



South Tyneside Council

Local Pension Board

Date: 4th July 2024

External Audit Plan for 2023/24 Accounts (for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. Ernst and Young (EY) will undertake the 2023/24 external audit of the Fund.
2. Representatives from EY will attend the meeting to brief the Board on the audit plan.
3. The Board is recommended to:
 - consider the presentation and the audit plan, and comment on it,
 - note the approach to the 2023/24 external audit,
 - note the changes to the Pension Fund Annual Report guidance.

Contact Officer:

Paul McCann, Head of Pensions

pensions pensions pensions pensions pensions

Background

4. Prior to the year-end audit of the accounts, the Fund's external auditor, EY usually presents an audit plan to the Council's Audit Committee, Pensions Committee and Local Pension Board, summarising the work to be undertaken. Due to delays in previous years audit work, the plan for the 2023/24 accounts was not available for the Board meeting in March. This has now been provided by EY and a draft copy of the plan is attached.
5. The audit plan is addressed to the Audit Committee as they are formally charged with the governance of the Council's and the Fund's accounts. However, in recognition of the fact the Pensions Committee has delegated authority from the Council to consider all matters relating to the Fund, it is also considered appropriate that the plan and the final report from EY is reported to Pensions Committee and the Local Pension Board.
6. Representatives from EY will attend the meeting to brief the Board on the plan and the approach to the 2023/24 audit.

Update on the 2021/22 and 2022/23 Report and Accounts

7. The audit of South Tyneside Council's and the Pension Fund's Report and Accounts for 2021/22 were both signed on 15th May 2024, following delay due to national accounting issues.
8. At the time of writing, the Council's and the Pension Fund's Report and Accounts for 2022/23 have not yet been signed off. However, progress on this is expected soon. The delay is attributable to the same national issue that caused delay to the 2021/22 Report and Accounts.

Background to Approval Process

9. It should be noted that whilst it is important for Pensions Committee and the Local Pension Board to review both the audit plan and the final audit report, the legal responsibility for reviewing and approving them rests with the Council's Audit Committee and the General Purposes Committee. This is because the Fund has no separate legal identify to the Council and the financial statements form part of the Council's wider Report and Accounts.
10. Each year the Fund is required to produce a set of accounting statements for inclusion in South Tyneside Council's Report and Accounts. This is in addition to producing the Fund's Report and Accounts which is presented to Pensions Committee for approval.
11. The Fund's accounting statements in the Council version are exactly the same as those in the Fund's Report and Accounts, but the supporting material and background information is significantly less.

12. The following deadlines and approach to producing the accounting statements and the Report and Accounts are set out below:
- the draft Council accounting statements should be published on 31st May; and
 - the statutory deadline for the production of the Fund's Annual Report and Accounts is 1st December.

Presentation by EY to the Local Pension Board

13. Attached to the report is a copy of the audit plan from EY. A representative from EY will attend the meeting to present this report and seek comments from the Board.

Revised Pension Fund Annual Report Guidance

14. The LGPS Scheme Advisory Board has recently issued updated guidance on preparing the Pension Fund Annual Report. Given the timing, this guidance will not apply in full for the 2023/24 Annual Report, but funds are asked to use best endeavours to comply.
15. The changes are largely based on the outcome of the 2023 Government 'Next Steps on Investments' consultation, although no formal regulations have yet been brought forward following the consultation response.
16. A summary of the changes is set out below:
- Commentary on compliance with the Governance Compliance Statement, including new areas of governance reporting covering representation and training.
 - Revised section on strategic asset allocation including pooling table.
 - Additional supplementary tables covering UK exposures (listed equities, Government bonds, infrastructure and private equity) and UK Levelling Up.
 - Expanded list of Administration KPI's covering communication and engagement, resources and data quality.
17. Officers are currently considering the implications of these changes on the Fund's Annual Report and specifically the required data to produce some of this information.

Recommendations

18. The Board is recommended to:
- consider the audit planning report from EY and comment as appropriate,

- note the changes to the Pension Fund Annual Report guidance, and
- note the report.

Reason for Recommendations

19. To provide appropriate oversight on the process for approving the Fund's Financial Statements and Report and Accounts.

External Audit Plan for 2023/24

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 2023/24		Investments Office, South Shields Town Hall

Tyne and Wear Pension Fund
Provisional Audit planning report

Year ending 31 March 2024

6 June 2024



Building a Better
working world

Pensions Committee

23 May 2024

South Tyneside Council
Town Hall and Civic Offices
Westoe Road
South Shields
NE33 1RL

Dear Committee Members

Audit planning report - Tyne and Wear Pension Fund

Attached is our provisional audit planning report for the forthcoming meeting of the Pensions Committee. The purpose of this report is provide the Pensions Committee with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for the Tyne and Wear Pension Fund. We have aligned our audit approach and scope with these. The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers and members. All stakeholders have a critical role to play in addressing the audit backlog.

We draw Committee Members and Officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

This report is intended solely for the information and use of the Pensions Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 6 June 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Rob Jones

Partner

For and on behalf of Ernst & Young LLP

Enc

Contents

01

Overview of our 2023/24 audit strategy



02

Audit risks



03

Audit Materiality



04

Scope of our audit



05

Audit team



06

Audit timeline



07

Independence



08

Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The 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 and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Pensions Committee and management of Tyne and Wear Pension Fund. Our work has been undertaken so that we might state to the Pensions Committee and management of Tyne and Wear Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Pensions Committee and management of Tyne and Wear Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2023/24 audit strategy



Overview of our 2023/24 audit strategy

Context for the 2023/24 audit - Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies, including Pension Funds, is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers and members. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- ▶ DLUHC has launched a consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.
- ▶ The National Audit Office (NAO) has launched a consultation on amending the Code of Audit Practice to require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of auditors covering the years 2023/24 to 2027/28.
- ▶ The Chartered Institute of Public Finance and Accountancy (CIPFA) has launched consultation on temporary changes to the accounting code for preparation of the financial statements. The proposed temporary changes to the financial reporting framework have an impact on both how the financial statements are prepared and our audit procedures necessary to gain assurance.

The changes proposed by the consultations may have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Pensions Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We have highlighted those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of this Audit Planning Report.

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

As the Administrating Authority for the Pension Fund, South Tyneside Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Pension Fund resources are readily available to support the audit process, within agreed deadlines.



Overview of our 2023/24 audit strategy

Responsibilities of Pension Fund management and those charged with governance

The Audit Committee, as the Pension Fund's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Pension Fund's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- ▶ Consider the use of other statutory reporting powers to draw attention to weaknesses in Pension Fund financial reporting arrangements where we consider it necessary to do so.
- ▶ Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out this and other factors that will lead to a fee variation at Appendix B of this report together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.
- ▶ Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.

Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Pensions Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Valuation of unquoted pooled investment vehicles	Significant risk	No change in risk or focus	The Fund's investments include unquoted pooled investment vehicles (31 March 2023: £11.4bn, including investments covered by the following significant risk). 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.
Valuation of private market investments	Significant risk	No change in risk or focus	The Fund's investments include private market investments (31 March 2023: £3.4bn). Valuation of these investments are performed under a number of different frameworks, depending upon the location and jurisdiction of the investment. Judgement is required to value these 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. Any error in valuation or variation since the audited information could have a material impact upon the financial statements.
Valuation of directly held property	Significant risk	No change in risk or focus	The Fund has a significant portfolio of directly held property investments (31 March 2023: £520.7m). The valuation these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.

The outcome of consultation on the planned measures to address local audit delays and related proposed temporary changes to CIPFA's Code of Practice on Local Authority Accounting may impact our assessment of audit risks and our response to them. We will continue to keep the Pensions Committee updated on our assessment of any changes to audit risk as this becomes clearer.

Overview of our 2023/24 audit strategy

Materiality

Planning materiality

£124m

(PY: £124.6m)

Materiality has been set at £124m, which represents approximately 1% of the pension fund's net assets per the draft 2022/23 accounts.

Performance materiality

£93m

(PY: £62.7m)

Performance materiality has been set at £93m, which represents 75% of materiality.

Audit differences

£6m

(PY: £6.2m)

We will report all uncorrected misstatements relating to the primary statements (fund account and net asset statement) greater than £6m. Other misstatements identified will be communicated to the extent that they merit the attention of the Pensions Committee.

The outcome of consultation on the planned measures to address local audit delays and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the Pensions Committee updated on any changes to materiality levels as the audit progresses.



Overview of our 2023/24 audit strategy

Audit scope

This Audit planning report covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Tyne and Wear Pension Fund give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our opinion on the consistency of the Fund's financial statements, which are included within the Fund's Annual Report, with the published financial statements of South Tyneside Council (the administering authority).

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

Taking the above into account, and as articulated in this Audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Pension Fund's audit, we set those within this Audit planning report and we will continue to discuss these with management as to the impact on the scale fee.



Overview of our 2023/24 audit strategy

Audit scope (Cont.)

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to the Pension Fund. It is, nevertheless, important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Audit scope and approach

We intend to take a fully substantive audit approach, consistent with our approach in the prior year. We will, however, seek to understand the Pension Fund's control environment to the extent required by ISA 315 - *Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment* and assess the design and implementation of controls relevant to significant risk areas of our audit, including a walkthroughs of processes and controls.

The Government proposals to re-establish the local authority framework on a more sustainable basis and the outcome of the related consultations may have an impact on the scope of the audit. We draw your attention to the audit scope section 5 of this audit plan where we set out our current understanding of some of the likely impact of the proposals on our scope and approach for your 2023/24 audit. We will continue to provide updates on the impact of these changes to the Pensions Committee where necessary to do so.

Timeline

A proposed timetable has been discussed with management to complete the audit by September 2024. In Section 06 we include a provisional timeline for the audit. All parties need to work together to ensure this timeline is adhered to.

Key Audit Partner and senior audit team

Rob Jones will be the Partner responsible for the overall quality and delivery of the audit service. Rob will be supported by Olga Potapova as Senior Manager and Richard Tebbs as Manager on the audit, who will be the main points of contact for the finance team.

In Section 05 we include the proposed team for the audit service.



02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

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 identify and respond to this fraud risk on every audit engagement.

What will we do?

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- ▶ Consideration of the design and implementation of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address those identified risks of fraud
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ Undertake procedures to identify significant unusual transactions
- ▶ Consider whether management bias was present in the key accounting estimates and judgments in the financial statements

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of unquoted pooled investment vehicles

Financial statement impact

Misstatements that occur in relation to valuation of unquoted pooled investment vehicles could affect the pooled investment vehicle account area.

Pooled investment vehicles had the following balance in the draft 2022/23 financial statements: £11.4bn

Of these, £8.0bn are unquoted using observable inputs and £3.4bn with significant unobservable inputs (covered through following significant risk).

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 have 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 will we do?

- ▶ Consideration of the design and implementation of management's controls over the valuation of assets.
- ▶ Obtain third party confirmations of the valuation of unquoted pooled investments at the reporting date from the investment managers.
- ▶ Obtain confirmation from the Fund's custodian over assets held on its behalf
- ▶ We will also cross-check the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian
- ▶ Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk
- ▶ Compare the movement in valuation of investments in unquoted investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigate any unusual variances
- ▶ Agree a sample of purchases and sales of unquoted pooled investments during the period to supporting evidence
- ▶ Review the basis of valuation for unquoted investments and ensure it is in line with the accounting policy

Our response to significant risks

Valuation of private market investments

Financial statement impact

Misstatements that occur in relation to the valuation of private market investments would affect the pooled investments account.

Investments covered by our significant risk total £3.4bn and includes the following pooled investment balances in the draft 2022/23 financial statements:

- Private Equity £1.327bn
- Private Debt: £746.1m
- Infrastructure: £623.5m
- Climate Opportunities: £58.7m

What is the risk?

The Fund's investments include private market investments. Valuation of these investments is performed under a number of different frameworks, depending upon the location and jurisdiction of the investment. Judgement is required to value these 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. Any error in valuation or variation since the audited information could have a material impact upon the financial statements.

We have identified the valuation of the Fund's investments in private markets as a significant risk, as even a small change in assumptions could have a material impact upon the financial statements.

What will we do?

- ▶ Consideration of the design and implementation of management's controls over the valuation of assets.
- ▶ Obtain third party confirmations of the valuation of private market investments at the reporting date from investment managers
- ▶ Obtain confirmation from the Fund's custodian over assets held on its behalf
- ▶ Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk
- ▶ Obtain the latest available audited accounts and agreeing the net asset value per the accounts to the net asset value included in the investment manager confirmations
- ▶ Review the audit reports on the latest available audited accounts and evaluate the potential impact on the valuation of the Fund's investments of any exceptions noted
- ▶ Where the latest available audited accounts do not have the same valuation date as the Fund's reporting date, review for reasonableness the movement in value between the date of the audited accounts and the valuation date
- ▶ For investments held in a currency other than sterling, compare the exchange rate used to convert the investment value into sterling to historical market information on exchange rates at the reporting date
- ▶ Agree a sample of purchases and sales of private equity investments during the period to supporting evidence

Our response to significant risks

Valuation of directly held property

Financial statement impact

Misstatements that occur in relation to the valuation of directly held property would affect the directly held property account.

Directly held property had the following balance in the draft 2022/23 financial statements: £520.7m

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.

We have identified the valuation of the Fund's directly held property as a significant risk, as even a small change in assumptions could have a material impact upon the financial statements.

What will we do?

- ▶ Consideration of the design and implementation of management's controls over the valuation of assets.
- ▶ Obtain the valuation report from the external valuer (Savills) and reconcile to the valuations used within the financial statements
- ▶ Assess the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts
- ▶ We will engage EY Property experts to review and challenge the assumptions used on a risk assessment basis.
- ▶ Perform a sample test of other properties to review the assumptions used by the external valuer to ensure that they are in line with our expectations.

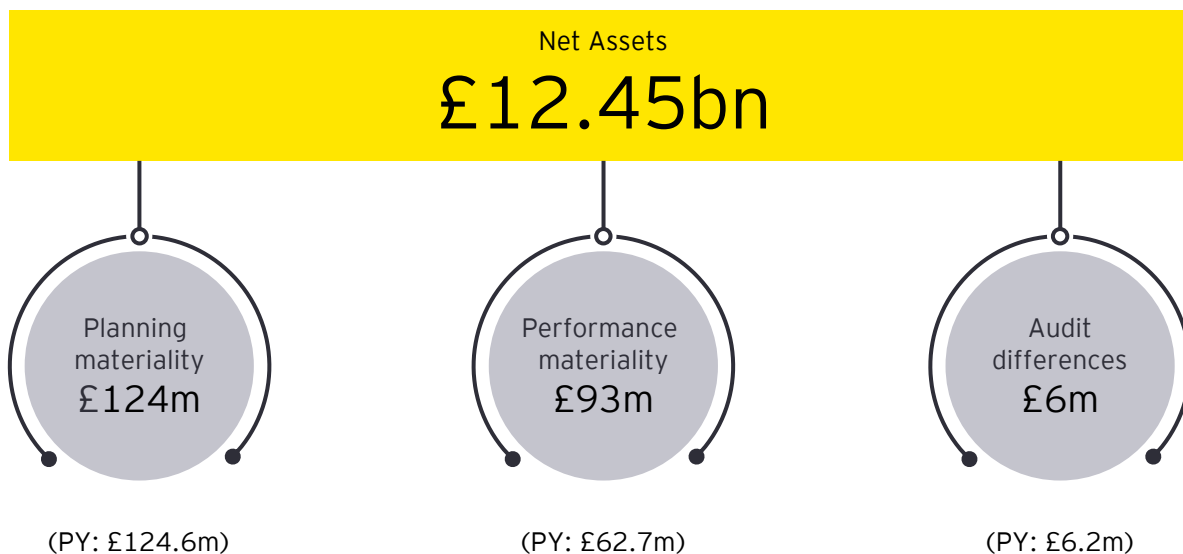


03 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2023/24 has been set at £124m. This represents approximately 1% of the Fund's net assets at 31st March 2023 per the draft financial statements. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix F.



The outcome of consultation on the planned measures to address local audit delays may impact our assessment of materiality for the 2023/24 audit. We will keep the Pensions Committee updated on any changes to materiality levels as the audit progresses.

We request that the Pensions Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £93m which represents 75% of materiality.

The threshold for performance materiality has increased from 50% to 75% for 2023/24 due to lower numbers of errors identified during the prior year's audit and our expectation of the level and nature of error going forward (due to the timing of information received from fund managers used by the Pension Fund).

We will monitor the level of error identified during the course of our audit procedures and re-evaluate this threshold during the audit.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the pensions committee, or are important from a qualitative perspective.



04 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to review and report on the Fund's financial statements and the consistency of these financial statements with those disclosed within the Fund's Annual Report.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- ▶ whether the financial statements give a true and fair view of the financial position of the Pension Fund and its expenditure and income for the period in question; and
- ▶ whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- ▶ whether the Pension Fund's financial statements, which are included within the Fund's Annual Report, are consistent with the published financial statements of South Tyneside Council (the Administering Authority); and
- ▶ whether other information published together with the audited financial statements is consistent with the financial statements.

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

The changes proposed by the consultations may have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Pensions Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer.

Audit process and strategy

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts; and
- ▶ Reliance on the work of experts in relation to areas, such as property valuations.

Our initial assessment of the key processes across the Pension Fund has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Pensions Committee.

Internal audit

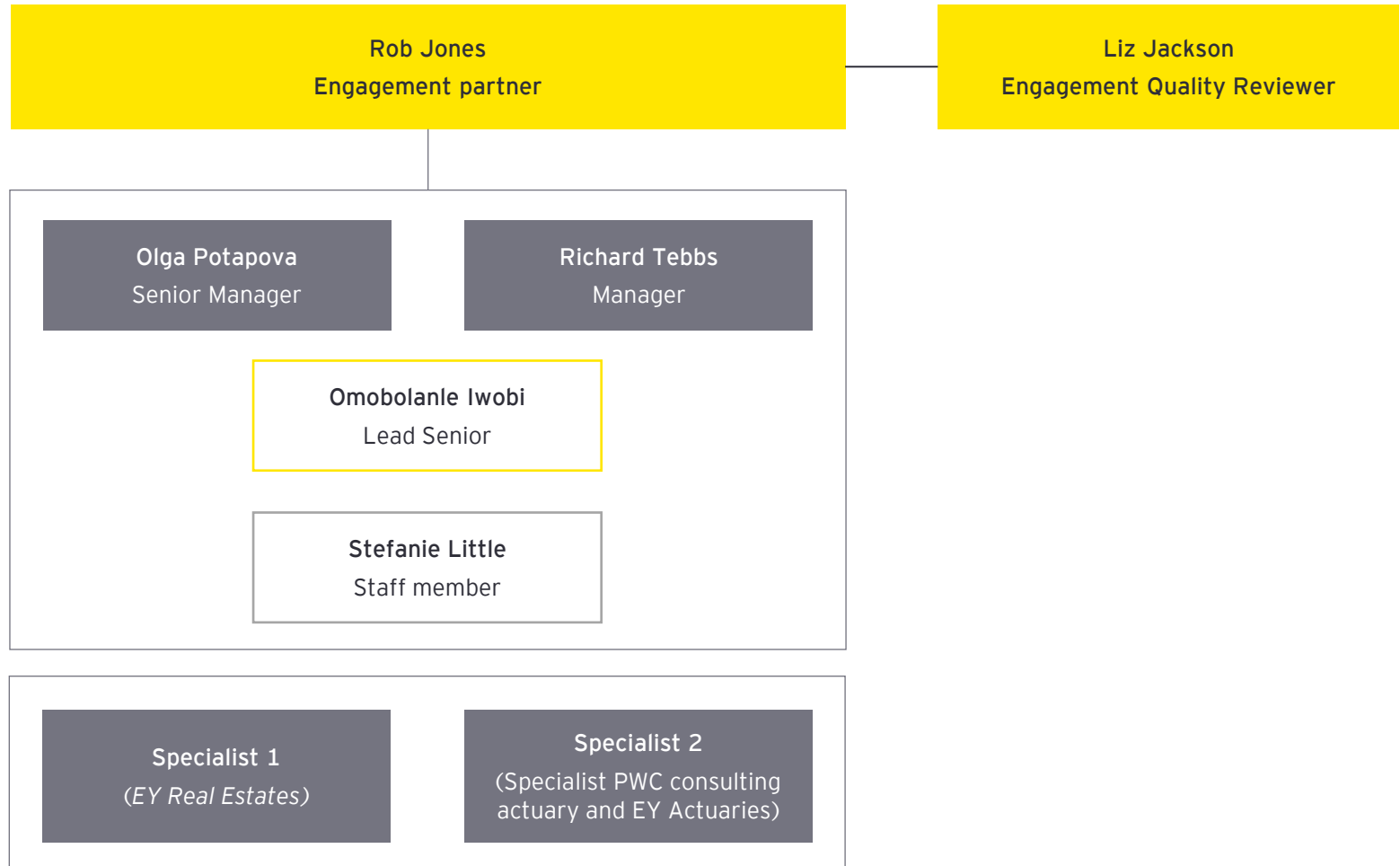
We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



05

Audit team

Audit team



Use of specialists

► Our approach to the involvement of specialists, and the use of their work

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

Area	Specialists
Valuation of directly held property investments	Savills (management's valuation specialists) EY Valuations team
Pension liability disclosures	Aon Hewitt (management's actuarial specialists) EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements



06

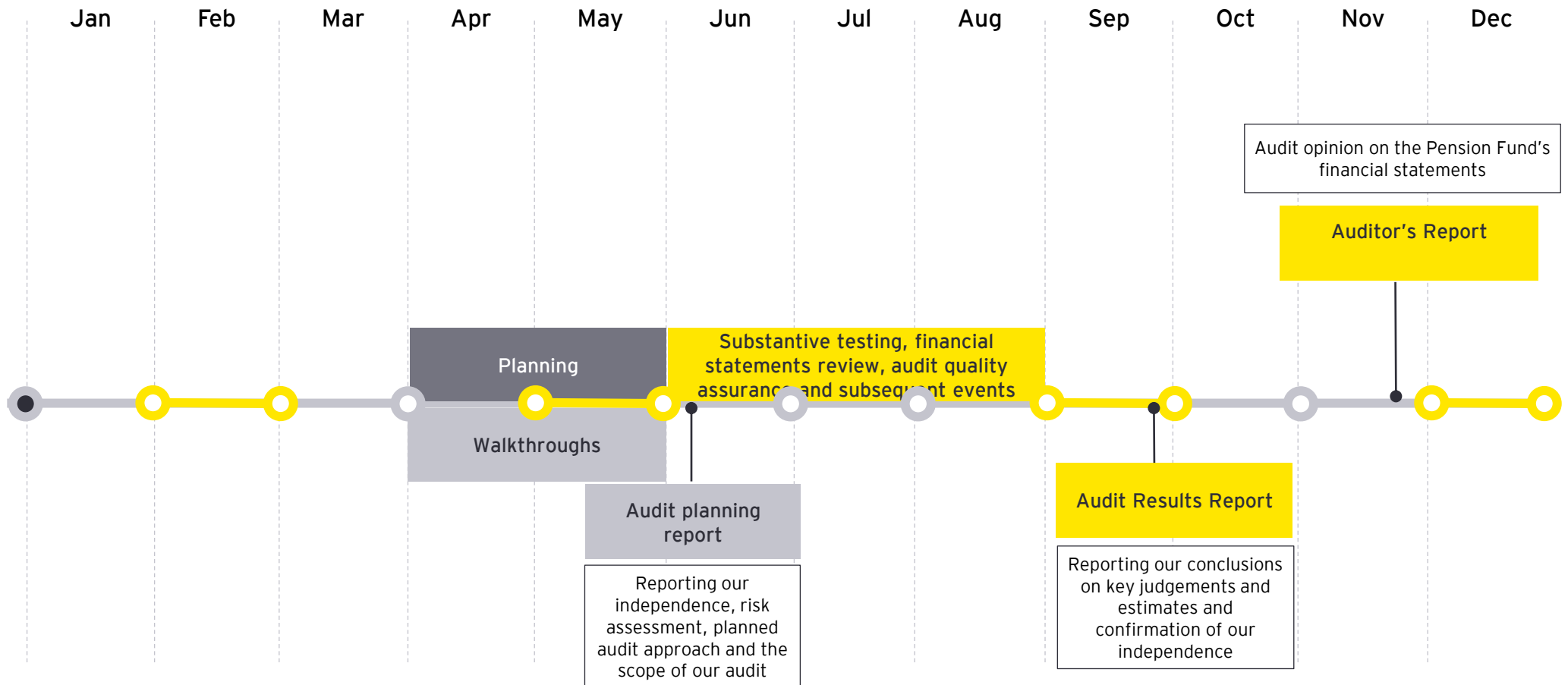
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

From time to time matters may arise that require immediate communication with the Pensions Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





07

Independence

Introduction

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Rob Jones, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. None of the services are prohibited under the FRC's Ethical Standard or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we do not provide any non-audit services to the Fund.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats


Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.



Other communications

EY Transparency Report 2023

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 30 June 2023 and can be found here: [EY UK 2023 Transparency Report](#).



08 Appendices

Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Pension Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Pension Fund should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- ▶ *prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- ▶ *ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- ▶ *assign responsibilities clearly to staff with the appropriate expertise and experience;*
- ▶ *provide necessary resources to enable delivery of the plan;*
- ▶ *maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- ▶ *ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- ▶ *ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- ▶ *during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment
- ▶ The Pension Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Pension Fund should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.

	Planned fee 2023/24	Actual fee 2022/23	Planned fee 2022/23
	£	£	£
Scale Fee - Code Work (note 1)	112,870	27,499	27,449
IAS 19 Procedures (note 2)	14,000	TBD	13,200
Scale Fee Variation - Rebasing of the fee to meet regulatory requirements (note 3)	Nil	TBD	34,699
Additional fees (note 3)	TBD	TBD	20,000 - 23,000
Total fees	TBD	TBD	95,398 - 98,398

All fees exclude VAT


(1) PSAA have updated the Scale Fees for audits from 2023/24 to reflect additional audit and regulatory requirements implemented since the start of the contract period. These replace recurring charges that had been included within Scale Fee Variations.

As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the Pension Fund have to pay for the 2023/24 audit.

(2) A fee is charged for the provision of IAS 19 assurances to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. Management may opt to recharge such fees to the relevant member bodies.

(3) The revision to ISA (UK) 315 has impacted our scope and approach, and requires us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. The revision to the standard has not been included in the update to the scale fees. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- ▶ Consideration of correspondence from the public and formal objections.
- ▶ New accounting standards
- ▶ Non-compliance with law and regulation with an impact on the financial statements.



Appendix B – Fees (cont'd)

- Non-compliance with law and regulation with an impact on the financial statements.
- The need to exercise auditor statutory powers.
- Prior period adjustments.
- Modified financial statement opinions

Note - The 2022/23 audit is materially complete but has not yet been concluded at the date of this report. Upon conclusion of the audit, we will calculate a scale fee variation which will be communicated to management and submitted to the PSAA for determination. Our audit of 2021/22 has recently been concluded and we will submit the relevant scale fee variation to PSAA to determine the final fee imminently.

Appendix C – The Spring Report

A combined perspective on enhancing audit quality

The Spring Report ('The Report') was released by the Audit Committee Chairs' Independent Forum (ACCIF) on 2 June 2023 and is the first of its kind. The Report is the outcome from a series of discussions held with a group of experienced audit committee chairs, auditors from the top 6 firms, and executives from the Financial Reporting Council. The Report details the 9 key learnings that the group agreed on, proposing evolution not revolution, and is focused on getting the basics right first time leading to enhanced audit quality. The report considers key learnings covering the planning, execution, completion and reporting phases of the audit. The full list of key learnings can be found in the [report](https://accif.co.uk/report) (accif.co.uk).

Appendix D – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

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	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Planning Report (This 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 ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	Audit Results Report

Appendix D – Required communications with the Audit Committee (cont'd)

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 ▶ The adequacy of related disclosures in the financial statements 	Audit Results 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 ▶ Material misstatements corrected by management 	Audit Results 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 ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	Audit Results Report

Appendix D – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ 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

Appendix D – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report

Appendix E – Additional audit information

Regulatory update

Our objective is to form an opinion on the Pension Fund's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the PSAA Statement of responsibilities of auditors and audited bodies (from 2023/24 audits). We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the audit committee reporting appropriately addresses matters communicated by us to the audit committee and reporting whether it is materially inconsistent with our understanding and the financial statements
- ▶ Maintaining auditor independence

Appendix E – Additional audit information (cont'd)

Other required procedures during the course of the audit

Procedures required by the Audit Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

We have included in Appendix D a list of matters that we are required to communicate to you under professional standards.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements
- ▶ The level of work performed on individual account balances and financial statement disclosures

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Appendix F - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix F - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2024 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

UKC-023026 (UK) 04/22. Creative UK.

ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com