



South Tyneside Council

Local Pension Board

Date: 20th October 2020

Annual Report and Accounts 2019/20 (for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. To provide access for the Local Pension Board to the Fund's external auditor and their report on the Report and Accounts.

Background

2. As a result of Covid-19, the deadlines for the production of Accounts have been extended as part of the “Accounts and Audit (Coronavirus) Amendment Regulations 2020” The deadlines are now:
 - 31st August 2020 for the draft accounting statements for the Council and the Pension Fund
 - 30th November 2020 for the Council’s Report and Accounts
 - 1st December 2020 for the Pension Fund Report and Accounts.
3. The first deadline of the 31st August 2020 has been achieved.
4. At the time of writing the Pension Fund’s Annual Report and Accounts for 2019/20 are scheduled to be approved at a Special Meeting of Pensions Committee on 16th October 2020. A draft copy of the Report and Accounts has been issued with the agenda, which may still be subject to minor changes.
5. The financial statements themselves which are included in the Report and Accounts also form part of the Council’s Report and Accounts. These financial statements are being presented for approval at the Council’s Audit Committee on 19th October 2020 and General Purposes Committee on 23rd October 2020.
6. A report from Ernst & Young LLP that summarises their findings from the audit of the Pension Fund Report and Accounts is attached.
7. Ernst & Young LLP will attend the meeting to brief the Local Pension Board on the audit of the accounts.

Recommendation

8. The Local Pension Board is recommended to note the report.

**Tyne and Wear
Pension Fund
Audit Results Report**
Year ended 31 March 2020

October 2020





Private and Confidential

6 October 2020

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Tyne and Wear Pension Fund for 2019/20.

We have substantially completed our audit of Tyne and Wear Pension Fund ('the Fund') for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3, before the accounts publication date. We are proposing our audit opinion includes additional narrative to highlight financial statement disclosures regarding the merger with the Northumberland Pension Fund, which took place effective from 1 April 2020.

This report is intended solely for the use of the Audit Committee, the Pensions Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 19 October 2020, and the Pensions Committee meeting on 16 October 2020.

Yours faithfully

Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report tabled at the 9 March 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. In our Audit Planning Report Addendum tabled at the 20 July 2020 Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan, as updated to respond to the risks of Covid-19.

Materiality

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £87.8m, with performance materiality, at 75% of overall materiality, of £65.9m, and a threshold for reporting misstatements of £4.4m. Our materiality threshold was set at 1% of the Fund's net assets.

We have considered whether any change to our materiality is required in light of observations during the course of our audit. Following this consideration we remain satisfied that the 1% of net assets basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate. We have however reassessed these amounts in light of the decrease in the value of Fund during March 2020. Based upon the net assets of the Fund per the financial statements presented for audit, we have determined materiality of £84.6m (prior year: £87.8m), with performance materiality, at 75% of overall materiality, of £63.5m (prior year: £65.9m), and a threshold for reporting misstatements of £4.2m (prior year: £4.4m).

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 7.

Executive Summary

Status of the audit

We have completed a significant proportion of our audit of Tyne and Wear Pension Fund's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report and Audit Planning Report Addendum. Subject to satisfactory completion of the outstanding items set out in Appendix D, we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise. We will provide a verbal update on these matters at the Committee meeting.

We expect to issue the audit certificate at the same time as the audit opinion.

We are proposing that our audit opinion will emphasise the following with an Emphasis of Matter paragraph:

- ▶ Merger with the Northumberland Pension Fund - the Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 came into force on 3 June 2020 and gave retrospective effect to the merger of the Northumberland Pension Fund into the Tyne and Wear Pension Fund effective from 1 April 2020. Management have included disclosure of the merger as an event after the reporting period, and our audit report highlights these disclosures. This does not constitute a modification of our audit opinion.

Audit differences

We identified £16.0m of unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation. We agree with management's assessment that the impact is not material. Details can be found in section 4.

We have not identified any audit differences which have been adjusted by management.

Executive Summary

Areas of audit focus

Our Audit Planning Report and Audit Planning Report Addendum identified key areas of focus for our audit of Tyne and Wear Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue;
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through our audit work, we have not identified any significant weaknesses in controls that we wish to bring to your attention.

We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Other reporting issues

We have reviewed the Pension Fund Annual Report and we are satisfied that it is consistent with the audited Pension Fund financial statements included within the South Tyneside Council Statement of Accounts.

Therefore we are able to issue an unqualified consistency opinion on the Pension Fund Annual Report.

Independence

Please refer to Section 7 for our update on Independence.



02

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement. We did not identify any specific fraud risks in our planning.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What did we do?

- ▶ We identified fraud risks during the planning stages of our audit;
- ▶ We inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- ▶ We considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ We determined an appropriate strategy to address those identified risks of fraud; and
- ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside Tyne and Wear Pension Fund's normal course of business.

Subject to conclusion of the outstanding matters detailed in Appendix D, we are content that the financial statements are not materially misstated as a result of fraud or error.

Significant risk

Valuation of unquoted pooled investment vehicles

What is the risk?

The Fund's investments include unquoted pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.

We identified the valuation of the Fund's investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by investment managers in relation to the valuation of complex pooled investment vehicles were free from material misstatement, including due to the impacts on investment values of Covid-19.

What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained third party confirmations of the valuation of unquoted pooled investments at the reporting date from the investment managers. We also cross-checked the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian;
- ▶ We reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- ▶ We compared the movement in valuation of investments in unquoted investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigated any unusual variances;
- ▶ We agreed a sample of purchases and sales of unquoted pooled investments during the period to supporting evidence;

What are our conclusions?

Based on the work undertaken we are satisfied that unquoted pooled investments vehicles are not materially misstated. Our review noted the following:

- Net differences of £1.2m between the confirmations from investment managers and the Fund's Custodian. These differences form part of the £16.0m unadjusted difference detailed in section 4;
- Net differences of £1.3m when comparing the movement of the valuation of investments to the returns recognised as investment income. The differences noted were within an acceptable level and we are therefore satisfied the movement in the valuation of unquoted pooled investments as a whole is in-line with the returns recognised as investment income; and
- No significant findings from our review of investment manager control reports and sample testing of purchases and sales during the period.

(continued overleaf)

Significant risk

Valuation of unquoted pooled investment vehicles (continued)

What is the risk?

Additional considerations for Covid-19

Unquoted assets are either level 2 or level 3 on the fair value hierarchy, which means quoted market prices are not available and valuation is reliant on the use of inputs derived from observable market data (level 2) or are not based on observable market data (level 3). The approach usually taken to value these assets, which sometimes relies on adjusting valuations or other observable information as at 31 December, has had to change because of the market volatility brought about by Covid-19 in the final quarter of 2019/20. We will need to consider the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of Covid-19 on investment values has been properly accounted for in the financial statements.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by investment managers in relation to the valuation of complex pooled investment vehicles were free from material misstatement, including due to the impacts on investment values of Covid-19.

What did we do?

- ▶ We reviewed the basis of valuation for unquoted investments and ensure it is in line with the accounting policy.
- ▶ We enquired of management as to what steps they have taken to ensure the valuations provided by investment managers accurately reflect the impact of Covid-19 on investments; and
- ▶ We have considered whether the planned audit procedures, detailed above, provided sufficient audit assurance over the impact of Covid-19 on investments. We opted to perform the following further procedures, in addition to those set out in our plan:
 - ▶ We requested management obtain updated valuations as at 31 March 2020 from investment managers, to capture any subsequent revisions to valuations made as more information about market conditions at the reporting date emerged, and compared these valuations to those used in the financial statements.

What are our conclusions?

Our enquiries of management as to the steps they have taken to ensure the valuations provided by investment managers reflect the impact of Covid-19 on investments identified that appropriate steps to consider the additional uncertainty this year had been undertaken. As management's approach focused on private market investments, further information is provided on the next page.

To satisfy ourselves that the movement in the valuation of investments in pooled property funds is reasonable we obtained the most recent audited financial statements of each fund and, using the breakdown of property types held, compared the movements in valuation to the weighted average movement in the MSCI property indices. No significant differences were noted.

Overall, we are satisfied that the valuation of unquoted pooled investment vehicle investments is materially correct.

Significant risk

Valuation of private equity investments

What is the risk?

Judgement is required to value private equity investments as prices are not publicly available and market volatility means such judgements can quickly become outdated, especially where there is a significant time period between the latest audited information and the Fund's reporting date.

Additional considerations for Covid-19

The additional considerations for private equity investments are the same as those detailed on the previous pages for unquoted pooled investment vehicles, as the additional risk is common to all unquoted investments.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by investment managers in relation to the valuation private equity investments were free from material misstatement, including due to the impacts on investment values of Covid-19.

What did we do?

- ▶ We obtained third party confirmations of the valuation of private equity investments at the reporting date from investment managers;
- ▶ We reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- ▶ We obtained the latest available audited accounts and agreed the net asset value per the accounts to the net asset value included in the investment manager confirmations;
- ▶ We reviewed the audit reports on the latest available audited accounts and evaluated the potential impact on the valuation of the Fund's investments of any exceptions noted;
- ▶ For investments held in a currency other than sterling, we compared the exchange rate used to convert the investment value into sterling to historical market information on exchange rates at the reporting date.

The additional procedures to respond to Covid-19 risks described on the previous page also applied to the valuation of private equity investments.

What are our conclusions?

Based on the work undertaken we are satisfied that unquoted pooled investments vehicles are not materially misstated.

In previous years, the valuation of private equity investments would typically reflect the valuation of investments at 31 December adjusted for cash movements in the final quarter. Due to the increased risk of misstatement arising from the Covid-19 pandemic, management delayed production of the financial statements to collect and reflect updated valuations as at 31 March.

A small number of investment managers were not able to provide management with updated valuations within the revised timetable, but subsequently provided valuations demonstrating a net reduction of £14.9m. These differences form part of the £16.0m difference detailed in section 4, with the remainder relating to other categories of investments.

There was one investment where we were unable to obtain confirmation from the investment manager as they did not respond to our request. The value of this investment is just £10.1m, out of £8,275m we sought confirmation of, therefore we are content confirmations were obtained for all material investments.

Our review of investment fund audited financial statements, the audit reports provided on those statements and the translation of foreign-denomination investments to sterling did not identify any issues.



Areas of Audit Focus

Significant risk

Valuation of directly held property

What is the risk?

The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.

Additional considerations for Covid-19

In-line with guidance issued by the Royal Institution of Chartered Surveyors (RICS), the Fund's property valuer provided their valuation of the Fund's directly held property at 31 March 2020 on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by the property valuers in relation to the valuation of directly held property, including assumptions about the impact of Covid-19 on the property market, were free from material misstatement.

What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained the valuation report from the external valuer (Savills) and reconciled the valuations provided to those utilised within the financial statements;
- ▶ We assessed the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts;
- ▶ We engage EY Real Estate experts to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations; and
- ▶ We reviewed the financial statement disclosures to ensure that appropriate disclosure has been made in the accounts concerning the material valuation uncertainty.

What are our conclusions?

Our review of the valuations of the Fund's directly held property has not identified any misstatements.

We do however note that of the sample of 8 properties we requested our EY Real Estate experts to review, 1 was valued slightly higher than the expected range, by £250k, and 3 others were at the top end of the expected range, therefore we consider the valuations on the whole to be towards the upper end of a reasonable range.

We have extrapolated the property outside of our expected range over the remaining population and are content the impact is below our audit differences reporting threshold.

The valuations of property assets at 31 March 2020 were provided to management by their valuer on the basis of a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market. The financial statements include disclosure of this valuation basis as a critical judgement. This basis of valuation has not impacted the assurance we have been able to obtain over the valuation of property assets.



03

Audit Report

Audit report

We include below a copy of the auditor's report we propose to issue.

Given the exceptional circumstances this year, we have introduced additional internal consultation processes in respect of our audit opinion which we need to conclude. Any changes to our audit report as a result of this consultation will be communicated to the Audit Committee.

Audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH TYNESIDE COUNCIL

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to xx. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Merger with Northumberland Pension Fund

We draw attention to Notes 1 and xx of the financial statements, which describe the merger of the Fund with the Northumberland Pension Fund effective from 1 April 2020. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts on pages xxx to xxx and pages xxx to xxx, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.



Audit report

Audit report

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities for the Accounts set out on page xx, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC

Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Audit report

Audit report

Use of our report

This report is made solely to the members of South Tyneside Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than South Tyneside Council and the South Tyneside Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
xx October 2020



04 **Audit Differences**

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have not identified any audit differences which have been adjusted by management.

Summary of unadjusted differences

Uncorrected misstatement have been identified:

- ▶ We identified a number of differences between the investment valuations used in the financial statements and those provided to us by investment managers. In most cases, these related to private equity investments where the investment manager did not provide management with updated valuations in time for inclusion within the financial statements. The aggregated impact of these differences is a net overstatement of investment assets of £16.0m. As this value is not material to the financial statements, management have opted not to amend the financial statements.

We are content that this misstatement is not material to the financial statements.

Other matters

As part of our audit procedures we request direct confirmation of all balances held with investment managers from the investment managers. Our confirmation requests cover assets totalling £8,275m. We were unable to obtain a confirmation from one investment manager, for an investment worth £10.1m, as they did not respond to our request. As the matter is an absence of confirmation, rather than a difference between the confirmation obtained and the financial statements, we do not regard this matter as an audit difference. We are satisfied the investment we could not obtain confirmation for is immaterial to the Fund.

Audit Differences

Comments on disclosure notes

The following matters relating to the disclosures within the financial statements have been identified during the course of our audit and corrected by management:

- ▶ Going concern - the draft financial statements stated they had been prepared on the going concern basis, but did not elaborate on why management consider this to be appropriate;
- ▶ Material valuation uncertainty - the draft financial statements disclosed that the valuation of property had been prepared on the basis of a material valuation uncertainty, but they did not explain why the valuations were still considered appropriate for use within the financial statements;
- ▶ Level 3 valuations - at our request, management added disclosure of the split of level 3 investments between those fully revalued at 31 March 2020 and those valued as at 31 December 2019 and adjusted for cashflows up to 31 March 2020;
- ▶ Financial instrument gains and losses - the disclosure of gains and losses on financial instruments misclassified £377.6m of losses on financial assets as losses on financial liabilities; and
- ▶ Miscellaneous - we made a number of recommendations to improve the disclosures within the financial statements, including several instances of internal inconsistency.



05

Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have nothing to report in relation to this.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



07

Independence

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 9 March 2020.

We complied with the Auditing Practices Board (APB) Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 19 October 2020.

We confirm we have not undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have undertaken additional audit work within the scope of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd in the form of IAS 19 procedures.

Note 1 - Scale Fee Variation

We wrote to management and the Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We have not been able to agree a scale fee variation with management and have therefore asked PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Audit Committee. The base fee set by PSAA for our 2019/20 audit is £27,449.

Note 2 - Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations. These additional procedures will impact upon our final fee, which we will discuss with management following completion of our audit.

Note 3 - IAS 19 Procedures

For 2019/20 a fee will be charged for the provision of IAS 19 assurances to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. Such additional fees are permissible under the PSAA contract and will represent a scale fee variation requiring PSAA approval. Management may opt to recharge such fees to the relevant member bodies.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken audit work, in the form of IAS 19 procedures on behalf of the auditors of some participating employers of the Fund.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee (note 1, 2)	TBC	27,449
IAS 19 Procedures - Code (note 3)	8,000	-
Total Audit Fees	TBC	27,449
Total Fees	TBC	27,449

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- ▶ Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
- ▶ A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- ▶ A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- ▶ Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - ▶ Tax advocacy services
 - ▶ Remuneration advisory services
 - ▶ Internal audit services
 - ▶ Secondment/loan staff arrangements
- ▶ An absolute prohibition on contingent fees;
- ▶ Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
- ▶ Permitted services required by law or regulation will not be subject to the 70% fee cap;
- ▶ Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- ▶ A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
- ▶ A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 28 June 2019 (published September 2019):

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf



08

Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date;
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date;
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items;
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded; and
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

We have tested each of these assertions substantively for all material balances included in the Net Asset Statement. This is the same as our approach in prior years.

Appendix B

Summary of communications





Date 	Nature 	Summary 
03/02/2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
20/02/2020	Meeting	The audit team met with internal audit of South Tyneside Council (as the administering Authority) to discuss their 2019/20 audit plan and planned scope of work in respect of the Pension Fund.
04/03/2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Pensions Committee.
09/03/2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Audit Committee.
07/07/2020	Report	The Audit Planning Report was presented to the Local Pensions Board. Note that the audit team provided a copy of the report but did not present at the meeting.
20/07/2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Audit Committee.
24/09/2020	Meeting	The audit team attended the meeting of the Pensions Committee, where amongst other agenda items management presented a paper on the impacts of Covid-19 on the Fund's investments.
16/10/2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Pensions Committee.
19/10/2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Audit Committee.
20/10/2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Local Pensions Board.

In addition to the above specific meetings and reports, the audit team communicated with the management team multiple times throughout the audit to discuss the progress of the audit and audit findings. In line with government guidance and EY policy, discussions since the start of the Covid-19 pandemic have been held remotely.

Appendix C





Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)




Appendix C

Required communications with the Audit Committee (continued)

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report (this report)
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and ▶ Material misstatements corrected by management 	Audit Results Report (this report)
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▶ A discussion of any other matters related to fraud 	Audit Results Report (this report)
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)





Appendix C

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report; and Audit Results Report (this report)
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report (this report)
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of. 	Audit Results Report (this report)
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report (this report)

Appendix C




Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (this report)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed; ▶ Breakdown of fee information at the completion of the audit; and ▶ Any non-audit work 	Audit Planning Report; and Audit Results Report (this report)

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Internal review	We are still completing our internal review procedures and final documentation to ensure the quality of our work.	EY
Internal consultation on the final wording of our audit opinion	Given the exceptional circumstances this year, we have introduced additional internal consultation processes in respect of our audit opinion which we need to conclude.	EY
Final Annual Report	Review of the final version of the Annual Report, to ensure that agreed changes have been implemented as expected.	Management (to provide) / EY (to review)
Letter of Representation	Receipt of signed letter of representation .	Management and Pensions Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report.	Management / EY

Management representation letter

We include below a copy the management representation letter which we request is printed on the Authority's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with same date as the date of approval of the financial statements.

Management Representation Letter

[Date]

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

Dear Sirs,

This letter of representations is provided in connection with your audit of the financial statements of Tyne and Wear Pension Fund ("the Fund") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2019 to 31 March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because they are not considered to be material and this approach has been agreed with the auditor.

Management representation letter (continued)

Management Representation Letter (continued)

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- ▶ Involving financial improprieties;
- ▶ Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
- ▶ Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;
- ▶ Involving management, or employees who have significant roles in internal control, or others; or
- ▶ In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ▶ Additional information that you have requested from us for the purpose of the audit; and
- ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.

4. We have made available to you all minutes of the Committee meetings of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 2019/20 to the most recent meeting on [date].

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

Management representation letter (continued)

Management Representation Letter (continued)

8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

9. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 came into force on 3 June 2020 giving retrospective effect to the merger of the Fund with the Northumberland Pension Fund as of 1 April 2020. We confirm that the Tyne and Wear Pension Fund's legal status did not change as a result of this merger, and that the going concern basis of preparation therefore remains appropriate for the financial statements for the year ended 31 March 2020.
2. Other than the merger and the recovery in asset values described in Note xx to the financial statements, there have been no events, including events related to the Covid-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other

information. The other information comprises the information disclosed on pages xxx to xxx and pages xxx to xxx of the South Tyneside Council Statement of Accounts 2019/20.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

Management representation letter (continued)

Management Representation Letter (continued)

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2019 and dated 27 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the Fund's directly-held property assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates - Property valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

2. We confirm that the significant assumptions used in making the valuation of directly held property estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate and reflect the expectations of the Fund.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the Covid-19 pandemic on valuations, and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due

to the Covid-19 pandemic.

Yours faithfully,

Stuart Reid, Corporate Director Business and Resources

Cllr Duncan, Chair of Audit Committee

Schedule of unadjusted audit differences



The following relates to the overstatement of investment assets in the financial statements:

	Dr (£'000)	Cr (£'000)
Change in market value	16,003	
Investment assets		16,003

Appendix F

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Tyne and Wear Pension Fund 
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> ▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completion of the services or where required, transition to another service provider within mutually agreed timescales. ▶ We do not currently provide any non-audit services to you.

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Annual Report and Accounts 2019/20

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
Final Accounts File 2019/20		Investments Office, South Shields Town Hall