuation and liquidity risk, reputational risk and disclosure.

Significant audit risk

As part of our audit planning procedures and based on planning discussions held, we have created a risk assessment so that our plan reflects those areas which we believe have a greater chance of leading to material misstatement of the financial statements.

Our significant area of audit risk is management override of controls.

Our scoping decisions and proposed approach to testing this area is outlined on page 12.

Non-compliance with laws and regulations, including fraud

As noted within our quality objectives on this page, we are committed to delivering a robust challenge of the key judgements and control environment. Our core team will be supplemented by IT specialists in order to support us in our testing of the IT controls.

Nicola Wright
Audit Partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

The primary purpose of the auditor's interaction with the Audit Committee:

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities
- Provide assurance over the financial statements

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

Oversight of external audit

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

Integrity of reporting

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

Internal controls and risk

- Review the internal control reports and risk management systems for Fund advisors.
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether there is a need for an internal audit function and any testing to be performed over pension activities.

Whistle-blowing and fraud

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

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn and initial comments from the interim and final visits will be shared with management as required. The following sets out the expected timing of our reporting to, and communication with, you.

Planning	Interim fieldwork	Year end fieldwork	Post reporting activities
• Planning discussions • Discussion of fraud risk assessment • Audit team presents planning report to the Audit Committee	• Document design and implementation of key controls and update understanding of key business cycles • Substantive testing of limited areas including benefits, contributions and expenditure	• Audit of Annual Report and Financial Statements • Year-end audit field work visit • Year-end closing meetings with management • Completion of testing on significant audit risks	• Issue year end report to the Audit Committee and presentation of report and attendance at Committee meeting • Audit de-brief on the 2022 audit • Reporting of significant control deficiencies • Signing audit reports in respect of Financial Statements • Planning considerations for 2023 audit
Planning	Verbal update	Continuous reporting to Management	Final report to the Audit Committee and any additional reporting as required
February 2022 – March 2022	**March 2022 – April 2022**	**June 2022 – September 2022**	**Deadline 30 November 2022**

Ongoing communication and weekly calls during the year end fieldwork phase

Materiality

Our approach to materiality

Basis of our materiality benchmark

- We will use 1% of Fund net assets as the benchmark for determining our materiality levels for 2022.
- The audit partner has estimated financial statement materiality as £49.2m (2021: £45.1m), based on professional judgement, the requirements of auditing standards and the net assets of the Fund. These figures are based on the 31 December 2021 investment assets valuation.
- We will determine current year materiality figures and reporting to those charged with governance figures for the Fund on receipt of the draft 2022 financial statements.

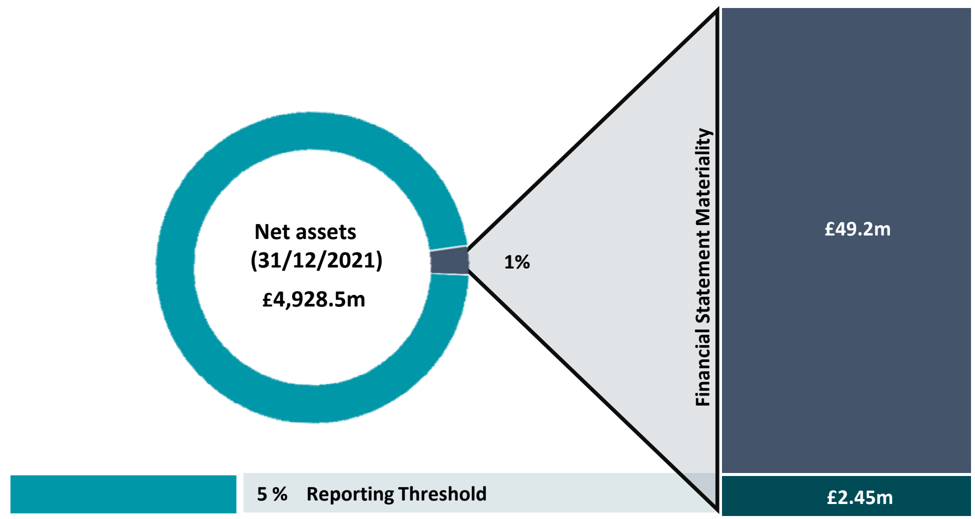
The basis for our materiality calculations is the same as the previous year.

Reporting to those charged with governance

- We will report to you on any misstatements above our reporting threshold ("RT") which is 5% of the materiality level.
- Misstatements below these thresholds will be reported if we consider them to be material by nature.

Materiality calculation

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



Your control environment

What we consider when we plan the audit

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Responsibilities of management

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Audit Committee

As explained further in the Responsibilities of the Audit Committee on page 4, the Audit Committee is responsible for:

- Overseeing the internal control and risk management systems; and
- Overseeing and understanding what actions management have been, or will be, taking to remedy any significant failings or weaknesses.

As stakeholders tell us that they to wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

Reliance on controls	We test the design and implementation of identified controls in respect of journal entries and financial reporting, contributions and investments, retirements and transfers but not the operating effectiveness. We identify and test the operating effectiveness of relevant controls for a material account balance or class of transactions more significant than revenue to the financial statements. In the current year this entails the further investment transfers to Borders to Coast Pension Partnership - we will seek signed authorisations as well as transition reports in order to gain comfort over the transfer process as well as the controls in place throughout the transition.
Performance materiality	We set performance materiality as a percentage of materiality (typically 70%) to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate. Where we are unable to rely on controls, we may use a lower level of performance materiality.

Scoping

Summary of account balances (Fund Account)

Below we have considered each of the Fund's account balances. We will report factually on the key audit risks that have the biggest impact on the audit, explaining why the risk is relevant within the specific circumstances of the Fund and clearly document the specific procedures we will perform to address the key audit risk. The estimated account balances below are based on the prior year signed financial statements. We will report control observations and other findings in our final report to the Audit Committee on work performed on other account balances.

Contributions – 2021: £133m
This is a material balance. We have considered the risk in respect of accuracy as well as timeliness on page 14.

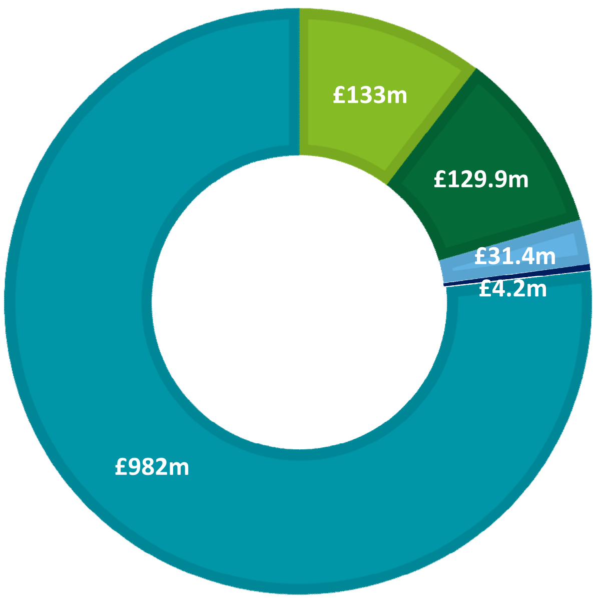
Benefits payable and transfers out – 2021: £129.9m
Benefits payable and transfers consists of material pensions payable, lump sums and transfers out. We have considered the risk in respect of retirement lump sums and individual transfers. As there is little complexity involved and there have not been any significant issues in prior years, this balance will be subject to audit testing as a normal risk.

Management expenses – 2021: £31.4m
These relate to administration and investment expenses. As there is little complexity involved and there have not been any significant issues in prior years, this balance will be subject to audit testing as a normal risk.

Investment income – 2021: £4.2m
This balance is net of interest expense. As the balance is not material, this will not be subject to audit testing.

Change in market value (CIMV) – 2021: £982m
CIMV has been included within the graph due to the significance of its size. As this is manually recalculated as part of our investment reconciliation, the balance will be subject to audit testing as a normal risk, however it has been included as an area of audit focus within "accuracy of investment transactions including transition to BCPP" on page 16.

FUND ACCOUNT BALANCES 31/03/2021

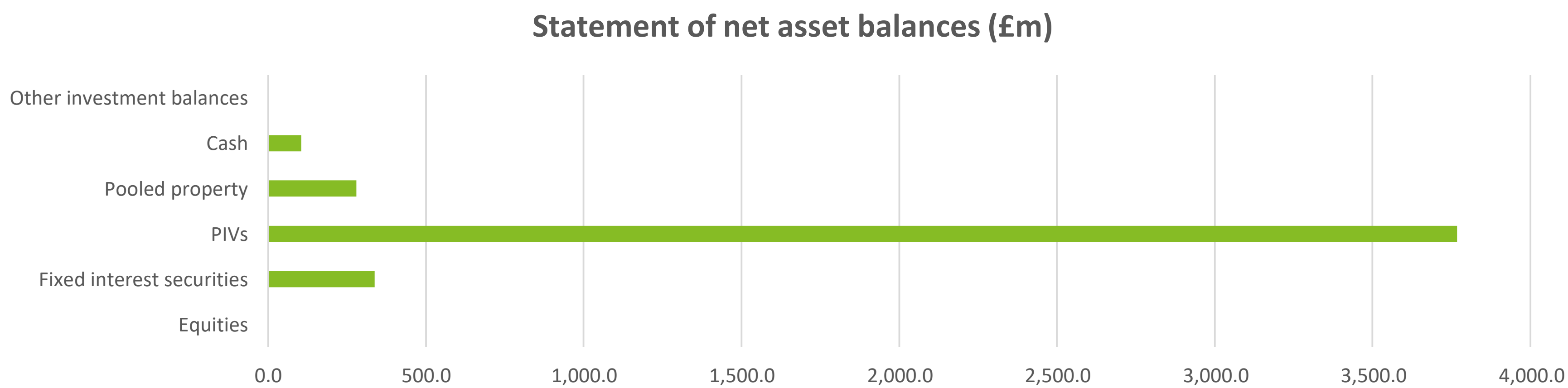


Scoping

Summary of account balances (Statement of Net Assets)

Investment Assets – 2021: £4,493.8m

- **Bonds and Quoted Equities –** As these balances are considered routine in nature and not complex, they will be subject to audit procedures as a normal risk. We will use our pricing vendors to test the valuation of a sample of bonds and equities.
- **Pooled Investment Vehicles ("PIVs")** - The majority of PIVs consist of the private equity portfolio, which are an area of audit focus. They will therefore be subject to enhanced audit procedures which have been discussed on pages 15 and 16.
- **Pooled Property** – As pooled property forms part of the PIVs, we have included audit procedures on pages 15 and 16. As these balances are considered routine in nature and not complex, they will be subject to audit procedures as a normal risk.
- **AVCs/cash/other investments** – As these balances are considered routine in nature and not complex, they will be subject to audit procedures as normal risks. We will substantively test a sample of each balance.



Current assets and long term debtors – 2021: £23.7m

We will agree the year-end cash balance to an independent confirmation as well as testing the bank reconciliations. All other current asset balances are immaterial and therefore will be scoped out of testing.

Current liabilities – 2021: £7.5m

We will also review the post year end bank statements for evidence of any unrecorded liabilities. All other current liability balances are immaterial and therefore will be scoped out of testing.


Significant
audit risks

Significant audit risks

Our risk assessment process

Significant risks are defined as risks which require a tailored, elevated audit response in terms of the nature, timing and extent of audit testing. Significant risks are based on professional judgement and the results of the risk assessment procedures we have performed.

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the disclosures made by the Audit Committee in their previous Audit Committee report;
- our assessment of materiality; and
- the changes that have occurred in the Fund and the environment it operates in since the last annual report and financial statements.

We have rebutted the risk of revenue recognition as there is little incentive or opportunity for revenue (including investment income, transfers and contributions) to be fraudulently misstated and therefore there is limited risk of material misstatement arising due to fraud. The risk of fraud in revenue recognition has therefore not been identified as a significant fraud 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.

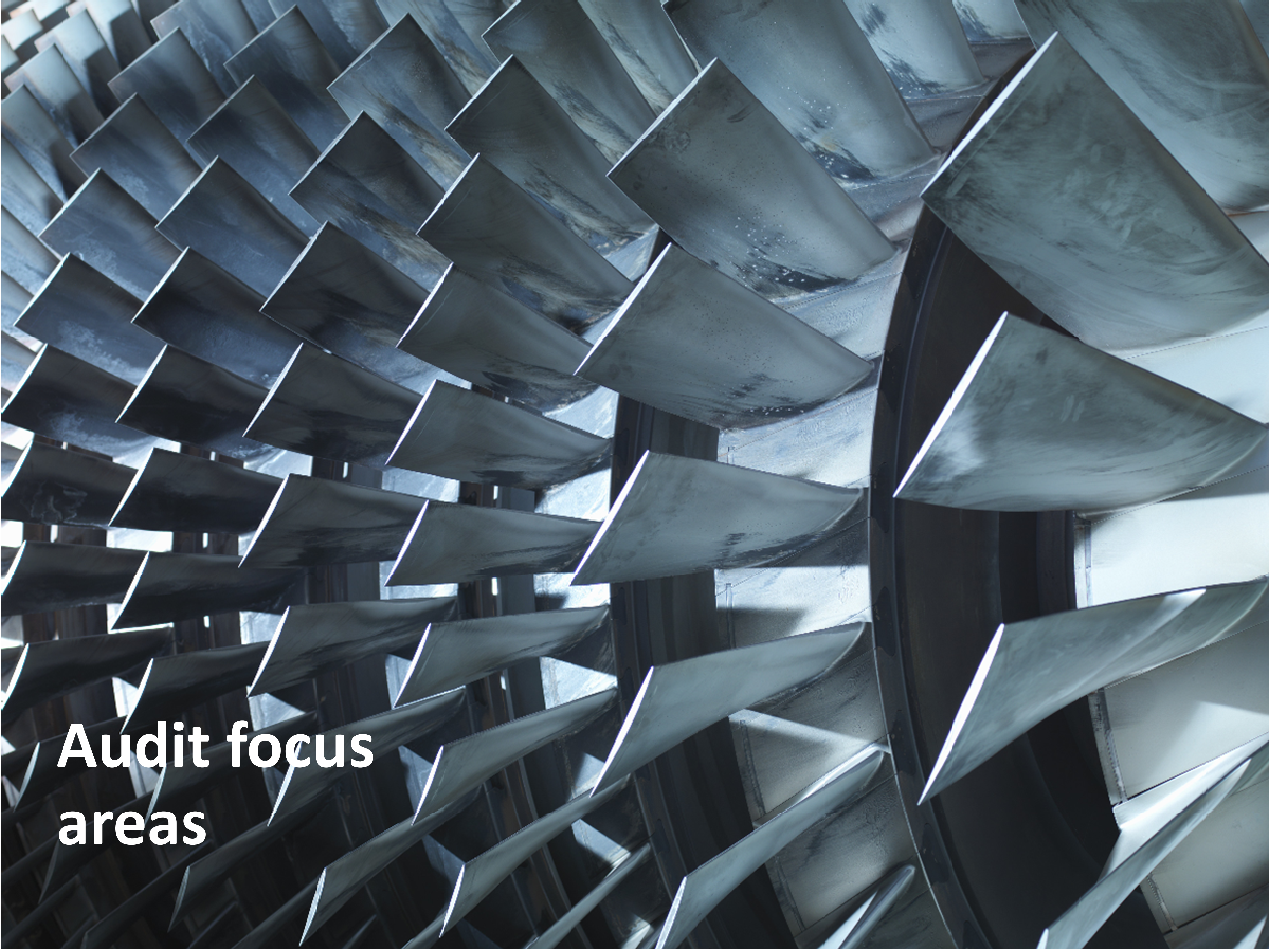
Response of those charged with governance

The Audit Committee has regular oversight of the financial reporting process and there is an adequate level of segregation of duties in place.

Deloitte response to significant risk identified

In order to address the significant risk we will perform the following audit procedures:

- Use 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;
- Substantively test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. As part of our work in this area, we perform an analysis of journal entries which enable us to focus on journals meeting specific pre-determined parameters determined during our audit planning;
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Perform a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Ensure that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Test the design and implementation of controls around the journals process and investment and disinvestment of cash during the year;
- Review of related party transactions and balances to identify if any inappropriate transactions have taken place; and
- Review the accounting estimates for bias, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.


Audit focus
areas

Audit focus areas

Other areas of focus

#	Area of Focus	Risk and procedures
1	**Accuracy and completeness of contributions**	There is some complexity surrounding the accuracy and completeness of employee and employer contributions received by the Fund. The employer primary and secondary contribution rates are dictated by the actuarial valuation and these vary between the contributing employers. Employee contributions are based on varying percentages of employee pensionable pay, this can vary month to month and the Fund has no oversight of the individual employer payrolls. As a result of this we would expect the accuracy and completeness of contributions to be an area of audit focus. Our procedures to address this risk include: • Review the design and implementation of key controls over the contribution process; • Perform 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 will recalculate individual contribution deductions to ensure these are being calculated in accordance with the rates stipulated in the Local Government Pension Scheme (LGPS) Regulations for employee contributions and the recommendations of the actuary for employer contributions respectively; • Test the reconciliation of the total number of active members between the membership records and the employer payroll records; • Test that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions; and • For a sample of monthly contributions paid, check that they have been paid within the due dates per the LGPS Regulations.

Audit focus areas

Other areas of focus

#	Area of Focus	Risk and procedures
2	**Valuation of alternative investments**	Within this portfolio is a range of alternative investments, including private equity and debt funds as well as limited partnerships and hedge funds. These funds do not have publicly available prices and are often infrequently priced increasing the risk of stale pricing. As a result of this we consider the completeness and valuation of these to be an area of audit focus. Our procedures to address this risk include: • Review the design and implementation of key controls by obtaining the investment manager internal control reports (where available) and evaluating the implications for our audit of any exceptions noted; • Review the design and implementation of any key controls performed in-house; • Review the internal controls report for BCPP and perform walkthroughs to independent evidence for key transactions and investments; • Agree the year end valuations as reported in the financial statements to the reports received independently from the investment managers; • Perform independent valuation testing for a sample of year end alternative fund holdings by rolling forward the valuation as per the latest audited accounts using cashflows and an appropriate index as a benchmark; • Obtain the custodian pricing comparison to investment manager prices and review to understand pricing differences; and • Ensure appropriate stale price adjustments have been posted to the financial statements.

Audit focus areas

Other areas of focus

#	Area of Focus	Risk and procedures
3	**Accuracy of investment transactions including transition to BCPP**	The Fund holds a diverse portfolio of PIVs including equities, bonds, standard PIVs and property PIVs. The volume of transactions and different holdings could lead to a risk of incomplete or inaccurate reporting of transactions or balances at the year-end. Our procedures to address this risk include: • Review the design and implementation of key controls by obtaining the investment manager and custodian internal control reports (where available) and evaluating the implications for our audit of any exceptions noted; • Review the design and implementation of key internal controls around investments; • Review the internal controls report for BCPP and perform walkthroughs to independent evidence for key transactions and investments; • Obtain independent confirmation of transactions during the Fund year from the investment managers; • Obtain and audit a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. sales, purchases, change in market value); and • Test a sample of purchases and sales by tracing items from the custodian report to the relevant investment manager confirmation.


Maintaining
audit quality

Our approach to quality

AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 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 2020/21 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.

In that context, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all 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 agree with and accept the FRC’s findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

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

The AQR’s 2020/21 Audit Quality Inspection Report on Deloitte LLP

“We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard”.

- “Our key findings related primarily to the need to:
- Improve the evaluation and challenge of management’s key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams’ oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue.“

“The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm’s methodology and guidance).“

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory updates, relevant to you.

Other relevant communications

- Our technical updates provide the Audit Committee with some insight in to relevant topical events in the pensions industry.
- We will update you if there are any significant changes to the audit plan.

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

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and Fund risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

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

Deloitte LLP

Nicola Wright

for and on behalf of Deloitte LLP

Newcastle upon Tyne | 10 March 2022

Topical matters

Topical matters

New powers to block suspicious pension transfers

Pension providers and Trustees have the power to block pension transfer requests if they suspect a member is being scammed, under measures that came into force. New rules from 30 November 2021 will give Trustees and pension providers the power to block or pause a member's transfer out request if they have serious concerns about the destination of the transfer value.

Under the new powers, Trustees and administrators are able to intervene in a transfer if the information they have gathered from the receiving scheme or any scheme member triggers a "red" or "amber" flag. These flags are detailed below.

Guy Opperman, minister for pensions said "We are tackling the scourge of pension scams in practical terms to safeguard pensioners' hard-earned savings. These measures will provide better protection for savers." The new powers are therefore widely seen as a way for Trustees to protect their members and prevent any future scams going forward. Under the rules, all transfers to master trusts, collective defined contribution (CDC) schemes and funded public sector schemes are effectively exempt as they are regarded as safe destinations.

- The member has not responded to a request for information in relation to a suspicious transfer.
- The member indicates they have received financial advice from a company without the appropriate regulatory permissions.
- The member has requested the transfer following an unsolicited approach from an individual or firm they had no existing relationship with.
- The member has been pressured, or indicated they felt pressured, to make the transfer.

When an amber flag is raised, Trustees and their administrators are required to direct them to Pension Wise guidance and confirm the member has received that guidance before letting the transfer go ahead.

Amber flags would be raised where:

- There are high-risk or unregulated investments included in the scheme the person is transferring to.
- The fees charged by the receiving scheme are unclear or high.
- The proposed investment structures are complicated or unorthodox The receiving scheme includes overseas investments.

*Red and amber flags source AJ Bell

Deloitte response: The Audit Committee should engage with the administration at the Fund to ensure that processes have been put in place to ensure that the new rules were implemented from 30 November 2021 and that these further steps have been implemented to protect members against pension scams.

Topical matters

Pensions related fraud

Pension schemes are attractive to fraudsters. Large sums of money being held for beneficiaries, who, in most cases, have very little involvement in overseeing their accumulation, stretched over a long time period, presents a fertile opportunity. It is surprising, that even with the amount of cases that are prevalent, fraud and scams are often at the bottom of a Trustee's list when it comes to considering risks to their schemes. Please refer below few instances of pensions related fraud and some other useful information which we believe would be helpful for Trustees in risk-assessment.

Investment and misappropriation risks

A trustee was removed by the sponsoring employer for claiming fictitious expenses on account of attending Trustee meetings and other related expenses.

A fraudulent fishing email resulted in disinvestment of pension scheme funds and routed the cash to fraudsters bank accounts.

In January 2019, the former head of the Westminster City Council pension fund was jailed for seven years. He had been found guilty of stealing over £1 million from the fund by diverting monies earmarked for investments for his own personal use.

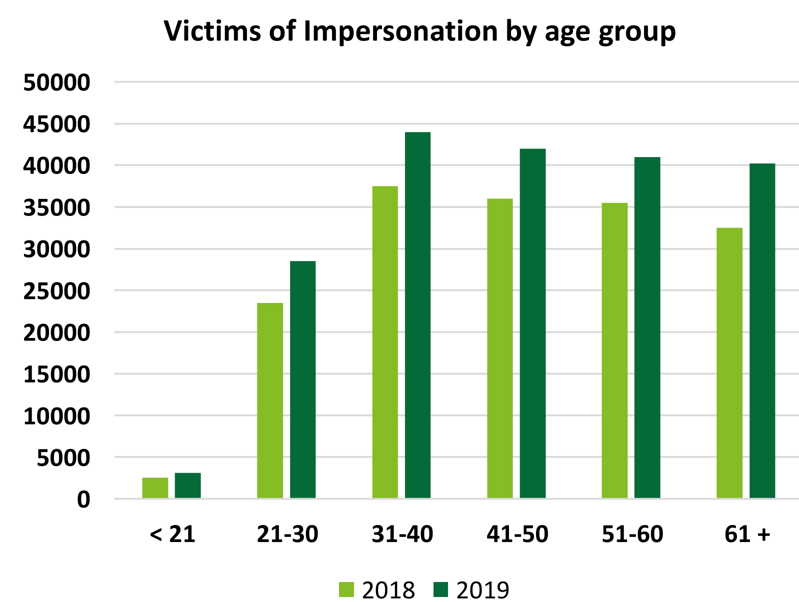
In February 2019, an accountant took over £280,000 from a pension scheme, for which he was a Trustee, to invest in one of his failing businesses. He falsified details of a meeting that approved it.

In November 2018, a Chief Executive Officer (CEO) and Trustee of a pension scheme was banned from being a Trustee after a whistle-blower highlighted he was planning to invest £1.2 million of the pension fund in the firm he was CEO of and a major shareholder in.

A pension fund based in Norfolk, UK covering 90,000 members largely from the local council, was part of a successful case to sue Los Angeles-based Puma Biotechnology and its CEO, who had made false claims which led to artificially inflating the share price. This resulted in a £50,000 loss to the pension fund (and a £100 million loss across all Defendants).

An overnight loan was granted to a related party without appropriate approval. However the loan was returned subsequently and did not cause any significant financial loss to the Scheme.

Cifas is an independent, not-for-profit organisation working to reduce fraud and related financial crime in the UK. As per their records identity fraud rose by nearly 20% in 2019, accounting for the largest number of cases recorded by Cifas members at 61%. People aged over 31 were specifically targeted by this type of fraudulent conduct, with victims aged 60 and over on the rise. The highest number of victims (68%) were recorded in the South East region.



Topical matters

Pensions related fraud

Opportunistic pension fraud

- In 2013, The Sun newspaper, using an undercover reporter, was able to secure a death certificate and an official Indian record of death. Such records are available for as little as £300 from corrupt officials.
- In Russia in 2010, the wife of the 'deceased' presented a Russian death certificate to the British embassy to enable various frauds to take place.
- In 2014, a man was jailed for attempting to claim a £1 million life insurance policy using false death certificates from India.
- In 2019, a woman was convicted of continuing to claim her father's war pension and other benefits after his death in 2004 amounting to a £740,000 loss.
- A daughter continued to claim her mother's pension for two years after her death, defrauding the pension scheme of over £7,500.

Incompetent or corrupt pension administrators

- An employee of the pension Scheme administrator was terminated by the scheme administrator for diverting benefits of dead pensioners to his spouse bank account. A similar case of creating a fictitious pensioner on the payroll was also noted.
- Due to non adherence with employee conflict of interest policies at a Scheme administrator, it was noted that a married couple were preparing and reviewing the bank reconciliations of pension schemes. The incident causes more concerns as it was identified during COIVD times when all employees were working from home.

Pension Liberations

In recent years, the pension liberation reforms have stimulated an increase in frauds targeting those with pensions. This has, in turn led to an increase in the action by authorities to tackle this problem. However, the media focus on 'pension liberation frauds' has masked a range of opportunities for fraud in the wider pensions sector. These include frauds by those running pensions schemes, inappropriate investments and the targeting of pension schemes by external fraudsters, sometimes those involved in organised crime. These risks have received less attention.

National Fraud Initiative (NFI):

Evidence from the National Fraud Initiative (NFI), where details of the deceased are matched against those receiving benefits, also illustrates this continues to be a significant problem. The most recent NFI report identified £55.5m million of payments to persons claiming the pensions of dead persons, whilst the total number of cases were 2,876 claiming average £19,289 per annum.

Comparison of pension related overpayments 2012/13 to 2018/19

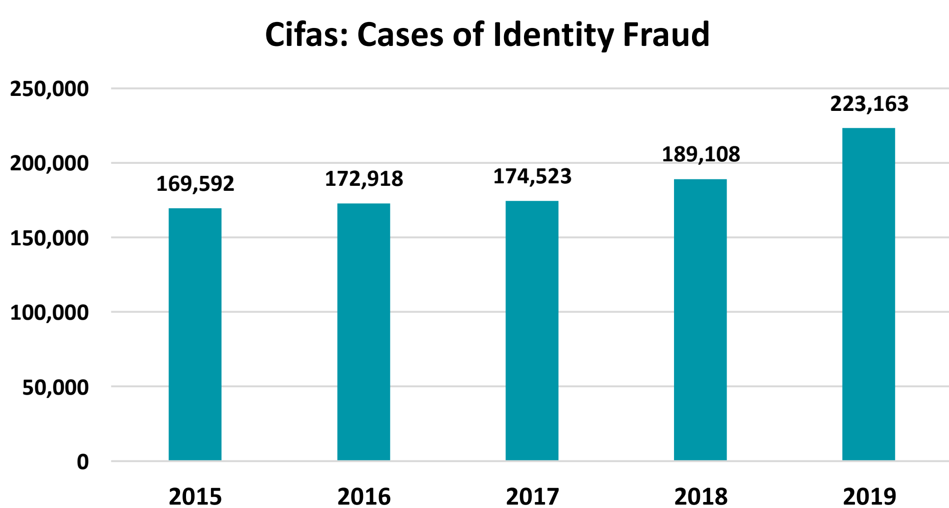
	2012/13		2014/15		2016/17		2018/19	
	Number of cases	£m	Number of cases	£m	Number of cases	£m	Number of cases	£m
	2,990	75.9	3,592	85.1	3,763	136.9	2,876	55.5
Average outcome per case	**£25,385**		**£23,692**		**£36,381**		**£19,289**	

Topical matters

Pensions related fraud

Identity fraud

Research has estimated that there are over 1.6 million 'lost' individual pension funds worth around £20 billion Pension schemes make millions of payments each year and there are a variety of risks of fraud in this area. There are risks from internal fraud where corrupt staff use their knowledge to facilitate a variety of frauds. Given some of the potential weaknesses in the counter fraud processes of pension administrators combined with the large sums available, the risk of such fraud is high. There is significant evidence that shows identity fraud has been increasing in prevalence for the last 10 years. Cifas, a fraud prevention service in the UK, produces statistics each year on the number of cases of identity fraud. Cifas define identity fraud as "when a criminal abuses personal data to impersonate an innocent party or creates a fictitious identity to open an account. Their statistics shows a sharp increase since last five years.



Cyber-security risk

The data pension scheme administrators hold would be very useful to fraudsters. There are a wide variety of risks that emerge as a result of increasing use of digital technologies to administer pension schemes. These include:

- impersonation of legitimate beneficiaries to divert payments
- hacking of systems to alter records for the purpose of fraud
- hacking of systems to secure the personal information of pension holders.

There are many other examples of cybercrime involving sophisticated hackers or corrupt insiders. Any organisation with large amounts of money and sensitive personal data is a potential target for fraudsters.

A UK man based in Berkshire hacked into the Orange County Employee Retirement Scheme in the USA and diverted payments from some members to accounts he had set up in their name. Over £15,000 in pension payments per month were at risk from his fraud.

In 2018, Equifax was hacked exposing 143 million accounts worldwide and 400,000 in the UK.

System super-users access rights granted to few employees of a Pension Scheme administrator to edit their own member records and those of each other. It was noted that Super-users edited their and each other's activity and no second formal review process or other mitigating controls were in place.


Appendices

Appendix 1: 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 Scheme and management. It is important that management, with the oversight of those charged with governance, place 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.

Auditors 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 lead planning process, as an audit team we have considered the possible avenues of fraud within the Scheme 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 12.
Fraudulent valuation of investment assets - incentive to overstate assets value	We have outlined our approach to the mitigation of this risk on page 15.
Misappropriation of cash - disinvestments not processed in accordance with the investment mandate	In response to this risk we will perform a walkthrough of the disinvestment process and assess the design and implementation of the identified controls. We will inspect the investment mandate in place and the signed disinvestment instruction to ensure it has been processed appropriately. We then track 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 will perform a walkthrough of the process and assess the design and implementation of controls around pensioner set up and amendments to existing records to ensure there are appropriate controls and enforced segregation of duties. In addition, we will perform 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 and only on inspection of information received from the member.

Appendix 2: Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Audit Committee, 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 risk section of this document, we have identified management override 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 Audit Committee:

- 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 fraud or suspected fraud that we are aware of and that affects the Fund and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 2: Fraud responsibilities and representations (continued)

Inquiries

We will make 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 Audit Committee 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 Audit Committee 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 Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the Audit Committee on the most significant fraud risk factors affecting the Fund.

Appendix 3: Independence and fees

A Fair and Transparent Fee

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2022 in our final report to the Audit Committee. In considering the requirements of Auditor Guidance Note 01 (issued by the National Audit Office) and the Ethical Standard 2019 to report all significant facts and matters that may bear upon our integrity, objectivity and independence, though not meeting the defined criteria for an affiliate of an audited entity, we will take account of the tax and internal audit services provided to BCPP 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, BCPP, along with our assessment on the opinion of a reasonable and informed third party on these services.
Fees	Our initial audit fee for the year ending 31 March 2022 is £19,206 for the Fund. The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we are in discussion with the Fund regarding the current level of fee which we deem to be too low given the size and complexity of the body. 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. This fee is in the process of being quantified and will be discussed with management. The above fees exclude VAT.
Non audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Ethical Standard 2019	Under the Ethical Standard released by the FRC in 2019, the standard classes pension schemes as 'other entities of public interest ' where assets are greater than £1bn and there are more than 10,000 members. As a result, non-audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.