Deloitte.

North Yorkshire Pension Fund

Planning report to the Audit Committee on the 2023 audit

13 October 2023

Partner introduction

The key messages in this report

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.

I have pleasure in presenting our Planning Report to the Audit Committee for the 2023 audit of North Yorkshire Pension Fund (the 'Fund'). I would like to draw your attention to the key messages of this paper:

Fund changes

In producing our Planning Report, we have held planning discussions with the finance team at the Fund.

One significant change has been the replacement of BNYM as custodian and the appointment of Northern Trust.

There have been no significant regulatory changes to the accounting of the Fund in the current year. The Code of Practice on Local Authority Accounting in the United Kingdom (2022/23) (the '2022/23 Code') applies in the current year.

Significant audit risks

There has been a change in auditing standards (ISA 315) leading to enhanced procedures around our risk assessment.

During our audit planning procedures, we identified the following areas of significant risk:

- Management override of controls; and
- Misappropriation of investment assets.

We have rebutted the risk of material misstatement in revenue recognition consistent with our prior year audits.

In addition, whilst not assessed as significant risks, we have outlined the following areas as areas of audit focus:

- Accuracy and completeness of contributions;
- Valuation of alternative investments; and
- Occurrence and cut-off of year end transactions.

Our proposed approach to testing these areas is outlined on pages 10 to 18.

Audit quality

Our audit approach is tailored to providing the Audit Committee with an audit which is designed to provide assurance and insight over the Fund's control environment. We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management and the Audit Committee.

Independence

We confirm we are independent of the Fund and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2023 in our final report.

Nicola Wright
Lead audit partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact 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

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's responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that 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

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, and level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- 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 risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

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

Continuous communication and reporting

Planned timing of the audit

Planning	Interim audit	Year end fieldwork	Reporting
• Planning meetings to inform risk assessment and identify judgemental accounting issues. • Update understanding of key business cycles and changes to financial reporting. • Review of key documents including Audit Committee minutes.	• Document design and implementation of key controls. • Substantive testing of limited areas • Testing of relevant controls.	• Review of year end performance. • Substantive testing of all areas. • Detailed review of annual accounts and report. • Completion of testing on significant audit risks.	• Final Audit Committee meeting. • Issue final Audit Committee paper. • Issue audit report. • Issue Annual Auditor's Report. • Audit feedback meeting.
2022/23 Audit Planning		Final report to the Audit Committee	
February - June		**July – October**	**November onwards**

Ongoing communication and feedback

Materiality

Our approach to materiality

BASIS OF OUR MATERIALITY BENCHMARK

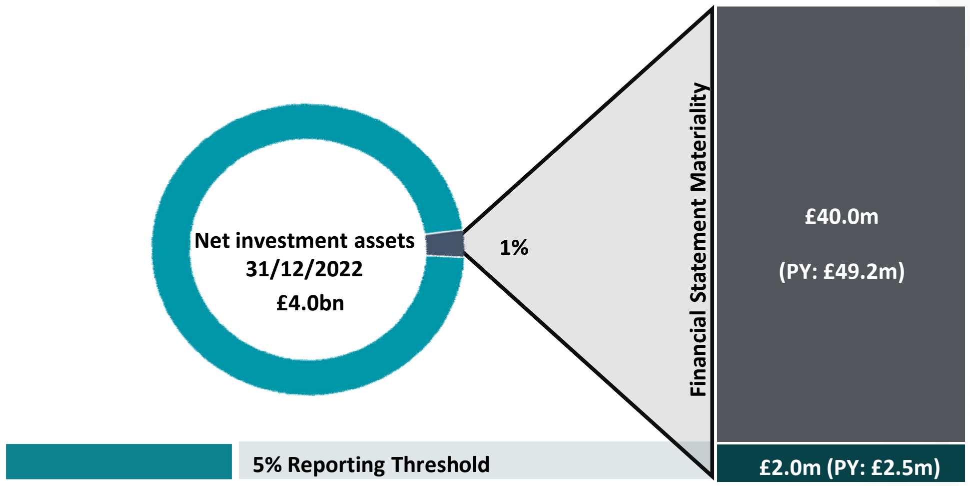
- The audit partner has estimated financial statement materiality for the Fund based on professional judgement, the requirements of auditing standards and the net assets of the Fund.
- The financial statement materiality for the Fund will be based on 1% (2022: 1%) of the net assets of the Fund as at 31 March 2023.
- The materiality levels to the right are estimates based on the investment assets valuation at 31 December 2022.
- All estimates will be updated on receipt of the 2023 draft financial statements.
- The basis for our materiality calculations is the same as the previous year.

REPORTING TO THOSE CHARGED WITH GOVERNANCE

- We report to you on any misstatements found in excess of our reporting threshold ('RT') which is 5% of financial statement materiality.
- 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 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.
- We recommend that the finance team complete the CIPFA code of practice checklist during drafting of the financial statements.

Responsibilities of the Audit Committee

As explained further in the Responsibilities of the Audit Committee on page 3, the Audit Committee is responsible for:

- Reviewing the internal control and risk management systems; and
- Explaining what actions have been or are being taken to remedy any significant failings or weaknesses.

As stakeholders 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, financial reporting, contributions, investments, retirements and transfers but not the operating effectiveness. We will seek to 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 controls around existence and completeness of investment assets. In accordance with the revisions to ISAs, we will assess inherent risk and control risk associated with accounting estimates and seek to test controls relevant to key estimates, as well as testing the design and implementation of the controls over areas we have categorized as significant risks. We will seek to/plan to over existence/completeness of investments

Performance materiality

- We set performance materiality as a percentage of materiality (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.

An audit tailored to you

Changes to our audit plan

The following summarises the key areas in which we have changed our audit plan from the prior year. These changes have been driven by our updated risk assessment which is a requirement of the revised auditing standard ISA315.

Description	Increase or decrease of risk classification	Impact on our audit
Completeness and existence of investments	This has been elevated to a significant risk in the current year. Due to a large volume of investment transactions and significant movements in the market value, there is a risk that an omission may result in material misstatement in the investment balances. This is even more important because of the recent turmoil in the Gilt market with investment managers facing operational challenges due to a large number of collateral requests, reshuffling of the investment portfolio and mass disinvestment.	We will extend our procedures over the testing of the investments. See pages 16-17 for the impact of ISA 315 on our risk assessment.

Risk dashboard

Significant risks and audit focus areas

Risk Identified	Material Balance	Complexity	Proposed Approach	Fraud Risk	Further Details
Significant Risk Management override of controls	✗	!	DI	✓	Pg. 10
Significant Risk Misappropriation of investment assets	✓	!	DI OE	✓	Pg. 11
Other Focus Area Accuracy and completeness of contributions	✓	!	DI	✗	Pg. 13
Other Focus Area Valuation of alternative investments	✓	!	DI	✗	Pg. 14
Other Focus Area Occurrence and cut-off of year end transactions	✓	!	DI	✗	Pg. 15

Significant Risk

Other area of audit focus

! Low levels of complexity

! Medium levels of complexity

! High degree of complexity

DI Design and Implementation

OE Operating Effectiveness

Significant audit risks

01

Significant audit risks

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 delegated the accounting function of the Fund to the in-house finance team.

There is a system of processes and controls in place to address this risk, which is reviewed by internal audit, who in turn report to Audit Committee.

Deloitte response and challenge

In order to address the significant risk, our audit procedures will consist of the following:

- testing the design and implementation of controls around the investment and disinvestment of cash during the year;
- using 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 testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements by agreeing to supporting documentation. 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;
- making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- performing 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;
- reviewing 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; and
- ensuring that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year.

Significant risks

Misappropriation of investment assets

Risk identified

The Fund holds a diversified portfolio of investment assets. This could lead to a risk of incomplete or inaccurate reporting of transactions or balances at the year end.

This has been elevated as a significant risk in the current year. Due to a large volume of investment transactions and significant movements in the market value, there is a risk that an omission may result in material misstatement in the investment balances. This is even more important because of the recent turmoil in the Gilt market with investment managers facing operational challenges due to a large number of collateral requests, reshuffling of the investment portfolio and mass disinvestment. There is a risk that the sales/purchase transactions may not be captured correctly or omitted completely, which may result in investment balances being incomplete or being materially misstated.

Response of those charged with governance

The finance team has oversight over the investment portfolio and regular communications with investment managers.

Deloitte response and challenge

In order to address the significant risk, our audit procedures will consist of the following:

- performing design, implementation and operating effectiveness testing over the relevant controls over existence and completeness of investment assets by reviewing relevant internal control reports at the custodian and investment managers;
- reviewing the custodian to investment manager reconciliations;
- vouching of cash and unit movements through to bank statements and third party confirmations respectively;
- performing an analytical review to assess the reasonableness of the investment return quoted in the draft accounts;
- performing focused procedures to confirm the existence of investments including obtaining 100% of independent confirmations from material investment managers; and
- making inquiries of individuals and reviewing the client transition from BNYM to Northern Trust as new custodian of the investments.

Audit focus areas

02

Audit focus areas

Accuracy and completeness of contributions

Risk identified

There is some complexity surrounding the accuracy and completeness of employee and employer contributions received by the Fund due to the large number of employers. 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.

Response of those charged with governance

The Fund’s administration team has controls in place to ensure contributions are collected.

Deloitte response and challenge

In order to address the risk our audit procedures will consist of the following:

- reviewing the design and implementation of key controls over the contributions process;
- performing 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 the average pay rise awarded in the year;
- for a sample of active members, recalculating the individual contributions 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;
- testing that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions;
- testing 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, checking that they have been paid within the due dates per the LGPS Regulations.

Audit focus areas

Valuation of alternative investments

Risk identified

The Fund holds a large and material portfolio of alternative investments, including private equity, hedge and debt funds, as well as limited partnerships. 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 valuation of these an audit focus area.

Response of those charged with governance

The Fund has a custodian (Northern Trust) that deals with the management of the investment portfolio.

Deloitte response and challenge

In order to address the risk our audit procedures will consist of the following:

- reviewing the controls over the valuation of investments by obtaining the material investment manager and custodian internal controls reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- agreeing the year end alternatives valuations as reported in the financial statements to the reports received independently from the investment managers;
- obtaining the custodian pricing comparison to investment manager prices and review to understand pricing differences;
- performing independent valuation testing for a sample of year end alternative funds by rolling forward the valuation as per the latest audited accounts using cashflows and an appropriate index as a benchmark; and
- ensuring appropriate material stale price adjustments have been posted to the financial statements.

Audit focus areas

Occurrence and cut-off of year end transactions

Risk identified

There is a history of the Fund not completing bank reconciliations on a timely basis and the review not taking place. As a result of this, we consider the occurrence and cut-off of year end transactions to be a focus area.

Response of those charged with governance

The Fund reviews transactions on a regular basis to understand any deviations.

Deloitte response and challenge

In order to address the risk our audit procedures will consist of the following:

- Performing testing from a sample of post year end payments to ensure accruals have been accounted for; and
- Performing testing from a sample of accruals to ensure their valid inclusion in the financial statements.

Revisions to auditing standards

03

Revisions to auditing standards

ISA (UK) 315 – Identifying and assessing the risks of material misstatement

The International Auditing and Assurance Standards Board (IAASB) issued a revised risk assessment standard in December 2019, that takes effect for periods commencing on or after 15 December 2021. For most entities, this will be December 2022 year ends and later. The FRC has adopted the standard in the UK with minimal additions.

The revision was made to respond to challenges and issues with the current standard and requires a more robust risk identification and assessment. We had already incorporated many of the changes into our methodology in advance of the standard being introduced, but we summarise on the next few slides some of the areas where this may impact our audit.

"The IAASB recognizes the importance, and also the complexity, of the auditor's risk assessment process"

IAASB's basis for conclusions, ISA 315

Area of change	Impact on our audit	Impact on the entity
New requirement to evaluate the 4 entity-level components of internal control	Whilst we have always been required to gain an understanding of the entity and its environment, including its internal controls, the new standard is more prescriptive on the need to go further and evaluate the 4 entity level controls components: the entity's control environment, risk assessment process, monitoring of internal control, and information system. This could lead to an increase in the number of relevant controls.	You will need to consider the adequacy of your entity-level controls, and documentation thereof. You should also expect more granular inquiries regarding the control environment.
Enhanced consideration of the types of relevant controls	Overall we expect to identify an increased number of relevant controls, particularly for controls designed to address risks at the higher end of the spectrum of inherent risk and controls over reconciliations. Where new relevant controls are identified, we may also identify control deficiencies and need to consider the effect of these.	We will review the controls relating to the existence of investments for the Fund.
Enhanced understanding of IT and General IT controls	As we identify more relevant controls, it is likely there will be more relevant IT controls (e.g. automated controls) which themselves rely on underlying General IT Controls (GITCs). We may need more IT specialist involvement to gain an enhanced understanding of IT controls and GITCs, particularly where there are a high volume of automated transactions in the entity. Similarly, where new IT systems come into scope, the likelihood is that there will be an increase in the number of deficiencies identified and action will be needed to determine the appropriate response.	You should expect more challenge over the effectiveness of your GITCs.
New approach to scoping account balances, classes of transactions and disclosures	We may now identify some account balances as "material but not significant" where we do not identify a risk of material misstatement, but where we are required to perform some substantive testing.	Unlikely to impact the Fund.

Revisions to auditing standards

ISA (UK) 315 – Identifying and assessing the risks of material misstatement

Area of change	Impact on our audit	Impact on the entity
Revised definition of a significant risk, focused on risks at the upper end of a spectrum of inherent risk	Although we do not routinely anticipate there being a significant increase in the number of significant risks identified, where there are more material judgements or estimates being made and a significant risk has not been identified previously, we may conclude there is a significant risk.	You will see the elevation of existence and completeness of investments to a significant risk as a result for the Fund.
Stand back requirement and increased focus on professional scepticism	Our audit approach already acknowledges that risk assessment is an iterative process as well as emphasising the importance of professional scepticism. We will use this as an opportunity to challenge ourselves on the evidence that professional scepticism has been applied through the risk assessment processes, including as part of the stand back assessment.	You should expect more challenge of the evidence provided in respect of our risk assessment, including revisiting this towards the concluding stage of the audit.

Revisions to auditing standards

ISA (UK) 240 – The auditor's responsibilities relating to fraud in an audit of financial statements

The Financial Reporting Council (FRC) issued a revised fraud standard in May 2021, that takes effect for periods commencing on or after 15 December 2021 which will be for December 2022 year ends and later.

Many of the revisions provide increased clarity as to the auditor's obligations and codify existing expectations or best practice. The updates to the ISA do not include any changes relating to proposals in the Government's White Paper regarding auditor reporting on a statement by directors on the steps they have taken to prevent and detect material fraud.

We summarise on the next few slides how this will impact our audit.

Area of change	Impact on our audit	Impact on the entity
Fraud inquiries	In addition to the pre-existing required enquiries, we are now explicitly required to make inquiries of management or others at the entity who handle whistleblowing. We also required to discuss the risks of fraud with those charged with the governance, including those risks specific to the entity's business sector.	You should expect further challenge in relation to who we speak to in relation to fraud at the entity, including more focus on entity/sector specific risks if appropriate/applicable.
Engagement team discussions	The revised ISA (UK) emphasises that the pre-existing audit team fraud discussion should explicitly include an exchange of ideas about fraud, incentives to commit fraud, and how management could perpetrate and conceal fraud. There is also an explicit requirement for the engagement partner to consider whether further fraud discussions should be held at later stages of the audit.	You should expect increased challenge of the controls and processes in relation to the entity's own fraud risk assessment and the documentation of that assessment.
Identified or suspected fraud by a key member of management	The revised ISA (UK) clarifies that if we identify or suspect fraud by a key member of management this may be qualitatively material.	Further challenge in relation to identified or suspected fraud by a key member of management.
Involvement of specialists	We are explicitly required to determine whether the engagement team needs specialised skills and knowledge: • To perform the fraud risk assessment procedures, to identify and assess the risk of material misstatement due to fraud, to design and perform audit procedures to respond to those risks or to evaluate the audit evidence obtained; or • Where a misstatement due to fraud or suspected fraud is identified.	We will involve our actuarial or financial instruments specialists if this is required, as well as industry specialists.

Revisions to auditing standards

ISA (UK) 240 – The auditor's responsibilities relating to fraud in an audit of financial statements

Area of change	Impact on our audit	Impact on the entity
Journal entry testing	We were already required to test the appropriateness of journal entries and other adjustments made in the preparation of the financial statements and make inquiries of personnel. The revised ISA (UK) clarifies that our selection process should consider specifically manual journals and post-closing entries. The standard also emphasises that when making inquiries about inappropriate or unusual activity relating to the processing of journal entries and other adjustments, we should make inquiries of individuals with different levels of responsibility in the financial reporting process.	There will also be more inquiries with people at different levels of responsibility at the entity.
Representations from those charged with governance	We will request an additional representations from those charged with governance regarding their responsibilities for the prevention and detection of fraud.	You should expect updated representations from those charged with governance that they believe they have appropriately fulfilled their responsibilities to design, implement and maintain internal control to prevent and detect fraud.

Our approach to quality

04

Our approach to quality

FRC Audit Quality Inspection and Supervision report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 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 2021/22 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, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high quality audits.

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 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."

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 and corporate governance updates, relevant to you.

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 business 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.

Use of this report

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.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

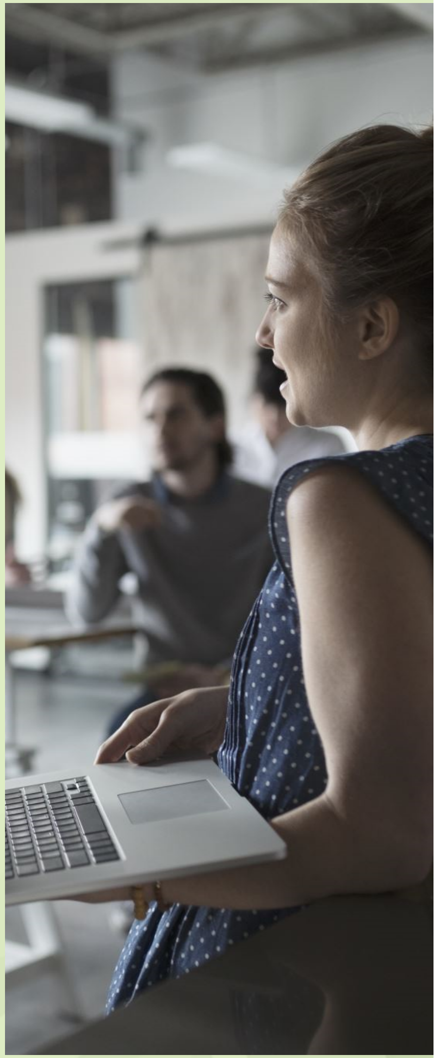
Deloitte LLP

Nicola Wright

for and on behalf of Deloitte LLP

13 October 2023

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



Topical Matters

Topical matters

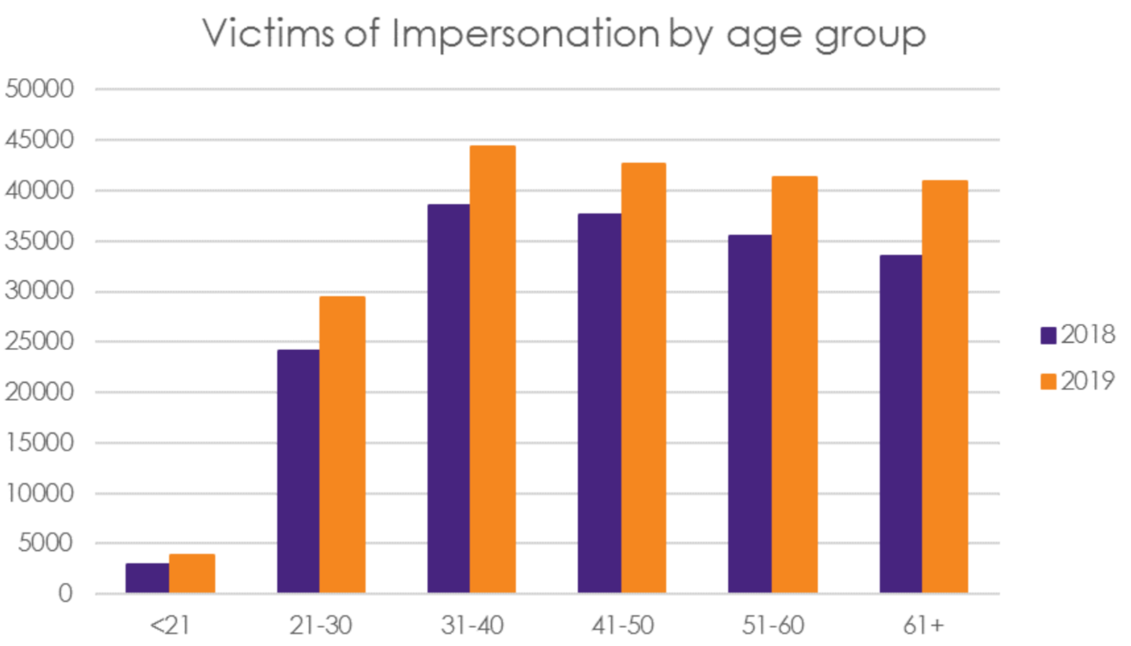
Pensions related fraud (1/3)

Pension Funds 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 an Audit Committee list when it comes to considering risks to their Funds. Please refer below to a few instances of pensions related fraud and some other useful information which we believe would be helpful for Audit Committees in risk-assessment.

Investment and misappropriation risks

- A trustee was removed by the sponsoring employer for claiming fictitious expenses on account of attending Audit Committee meetings and other related expenses.
- A fraudulent fishing email resulted in disinvestment of pension Fund 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 Fund, for which he was a AC, 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 Fund 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 Fund.

Cifas is an independent, not-for-profit organisation working to reduce fraud and related financial crime in the UK. They identity that 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 (2/3)

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 Fund of over £7,500.

Incompetent or corrupt pension administrators

- An employee of the Pension Fund administrator was terminated by the Fund administrator for diverting benefits of dead pensioners to his spouse's 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 Fund administrator, it was noted that a married couple were preparing and reviewing the bank reconciliations of Pension Funds. The incident caused more concern as it was identified during COVID times when all employees were working from home.

Table 2 – 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**	

Pension liberation

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 Pension Funds, inappropriate investments and the targeting of Pension Funds 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 an average of £19,289 per annum.

Topical matters

Pensions related fraud (3/3)

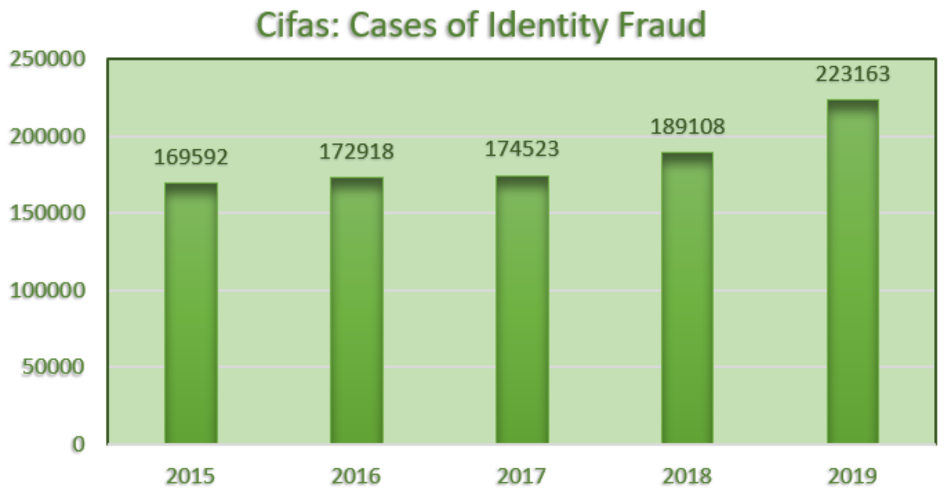
Identity fraud

- Research has estimated that there are over 1.6 million ‘lost’ individual pension funds worth around £20 billion. Pension Funds 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 over the last five years.

Cyber-security risk

The data Pension Fund 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 Funds. These include:

- ❑ impersonation of legitimate beneficiaries to divert payments;
- ❑ hacking of systems to alter records for the purpose of fraud; and
- ❑ 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 Fund 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 were granted to a few employees of a Pension Fund administrator to edit their own member records and those of each other. It was noted that Super-users edited theirs and each other’s activity and no second formal review process or other mitigating controls were in place.

Appendices
Key audit matters

Appendix 1: Our other responsibilities explained

Fraud responsibilities

Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, 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 the following risks:
    - Management override of controls; and
    - Existence and completeness of investments.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

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.

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 entity.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the entity.
- 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 entity.
- We plan to involve management from outside the finance function in our inquiries.

The Audit Committee

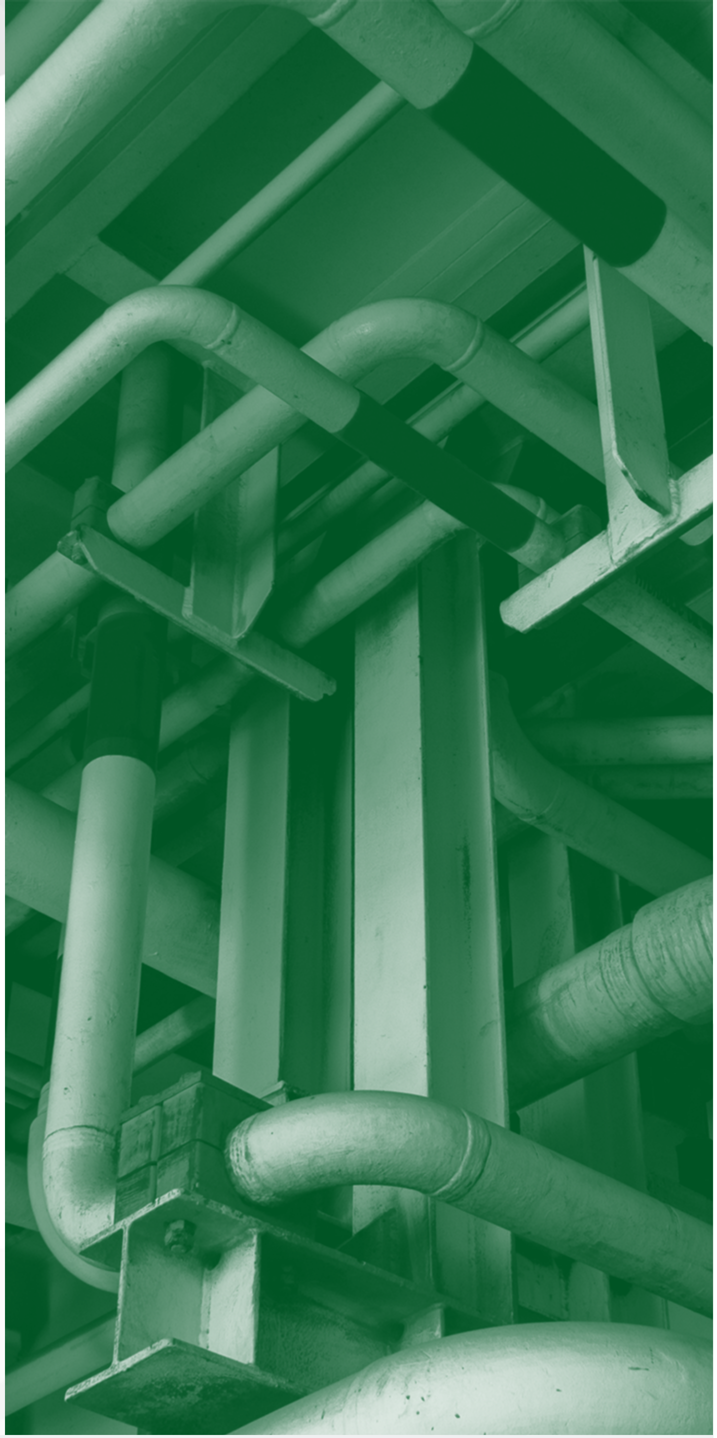
- How the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged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

Appendix 2: 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 2023 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 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 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.
Fees	Our initial audit fee for the year ended 31 March 2023 is £19,206 (PY £19,206) for the Fund. The fee reflected here is the scale fee. In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers, we are in discussion with the Fund regarding the current level of fees which we deem to be too low given the size and complexity of the body. The above fee excludes the cost of providing IAS 19 letters to other local authorities that will be recharged by the Fund to these bodies. We are currently agreeing the fee for this work 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	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.



Deloitte.