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North Yorkshire Pension Fund

Progress report to the Audit Committee on the 2021 audit

Issued on 10 September 2021

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Progress report

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

Partner introduction

The key messages in this report:

I have pleasure in presenting our Progress Report to the Audit Committee for the 2021 audit of the North Yorkshire Pension Fund (the 'Fund') and I would like to draw your attention to the key messages of 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.

Audit scope

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the statutory financial statements of the Fund which are prepared under the Code of Practice on Local Authority Accounting 2020/21 ("the Code") issued by CIPFA; and
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention.

Status of our audit

We have the following matters to complete as part of our audit:

- Completion of testing on journals;
- Resolution of queries on differences in investment manager confirmations received;
- Completion of transaction testing;
- Completion of internal quality assurance procedures, including review processes and follow-up queries arising from review;
- Documentation of going concern considerations;
- Review of final version of the financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2021 through to signing.

Partner introduction

The key messages in this report (continued):

Our conclusion

Based on our work undertaken, we plan to issue an unqualified audit opinion on the financial statements of the Fund included within the financial statements of North Yorkshire County Council. However, we do have procedures outstanding and will report to management should any further matters arise as we complete our work. Our work on the Fund's annual report will be undertaken following signing of these financial statements.

In reaching our conclusions, we considered the control observations and the results from our testing on pages 8 to 17. In addition, we noted:

- The significant accounting judgements and estimates appear reasonable; and
- There is one uncorrected adjustment as set out in Appendix 1, but no uncorrected disclosure deficiencies.

We will provide a Final Report on completion of the outstanding procedures.

Nicola Wright
Audit Partner

Materiality

Our approach to materiality

Basis of our materiality benchmark

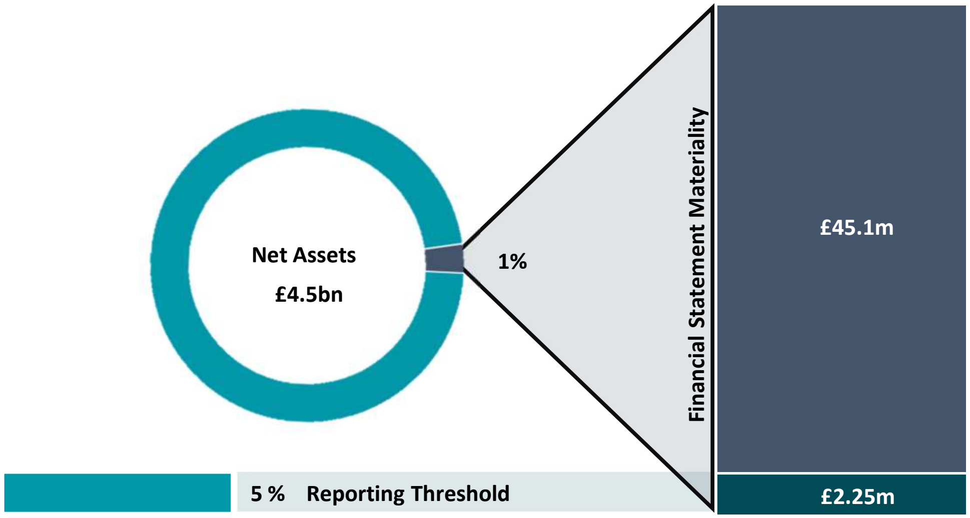
- We set materiality for our opinion on the financial statements at 1% (2020: 1%) of the net assets of the Fund.
- For the year ended 31 March 2021, we determined financial statement materiality to be £45.1m (2020: £35.4m).

Reporting to those charged with governance

- We report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- For the year ended 31 March 2021, we determined the reporting threshold for the financial statements to be £2.25m (2020: £1.8m).
- Auditing standard also require us to highlight any uncorrected disclosure deficiencies to enable the Audit Committee to evaluate the impact thereof.
- We have one uncorrected misstatement to report and have no disclosure deficiencies to report to you (see Appendix 1). There were no material corrected misstatements.

Materiality calculation

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



Scoping

Risk dashboard

Risk Identified	Material Balance	Management Judgement	Controls Approach	Fraud Risk	Further Details
Significant Risk Management override of controls	✗	⚠	**D&I**	✓	Pg. 9
Other Focus Area Completeness and accuracy of the asset transfer to Border to Coast	✓	⚠	**D&I**	✗	Pg. 11
Other Focus Area Accuracy of investment transactions	✓	⚠	**D&I**	✗	Pg. 12
Other Focus Area Completeness of investments and valuation of alternative investments	✓	⚠	**D&I, OE**	✗	Pg. 13
Other Focus Area Completeness and accuracy of contributions	✓	⚠	**D&I**	✗	Pg. 14

Significant Risk

Other area of audit focus

⚠ Low levels of management judgement/complexity

⚠ Medium levels of management judgement/complexity

⚠ High degree of management judgement/complexity

D&I Design and Implementation

OE Operating effectiveness

Significant audit risks

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	Deloitte response to significant risk identified
The financial reporting process in place has an adequate level of segregation of duties.	In order to address this significant risk, our audit procedures consisted of the following: • Use of 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; • Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements; • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; • Tested the design and implementation of controls around the journals process, and investment and disinvestment of cash during the year. We are currently completing procedures to: • Review related party transactions and balances to identify if any inappropriate transactions had taken place; • Review the accounting estimates for bias, such as year-end debtor and creditor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management; and • Assess whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year.

Deloitte comment

As noted on page 4, our testing in this area is ongoing. We will provide a verbal update on progress at the Audit Committee meeting.

Audit focus areas

Audit focus areas

Completeness and accuracy of the asset transfer to Border to Coast

Risk identified

Due to the Government announcement that Local Government Pension Schemes ('LGPS') must pool their assets together in order to reduce the cost of investing to the public purse, the Fund became part of the Border to Coast Pension Partnership ('BCPP') in the prior year.

During the current year, the Fund transferred a further £90m of directly held assets to Border to Coast.

Response of those charged with governance

In the prior year, the Fund engaged Legal & General ('LGIM') to provide oversight and to report to them on the transition process.

Deloitte response to audit focus area identified

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

- Confirmed the completeness and the accuracy of the values of the assets transferred by comparing the purchases of BCPP funds as per the client's breakdown and the investment manager reports; and
- Tested the design and implementation of key controls around asset transfers by reviewing the Border to Coast Type 2 internal control report and the custodian internal control report.

Deloitte comment

As a transition report was not issued in relation to the asset transfer to Border to Coast this financial year, our approach has therefore been to test the transactions. As set out on page 4, we are finalising our work on investments. We will provide an update to the Audit Committee on progress at the meeting.

Audit focus areas

Accuracy of investment transactions

Risk identified

The Fund holds a diverse portfolio of pooled investment vehicles including equities, bonds, pooled investment vehicles ('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.

Response of those charged with governance

The Fund engages various investment managers (including BCPP) and BNYM as custodian for these investments.

Deloitte response to audit focus area identified

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

- Performed design and implementation testing on the k[illegible]trols over the accuracy of investment transactions by obtaining investment manager inte[illegible]eports and evaluating the implications for our audit of any exceptions noted;
- Obtained independent confirmation of transactions d[illegible] year from the investment managers;
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. purchases, sales, change in market value);
- Performed design and implementation testing on an investment sale transaction, agreeing to the investment mandate and the investment manager's transaction report; and
- Tested the completeness of investments by agreeing a sample of purchases and sales by vouching items from the custodian report to the relevant investment manager confirmation.

Deloitte comment

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

Except for the above, we have not identified any findings relating to the accuracy of investment transactions to report to the Audit Committee.

SB [2]8 if they do not obtain and review or perform a cusotidan v IM reconciliation too, then refer to that here as that could result in stale prices being included
Sumal, Bobby, 09/09/2021

WN [2]16 updated
Wright, Nicola, 10/09/2021

FA8 to see this on file - is it the fund manager making these transactions or the custodian
Fern, Andy, 10/09/2021

WN [2]25 Is this a note for you or do you need me to do something?
Wright, Nicola, 10/09/2021

FA18 I'm not sure how we have got OE on transactions. Not sure whethe its the custodian that posts these and we have read their report or whether its B2C or the fund managers. You have removed this now from the dashboard so there's an inconsitency.
Fern, Andy, 10/09/2021

WN [2]40 amended - missed that sorry
Wright, Nicola, 10/09/2021

Audit focus areas

Completeness of investments and valuation of alternative investments

Risk identified

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

Additionally, within this portfolio, there is a range of alternative investments. These funds do not have publicly available prices and are often infrequently priced, increasing the risk of stale pricing.

Response of those charged with governance

The Fund engages various investment managers (including BCPP) and BNYM as custodian for these investments.

Deloitte response to audit focus area identified

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

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

Deloitte comment

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

We also identified a difference between the custodian and investment manager reports, which has led to an understatement of the year end investment value by £9m. This was due to an error in the custodian report. We have raised this as an unadjusted error in Appendix 1.

We have no other matters to bring to the attention of the Audit Committee, although we are in the process of completing work in this area and review processes are ongoing.

Audit focus areas

Completeness and accuracy of contributions

Risk identified

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

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

Response of those charged with governance

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

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

Deloitte response to audit focus area identified

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

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

Deloitte comment

We have not identified any matters to report to the Audit Committee.

Other findings

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

Risk identified

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

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

Recommendation

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

Prior year findings

Follow up on prior year findings

Finding	Recommendation	Follow up
Heywood Altair system – no formal Service Level Agreement (SLA).	Formal Service Level Agreements should be put in place between the Council and the Fund, so as to ensure that the Fund received assurance over the operation of key IT general computer controls.	No change. We continue to report this finding in the current year – see page 15.
The pensions team does not perform a unit reconciliation of investment holdings, relying instead on reporting prepared by the global custodian, BNYM.	We recommend that the pensions team performs a regular unit reconciliation of the investment holdings, thus ensuring completeness of transactions.	No change. We continue to report this finding in the current year – see page 12.

Other risks

Other audit considerations

Area of focus	Description	Audit response
Going Concern	As auditors, we are required to confirm in our audit report that the going concern basis of the financial statements is appropriate.	Our testing to address this risk included: • examined the latest publically available information regarding the financial position of the principal employers; • analysed the latest funding position of the Fund; and • reviewed minutes of the Audit Committee meetings.
Fraud	In our Audit Report in the financial statements we are now required to directly report on the extent to which the audit was considered capable of detecting irregularities, including fraud and other matters of non-compliance with laws and regulations.	Our testing to address the risk included: • performed procedures to assess the risk of management override as detailed on page 9; • reviewed the controls in place surrounding fraud risks including disinvestments; and • agreed a sample of investments to third party investment confirmations.
Brexit	During the Scheme year, the UK have left the European Union (“EU”). The impact of Brexit may be felt across the Scheme and its operations, for example through withholding taxes and the impact on the going concern of the Fund.	Our testing to address the risk included: • assessed the fair value of assets as at the Fund’s year-end date; • reviewed minutes of the Audit Committee meetings and the going concern assessment; and • confirmed that appropriate disclosures have been made in the financial statements.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the 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, our views on internal controls and Fund risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the Fund accounts and the other procedures performed in fulfilling our audit plan.

The scope of our work

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

We described the scope of our work in our proposed audit plan circulated to you on 12 March 2021.

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

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

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

Deloitte LLP

Deloitte LLP

Statutory Auditor

Newcastle upon Tyne | 10 September 2021

Appendices

Key audit matters

Appendix 1: Audit adjustments

Current year and prior year audit adjustments

Detail	Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
Uncorrected misstatements identified in current year	**(9)**	**9**
Corrected misstatements identified in current year	-	-

Uncorrected misstatements

As set out on page 13, we identified an understatement of investment assets due to an error in the custodian report at year end.

Disclosure deficiencies

At the time of writing this report, there were no corrected or uncorrected disclosure deficiencies to bring to the Audit Committee's attention for the current year. Should any further items arise as we complete our audit procedures, this will be reported to management and in our Final Report.

Prior year misstatements and disclosure deficiencies

In the prior year, there was a stale price adjustment relating to Permira Credit fund (£1.58m) which was corrected in the financial statements.

There were no other uncorrected misstatements or corrected or uncorrected disclosure deficiencies in the prior year.

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. In considering the requirements of Auditor Guidance Note 01 (issued by the National Audit Office) and the Ethical Standard 2019 to report all significant facts and matters that may bear upon our integrity, objectivity and independence, though not meeting the defined criteria for an affiliate of an audited entity, we have taken account of the tax and internal audit services provided to Border to Coast Partnership by Deloitte. To this effect, we have documented our assessment on the threats and safeguards concerned with the delivery of services to, and the receipt of fees from, Border to Coast Pension Partnership, along with our assessment on the opinion of a reasonable and informed third party on these services.
Fees	Our audit fee for the year ended 31 March 2021 is £19,206* (2020 £19,206**) for the Fund. The fee excludes VAT and includes out of pocket expenses. The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we will be looking to discuss with the Authority the current level of fee. *This fee excludes the cost of providing IAS 19 letters to other local authorities that will be recharged by the Fund to the other local authorities. The latter has been discussed with management and agreed at £2,000 (2020 £2,500) per letter. **We have also requested an additional fee due to the impact of Covid-19 on the audit of £5,440. This request is currently under consideration by PSAA.
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 FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.

Appendix 3: Fraud responsibilities and representations

Responsibilities explained

Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the 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 risks section of this document, we have identified management override as a key 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 Authority 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 3: 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 4: Topical matters

Department for Work and Pensions (DWP) – taking action on climate risk

Prior to the approval of the Pension Schemes Act 2021, the Department for Work and Pensions (DWP) opened a consultation on regulations covering the new climate risk powers contained within the Act. Under the proposed regulations, the UK Government has announced its intention to make Task Force on Climate-related Financial Disclosures (TCFD) disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. It is proposed that the following schemes should be in scope of the mandatory climate change governance and TCFD reporting requirements:

(a) trust schemes with £1 billion or more in net assets
(b) authorised master trusts
(c) authorised schemes providing collective money purchase benefits

These qualifying schemes will have to produce and publish a TCFD report. We have included some detail on the recommended content of the TCFD report within this update.

The Minister for Pensions and Financial Inclusion, Guy Opperman stated "I whole-heartedly welcome the Chancellor's announcement of the TCFD Roadmap in November 2020 outlining the steps that the UK Government and regulators will take towards rolling out mandatory climate reporting requirements across its regulated community. This means that, come 2023, the vast majority of assets will be invested with pension scheme trustees, asset managers, and insurers who are disclosing climate- related financial risks and opportunities in line with recommendations by the TCFD."

Regulations would require trustees to meet climate change governance requirements which underpin the 11 recommendations of the TCFD and to report on how they have done so. We have included a separate slide on the TCFD recommendations for reference. Statutory guidance, will set out how trustees should meet the requirements and report in line with the TCFD recommendations. Where trustees choose to diverge from statutory guidance, they need to be able to explain their reasons for doing so in their TCFD report.

With almost £2 trillion in assets under management, all pension schemes are exposed to climate-related risks. It is important to note, the government sees stewardship of assets, including engagement with higher carbon firms and voting at Annual General Meetings (whether directly or via asset managers), as entirely legitimate responses to the climate risk revealed through TCFD-aligned disclosures. Indeed, holding such assets places trustees in an influential position to steward firms towards lower-carbon business practices, which is why government advocates collaboration with business, as opposed to divestment.

The **four core** elements of TCFD disclosures are shown in the diagram and these form the basis of the required pension scheme disclosures.

1. Governance - Trustees must establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme. They must also establish and maintain processes for the purpose of satisfying themselves that persons undertaking governance on their behalf or those who advise or assist the trustees with respect to governance, are taking adequate steps to identify, assess and manage climate-related risks and opportunities which are relevant to the scheme. In their annual TCFD report, trustees must describe how such oversight is maintained.

2. Strategy- Trustees must identify and assess the impact of climate-related risks and opportunities which they consider will have an effect over the short term, medium term and long term on the scheme's investment strategy and (where it has one) the scheme's funding strategy. Short, medium and long term are such periods as the trustees deem appropriate, taking into account the scheme's liabilities and its obligations to pay benefits. The trustees need to document the above in their TCFD report.

Appendix 4: Topical matters

Department for Work and Pensions (DWP) – taking action on climate risk

3. Risk management - Trustees must establish and maintain processes for the purpose of enabling them to identify, assess and effectively manage climate-related risks which are relevant to the scheme. They must also ensure that management of climate-related risks is integrated into their overall risk management of the scheme. In their annual TCFD report, trustees must describe these processes and how they are integrated into the trustees' overall risk management of the scheme.

4a. Metrics -Trustees must select and as far as they are able to calculate an absolute emissions metric and an emissions intensity metric in respect of the scheme's assets. Draft statutory guidance proposes that trustees should use total emissions and carbon footprint metrics – calculating scope 1, and 2 and 3 greenhouse gas emissions (scope 3 is not included in the first year). Trustees must also select one additional climate change metric to calculate in respect of the scheme's assets. Draft statutory guidance suggests a range of measures, including an implied temperature rise or climate value at risk measure. Trustees must review their selection of metrics from time to time as appropriate to the scheme. The trustees need to document the above in their TCFD report and this must be disclosed in line with the requirements noted in the **Disclosure** section of this update.

4b. Targets - Trustees must set a non-binding target for the scheme in relation to at least one of the metrics which they have selected to calculate. On an annual basis they must measure performance against the target (as far as are they are able) and taking into account the scheme's performance they must decide whether to retain or replace the target. In their annual TCFD report, trustees must describe the target or targets which they have set, and the performance of the scheme against them.

Despite the common core principles of TCFD, the DWP acknowledged that the continuing rapid evolution of methodologies still poses the risk that different approaches could lead to different results being calculated for the same portfolio/assets. The Department indicated it will be consulting later on the use of one particular metric, 'implied temperature rise' (ITR) which is emerging as potentially the most useful and powerful.

We have detailed below a number of other matters of note contained within the DWP paper.

Scenario analysis - Trustees must, as far as they are able, undertake scenario analysis assessing the impact on the scheme's assets and liabilities, the resilience of the scheme's investment strategy and (where it has one) the scheme's funding strategy for at least two scenarios – one of which corresponds to a global average temperature rise of between 1.5 and 2°C inclusive on pre-industrial levels. In their annual TCFD report, trustees must describe the most recent scenarios they have analysed, the potential impact on the scheme's assets and liabilities and the resilience of the scheme's investment strategy and (where it has one) funding strategy in those scenarios, and their reason for not carrying out a new scenario analysis if they have not done one. Trustees should carry out scenario analysis as far as they are able in relation to all the scheme's relevant assets. Following the initial consultation in August 2020, the DWP have confirmed that they have made changes to the original proposal and will require that scenario analysis must be carried out in the first year that trustees are subject to the requirements and every three years thereafter. In the intervening years, trustees must do an annual review of their scenario analysis and carry out fresh analysis where they consider it appropriate to do so.

Trustee knowledge and understanding - Trustees must have the appropriate degree of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks and opportunities in respect of occupational pension schemes, for the purposes of enabling them to properly exercise their functions. These principles will be prescribed matters for the purposes of the Pensions Act 2004.

Disclosure - Trustees are required to publish their TCFD report on a publicly available website, accessible free of charge. The Chair of trustees must sign the report. The TCFD report must be referenced from – but need not be included in – the Annual Report. Members must be told via any annual benefit statement they receive that the report has been published and where they can locate it. Trustees of DB schemes must also provide this information to members via the scheme funding statement.

Trustees must also provide TPR with the website address where they have published their most recent TCFD report via the annual scheme return form. Where trustees have not yet published their first report, they must inform TPR whether the period for doing so has ended. Trustees must also provide TPR with the website address of their published Statement of Investment Principles ("SIP") and (where applicable) implementation statement and published excerpts of the Chair's Statement in the annual scheme return form.

Appendix 4: Topical matters

Department for Work and Pensions (DWP) – taking action on climate risk

Penalties – there will be a mandatory penalty for complete failure to publish any TCFD report and other penalties would be subject to TPR discretion. Penalties in relation to climate change governance, reporting and publication could be imposed without recourse to the Determinations Panel, in a similar way to the penalty regime that applies under the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The requirements to reference the TCFD report from the Annual Report and inform members about the TCFD report's availability would be subject to the existing penalty regime in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. The requirements to inform TPR of the website address of the published TCFD report – or that the period for publishing the report has not ended – and of the website address of the published SIP, implementation statement (where applicable) and excerpts of the Chair's Statement would be subject to the penalty regime in section 10 of the Pensions Act 1995.

Scope and timing of TCFD policy

The DWP paper has outlined two tests as to whether a pension scheme is in scope.
We have included details directly from the DWP paper below.

Threshold test

The condition	Governance requirement	Disclosure Requirements	
If	*Trustees must meet the climate change governance requirements for*	*Trustees must publish a TCFD report*	*Trustees must include a link to the report in:*
On 1st scheme year end date to fall on or after 1 March 2020: the scheme has relevant assets ≥ £5bn	Current scheme year from 1 October 2021* to end of that scheme year. *And* [unless scheme's relevant assets are <£500m on the scheme year end date] Next full scheme year to begin after 1 October 2021 to end of that scheme year. And so on.	Within 7 months of the end of the scheme year which is underway on 1 October 2021†. *And* Within 7 months of the end of the next scheme year to begin after 1 October 2021† And so on	The Annual Report and Accounts produced for that scheme year
On 1st scheme year end date to fall on or after 1 March 2021: the scheme has relevant assets ≥ £1bn	Current scheme year from 1 October 2022* to end of that scheme year And so on	Within 7 months of the end of the scheme year which is underway on 1 October 2022†. And so on.	
From any scheme year end date to fall on or after 1 March 2022 The scheme has relevant assets ≥ £1bn	The beginning of the scheme year which is one scheme year and a day after that scheme year end date	Within 7 months of end of that full scheme year†	

* unless audited accounts have not been obtained in respect of that scheme year, in which case they apply from the date they are obtained.
† unless scheme's relevant assets are zero on the scheme year end date.

Use

Authorisation test

The condition	Governance requirement	Disclosure Requirements	
If	*Trustees must meet the climate change governance requirements for*	*Trustees must publish a TCFD report*	*Trustees must include a link to the TCFD report from*
On or after 1 October 2021, the scheme is [or becomes] an authorised master trust *Or* On or after 1 October 2021 the scheme is [or becomes] an authorised scheme providing collective money purchase benefits	Current scheme year which is underway to the end of that scheme year. *And* [unless scheme is both no longer authorised and relevant assets at previous scheme year end are <£500m] Subsequent scheme years.	Within 7 months of the end of the scheme year which is underway. *And* Within 7 months of the end of subsequent scheme years.	The Annual Report and Accounts produced for that scheme year

Schemes fall out scope through no longer being authorised and/or having assets of less than £500m

The condition	Governance requirement	Disclosure Requirements	
If	*Trustees' climate governance requirements*	*Trustees TCFD report publishing duties*	*Trustees must include a link to the TCFD report from*
After 1st October 2021 the scheme Ceases to be an authorised master trust *Or* Ceases to be an authorised scheme providing collective money purchase benefits *And* Has relevant assets < £500m at end of previous scheme year	End with immediate effect	End with immediate effect	N/A
On scheme year end date falling after 1 October 2021 The scheme has relevant assets <£500m and is not an authorised scheme.	End with immediate effect	Must be met within 7 months of the end of the scheme year† And fall away thereafter.	The annual report and accounts produced for that scheme year

† unless scheme's relevant assets are zero on the scheme year end date

Deloitte response: The DWP document is vast and we have provided only a short summary of the key details. The full consultation document can be found [Taking action on climate risk: improving governance and reporting by occupational pension schemes – response and consultation on regulations - GOV.UK (www.gov.uk)]. We recommend that the trustees review the full guidance and familiarise themselves with the full requirements of the legislation.

In order to comply with the legislation there is a requirement to amend governance arrangements, consider the impact on investment strategy, identify and manage investment risks and obtain the relevant data from scheme advisers. All reporting duties are ongoing, except requirements to conduct scenario analysis, calculate metrics and set and review performance against targets.

Based on the proposed scope and timing of the policy on the left, we expect this to come in to force for the year ended 31 March 2022 financial statements, although the government has not yet set a firm deadline for LGPS.

Appendix 4: Topical matters

TCFD recommendations and supporting recommended disclosures

Within our topical update *'Department for Work and Pensions (DWP) – taking action on climate risk'* we have made reference to the fact that regulations would require trustees to meet climate change governance requirements which underpin the 11 recommendations of the TCFD and to report within their TCFD report how they have done this. We have therefore included below a reminder of the recommendations and the supporting recommended disclosures.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.