Tyne and Wear Pension Fund

Audit Planning Report

Year ended 31 March 2026

28 April 2026

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28 April 2026

Audit Committee, Pensions Committee
and Local Pension Board
South Tyneside Council
Town Hall and Civic Offices
Westoe Road
South Shields
NE33 1RL

Dear Members of the Audit Committee, Pensions Committee and Local Pension Board

Audit Planning Report – Tyne and Wear Pension Fund

Attached is the Audit Planning Report for the upcoming meeting of the Audit Committee, Pensions Committee and Local Pension Board. This report aims to provide the Committees and Local Pension Board of Tyne and Wear Pension Fund (the Fund) with a basis to review the proposed audit approach and scope for the 2025/26 audit. This is in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements. This report summarises our evaluation of the key issues driving the development of an effective audit. We have aligned our audit approach and scope accordingly. The report also addresses the broader impact of Government proposals aimed at establishing a sustainable local audit system.

As the Fund's bodies charged with governance, the Audit Committee, Pensions Committee and Local Pension Board play a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Fund's wider arrangements to support a timely and efficient audit. Failure to achieve this will affect the level of resources required to fulfil our responsibilities. We will report on any issues identified in the Fund's external financial reporting arrangements as part of our Audit Results Reports and communications with those charged with governance. We direct Audit Committee, Pensions Committee and Local Pension Board members to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

This report is intended solely for the information and use of the Audit Committee, Pensions Committee, Local Pension Board 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 in the next Committee/Board meeting 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

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Contents

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.psaa.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.psaa.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 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, Pensions Committee, Local Pensions Board and Management of Tyne and Wear Pension Fund. Our work has been undertaken so that we might state to the Audit Committee, Pensions Committee, Local Pensions Board 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 Audit Committee, Pensions Committee, Local Pensions Board 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 2025/26 audit strategy overview

2025/26 audit strategy overview

Context

Timely, high-quality financial reporting and audit of local bodies play a crucial role in our democratic system. It aids in effective decision-making by local bodies and ensures transparency and accountability to local taxpayers. There is a consensus that the delay in publishing audited financial statements by local bodies has reached an unacceptable level, and it is acknowledged that cooperation among all stakeholders in the sector is necessary to address this issue. The reasons for the backlog are well-documented and include:

- Insufficient capacity within the local authority financial accounting profession.
- Increased complexity of reporting requirements within the sector.
- Insufficient capacity within audit firms with public sector experience.
- Heightened regulatory pressure on auditors, leading to an expanded scope and extent of audit procedures performed.

The Ministry for Housing, Communities and Local Government (MHCLG) has collaborated with the Financial Reporting Council (FRC) and other system partners to develop and implement measures to address the backlog. SI 2024/907, along with the NAO Code and the Local Authority Reset and Recovery Implementation Guidance, have been created to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). In February 2025, responsibilities for leadership of the local audit system transferred from the FRC back to MHCLG. This change follows the December 2024 launch of the Government's strategy for reforming the local audit system in England, which includes plans to establish a Local Audit Office. The approach to addressing the backlog consists of three phases:

- **Phase 1:** Reset; clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024. This is now complete.
- **Phase 2:** Recovery from Phase 1; from 2023/24, use backstop dates to prevent a recurrence of the backlog and allow assurance to be rebuilt over multiple audit cycles. The backstop date for the audit of the 2025/26 financial statements is 31 January 2027.
- **Phase 3:** Reform; involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

We are now in Phase 2 of the implementation of the MHCLG's measures to address the backlog facing local government audit. Throughout 2023/24 and 2024/25, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements. Our approach recognises that recovery depends heavily on the audited bodies' own capacity and preparedness and that audit effort must be targeted where it can deliver meaningful assurance.

In respect of pension funds, all audit procedures have been completed in each year, with unqualified opinions issued throughout.

2025/26 audit strategy overview (continued)

Responsibilities of management and those charged with governance

The Administrating Body's Section 151 Officer is responsible for preparing the financial statements of the Fund in accordance with proper practices and confirming they give a true and fair view at the 31 March 2026. To complete the audit in a timely and efficient manner, it is essential that the financial statements are supported by high-quality working papers and audit evidence, and that Fund resources are available to support the audit process within agreed deadlines. The Audit Committee, Pensions Committee and Local Pension Board have an essential role in ensuring that they have assurance over both the quality of the financial statements and the Fund's wider arrangements to support the delivery of a timely and efficient audit. Where this conditions are not met, we will:

- Consider and report on the adequacy of the Fund's external financial reporting arrangements as part of our Audit Results Report and other communications with those charged with governance.
- Assess the impact on available audit resource and where additional resources are deployed, seek a fee variation from PSAA. We have set out the factors that will lead to a fee variation at Appendix B, 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.

2025/26 audit strategy overview (continued)

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

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 consider journals (alongside estimates and significant unusual transactions) as part of our audit procedures, and this includes year-end valuation of level two and level three investment assets. Level two and three investment journals are deemed to be the main areas where the risk can crystallise, and these considerations are embedded into our standard risk. We perform mandatory procedures regardless of specifically identified fraud risks.
Valuation of Private Equity investments and Complex pooled investment vehicles (hard to value investments)	Significant risk	No change in risk or focus	The Fund's Investments includes a significant balance of Hard to Value Level 3 investments such as Private Equity investments and Complex pooled investment vehicles which are valued using inputs that are not based on observable market data (level 3 investments). Total value of these investment categories was £5.130 billion as at 31 March 2025 per the audited 2024/25 accounts. Judgements are made by the investment fund managers to value these investments, where prices are not publicly available. The material nature of this type of investment, means that any error in judgement could result in a material valuation error.
Valuation of directly held property (hard to value investments)	Risk of Material Misstatement	Reduced from Significant risk to Risk of Material Misstatement	The Fund's Investments includes a balance of Hard to Value Level 3 investments such as directly held property. This was valued at £134.9 million as at 31 March 2025 per the audited 2024/25 accounts. For 2025/26, we have reduced the risk rating associated with the valuation of the Fund's directly held properties. This reflects that the current balance now sits only marginally above performance materiality, and accordingly, a reasonably possible change in key assumptions is no longer considered likely to have a material impact on the financial statements. Additionally, no issues were identified in the prior year regarding the valuation performed by the Fund's new valuer in 2024/25, Knight Frank, which further supports this reassessment. Nevertheless, we have retained an Risk of Material Misstatement for the remaining directly held property portfolio, given the inherent complexity and estimation uncertainty involved in valuing Level 3 investments. There remains a risk of material misstatement due to the judgemental nature of these valuations.

2025/26 audit strategy overview (continued)

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

Risk/area of focus	Risk identified	Change from PY	Details
IAS26 Disclosure – Actuarial Present Value of Promised Retirement Benefits	Risk of Material Misstatement	No change in risk or focus	Every three years, a formal valuation of the whole Fund is carried out under the Local Government Pension Scheme Regulations 2013 to assess and examine the ongoing financial position of the Fund. The last fund valuation was 31 March 2025 as the fund's liability was recalculated by the actuary and was used to set employer contribution rates and underpin investment management strategy. Given the fund valuation as at 31 March 2025 was completed in March 2026, we expect there to be changes in the IAS26 disclosures in the current year as 2025/26 is the first year impacted by such valuation. IAS26 requires post-employment benefits plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including demographic and financial key assumptions. The estimate is based on a roll-forward of data from the latest triennial valuation, updated where necessary, and takes into account various factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields. We consider there is a risk around the estimation process, data used and assumptions used by the actuary when estimating the Actuarial Present Value of Promised Retirement Benefits.

We will continue to keep the Committees and the Board updated on our assessment of any changes to audit risk.

2025/26 audit strategy overview (continued)

Materiality

Planning materiality

£135m

(PY: £135m)

Materiality has been set at £135.3m, which represents 1% of the net assets of the scheme as at 31/03/2025 per the audited 2024/25 financial statements.

Performance materiality

£101m

(PY: £101m)

Performance materiality has been set at £101.5m, which represents 75% of materiality.

Audit differences

£6.7m

(PY £6.7m)

We will report all uncorrected misstatements relating to the primary statements (Fund Account and Net Asset Statement) greater than £6.765m. Other misstatements identified will be communicated to the extent that they merit the attention of the Committees and the Board.

Specific materialities - we consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly, we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- Key management personnel disclosure - given the sensitivity around this area and interest from users of the financial statements;
- Related party transactions – which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.

We will continue to keep the Committees and the Board updated on our assessment of any changes to audit risk.

2025/26 audit strategy overview (continued)

Audit scope

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of the following:

- Our audit opinion on whether the financial statements of Tyne and Wear Pension Fund (the Fund) give a true and fair view of the financial transactions during the year ended 31 March 2026 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2026; and
- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of South Tyneside Council.

We will issue an Audit Results Report that the summarises our opinion on the financial statements by 30 November 2026 and other procedures required by the Code. This includes our assessment of the control environment, including our follow up of the recommendations that we made in 2024/25 (refer to Appendix C).

Timeline

An audit timetable has been agreed with management. In Section 06 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

Our independence considerations

Please refer to Appendix B for our update on independence.

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.

Presumptive risk of management override of controls

Misstatements due to fraud and 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 consider journals (alongside estimates and significant unusual transactions) as part of our audit procedures, and this includes year-end valuation of investment assets. Investment journals are deemed to be the main area where the risk can crystallise, and these considerations are embedded into our standard risk. We perform mandatory procedures regardless of specifically identified fraud risks.

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).
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- Consideration of the effectiveness 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 appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including manual journals around yearend investment assets valuations.
- Evaluating the business rationale for significant unusual transactions outside the normal course of business.
- Assessing accounting estimates for evidence of management bias

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that no other procedures are required.

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 Hard to Value Investments

Private Equity and Complex Pooled Investment Vehicles

Financial statement impact

The Fund's Investments includes a significant balance of Hard to Value Level 3 investments such as Private Equity investments and Complex pooled investment vehicles which are valued using inputs that are not based on observable market data (level 3 investments). Total value of these investment categories was £5.130 billion as at 31 March 2025 per the audited 2024/25 accounts.

If an error were to occur, it would affect the Investment Assets and Net Assets reported in the Net Asset Statement, as well as the return on investments section of the Fund Account.

What is the risk?

The Fund's investments include unquoted Private Equity and Complex Pooled Investment Vehicles.

Judgements are made by the investment fund managers to value these investments where prices are not publicly available. The material nature of this type of investment, means that any error in judgement could result in a material valuation error.

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 private market investments and Complex 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
- 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.
- 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 private equity investments and 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
- 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.
- We will use lower testing thresholds and continue to reassess the nature of the assets held by the Fund to ensure we identify those that are harder to value so we can subject them to a higher level of testing.

Other areas of audit focus example area of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

IAS26 Disclosure – Actuarial Present Value of Promised Retirement Benefits

IAS26 requires post-employment benefits plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including demographic and financial key assumptions.

The Fund updates the IAS 26 figure at the formal triennial valuation date. Given the fund valuation as at 31 March 2025 was completed in March 2026, we expect there to be changes in the IAS26 disclosures in the current year as 2025/26 is the first year impacted by such valuation.

The estimate is based on a roll-forward of data from the latest triennial valuation, updated where necessary, and takes into account various factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Fund's IAS 26 disclosure shows that the fair value of net assets is £12.747 billion as at 31 March 2022 (2019: £8.788 billion), with the actuarial present value of the promised retirement benefits as at 31 March 2022 is £16.244 billion (2019: £11.763 billion).

Our response: Key areas of challenge and professional judgement

We will:

- Assess the work of the pension fund actuary including the assumptions they have used by relying on the work of the Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model;
- Assess the competence of managements expert, Aon; and
- Engage EY Pensions Specialists to perform a recalculation of the IAS 26 report.

What else will we do?

- We will also ensure that the IAS 26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary;
- Perform testing of Membership Data submitted to Aon and reconcile data to the Triennial Valuation; and

Other areas of audit focus example area of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?

Valuation of Directly Held Properties

The Fund's investments include directly held property to a value of £134.9m as at 31 March 2025 per the audited 2024/25 accounts.

The valuation of these properties is subject to several assumptions and judgements, small changes in which could impact upon the valuation and the financial statements.

Whilst we have reduced the risk from prior year from a Significant risk to Risk of Material Misstatement, due to a reduction in the Directly Held Properties balance from pooling arrangements, no errors identified in prior year testing and our materiality thresholds in comparison to the balance, we remain aware of the risk, and appreciate the complexity of such valuation, therefore we attach an Risk of Material Misstatement.

Our response: Key areas of challenge and professional judgement

We will:

- Obtain the valuation report from the external valuer (Knight Frank) 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;
- Depending on the nature, value or specific matters identified with assets, we will consider using 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; and
- Evaluate the reasonableness of the Specialist's calculations by comparing them to the outputs of our own auditor's specialist's calculation.

What else will we do?

Our approach will focus on:

- Consideration of the design and implementation of management's controls over the valuation of assets.

03 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2025/26 has been set at £135m (PY: £135m). This represents 1% (PY: 1%) of the Pension Fund's net assets as at 31/03/2025 per the audited 2024/25 financial statements. It will be reassessed throughout the audit process. This measurement basis was used as it is the most appropriate measure for a pension fund.

Net Assets

£13.53bn

Planning materiality
£135m
(PY: £135m)

Performance materiality
£101m
(PY: £101m)

Audit differences
£6.7m
(PY: £6.7m)

We will keep the Committees and the Board updated on any changes to materiality levels as the audit progresses.

We request that the Committees and the Board 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 £101.475m (PY: £101m) which represents 75% (PY: 75%) of materiality. This is resulting from our assessment of the likelihood that misstatements may occur in the Fund is not high.

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. We have set audit differences at £6.765m (PY: £6.7m) which represents 5% (PY: 5%) of materiality. 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 disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Committees and the Board or are important from a qualitative perspective.

Specific materialities - we consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly, we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- Key management personnel disclosure - given the sensitivity around this area;
- Related party transactions – which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.

04 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Fund. 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 Fund Account and Net Asset Statement for the Pension Fund for the period in question, including on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the published financial statements of South Tyneside Council (the Administering Authority); 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 other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

- Reviewing and reporting on matters on which we report by exception as required.

Audit process and strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.
- Reliance on the work of other auditors where appropriate;
- Reliance on the work of experts in relation to areas, such as valuation of the Pension Fund.

Our initial assessment of the key processes across the 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 a data driven approach 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.

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

Rob Jones*
Partner in Charge

Rachel Merez
Manager

Ben Hawkins
Lead Senior

Specialist 1
(EY Real Estates)

Specialist 2
(EY Actuaries)

* Key Audit Partner

Use of specialists

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	Final stage
Pension Fund Valuation and Disclosures	Fund Actuary (Aon Hewitt) Consulting Actuary to the NAO on behalf of audit providers (PwC) EY Pension Advisory Team
Valuation of directly held property investments	EY Valuations team Knight Frank (management's valuation specialists)

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

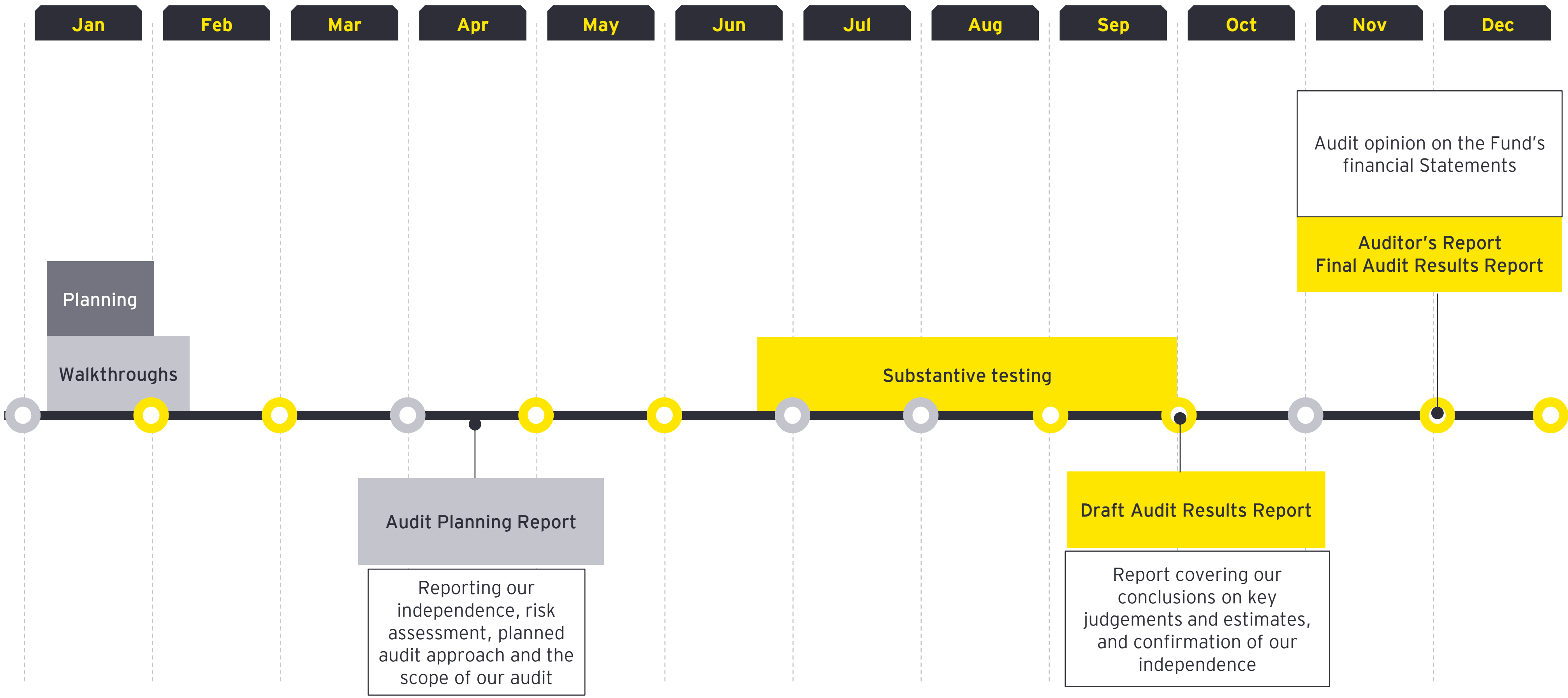
- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- 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 2025/26 audit cycle. From time-to-time matters may arise that require immediate communication with the Committees and the Board, and we will discuss them with the Committee and Board Chairs as appropriate. Note that the audit opinion on the Fund's financial statements will be aligned with South Tyneside Council (administering Authority's) signing timetable.



07 Appendices

Appendix A — PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See **https://www.psaa.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 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 - Independence and Fees

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	**Final 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 ▪ The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service). ▪ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.	▪ 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; ▪ Details of any non-audit/additional services to a UK PIE audit client 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.

Appendix B - Independence and Fees (continued)

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 those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2024 (FRC ES), and we will comply with the policies that you have approved.

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 decisions 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.

Appendix B - Independence and Fees (continued)

EY Transparency Report

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 2025 and can be found here: EY UK 2025 Transparency Report.

Appendix B - Independence and Fees (continued)

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 financial statement opinion and value for money conclusion being unqualified;
- appropriate quality of documentation is provided by the Fund;
- an effective control environment; and
- compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.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 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 management in advance.

	2025/26 (Current Year)	Scale fee	2024/25 (Prior Year)
	£	£	£
Total Fee – Code Work	Note 2	136,601	124,814 Note 1

All fees exclude VAT

1. 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 Fund have to pay for the 2024/25 audits. This is yet to be determined as of the date of this report. The amount and breakdown of scale fee variation we submitted to PSAA for the additional work completed in 2024/25 have been shared with management through our letter dated 2 March 2026.
2. 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:
   - Additional time spent to perform membership data testing and IAS 19 protocol procedures.
   - Risks identified in valuation of investment assets, including the potential use of internal specialists on directly held properties.
   - Consideration of correspondence from the public and formal objections.
   - New and revised accounting standards, for example full adoption or additional disclosures in respect of IFRS 16.
   - 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

Appendix C — Prior year recommendations

As part of our annual audit procedures we will follow up the specific open and in progress recommendations reported within our 2024/25 reporting. The seven open recommendations from prior years are outlined below, along with the response from management.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are either critical to the achievement of strategic objectives or significant risks to material compliance with regulatory requirements. Management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on objectives and compliance, or impact the operation of a single process, and so require prompt but less urgent immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which consider merit attention but do not require to be prioritised by management.

Internal control weaknesses

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
1.	IT environment The Council/Fund's Oracle, Civica and Paygate systems have not received updates for a considerable period; 2013, 2012 and 2021 respectively.	We recommended that Management continue considering the impact of not updating these systems on the correctness and security of information the systems hold.	Management acknowledged the recommendations and commented that these will be considered in the implementation of a new Financial Information System in 2026/27.
	We noted that there was no formal role matrices used to ensure there are no inappropriate roles granted to staff.	We recommended that Management perform a review of the current users, roles and access granted to ensure these are appropriate. Grade 3	
2	**Ledger/trial balance maintenance** The Pension Fund do not maintain a chart of accounts.	We recommended that Management maintain a chart of accounts within the system to provide additional information to users of the systems and show where each trial balance code is mapped to the statement of accounts.	Management acknowledged the recommendations and commented that the system has a 'Chart of Accounts' but this is not specific for TWPF codes. Management also commented that these will be considered in the implementation of a new Financial Information System in 2026/27.
	The Fund does not post some adjustments to the trial balance until after the audit is completed (e.g., management expenses and reclassification adjustment from current assets to investments).	We recommended that Management post all transactions to the ledger prior to the preparation of statement of accounts to ensure that the trial balance ties up completely to the accounts. Grade 3	TWPF has made an improvement in this area in 24/25 compared to previous years (the number of off-TB adjustments have decreased significantly). Management will continue to make improvements to the process in 2025/26.

Appendix C — Prior year recommendations (continued)

Internal control weaknesses

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
3.	Payments and Receipts		
	We identified that the Pension Fund has not consistently chased late payments from the 19th of the following month. Late payments (totalling £568,000) had not been included on the Fund's late payment tracker.	We recommended that Management to continue chasing late payments consistently.	There is a process in place to ensure that late payments are chased consistently. This is not a systemic and the number of instances this happened and amount involved is not material relative to the number and value of transactions the Fund processes. Management will continue to make improvements in the process to avoid this happening.
	We identified a breach of Local Government Pension Scheme Regulations 2013, clause 18(5) which requires a refund of pension contributions to be paid from the Fund within 5 years of leaving the Scheme or before attaining the age of 75. Within 2024/25, the Fund recorded a total of seven scheme members who have received a refund of pension contributions later than the deadline of 5 years of leaving the scheme. The total payments to these individuals is £6,313.42.	We recommended that Management ensure that there are controls in place to ensure payments to individuals are made in line with the requirements of the legislation.	There is a process in place to ensure that payments are made on a timely basis. This is not a systemic and the number of instances this happened and amount involved is not material relative to the number and value of transactions the Fund processes. Management will continue to make improvements in the process to avoid this happening.
	We identified two bank accounts owned and managed by the Pension Fund but was not recorded in the cash balance within the Net Assets Statement. The balance of these bank accounts as of 31 March 2025 was £137,965.	We recommended that Management record the accounts in the Pension Fund's cash balance and prepare regular bank reconciliation statements for the same. Grade 3	The two bank statements that were missed in 2024/25 were now included in the 2025/26 list of bank accounts.

Appendix D — Regulatory update

Key regulatory changes

There are a number of key regulatory developments underway relating to local authority governance and the audit of the Fund's financial statements. 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 TWPF Pension Fund
English Devolution and Community Empowerment Bill	The Bill has completed all scrutiny stages in the House of Commons and is now at Committee stage (Grand Committee) in the House of Lords. The following measures therefore remain proposals until Royal Assent is granted: ▪ **Local audit system reforms:** The Bill includes provisions to reform elements of the local audit framework in England alongside support measures intended to address the audit backlog. The Bill will also enable changes to the way audit oversight and local audit responsibilities operate. Section 61 of the Bill provides for the establishment of the Local Audit Office (LAO). Legislation will set out that the main objective of the LAO is to secure the effective operation of the system of audit, with a view to meeting the needs of users of audited accounts. The LAO will appoint auditors to non-NHS bodies, determine audit fees and prepare one or more Code of Audit Practice. ▪ **Combined authorities and Combined County Authorities:** The Bill expands powers and functions of combined authorities and places combined county authorities on a clearer statutory footing. This will allow further transfer of functions from constituent councils. ▪ **Devolution of functions to "Strategic Authorities":** The Bill expands the category of Strategic Authorities and allows transfer of responsibilities from central government and councils. ▪ **Local Government Reorganisation:** The Bill supports changes to council structures to support devolution.	▪ Local audit system reforms may result in changes to audit timescales or responsibilities and there may therefore be transition risks in future years.

Appendix D — Regulatory update (continued)

Key regulatory changes continued

Name	Summary of key measures	Impact on TWPF Pension Fund
Public Office (Accountability) Bill	The Public Office (Accountability) Bill aims to impose a duty on public authorities and public officials to "at all times act with candour, transparency and frankness in their dealings with inquiries and investigations." Breach of the duty would be a criminal liability. The Bill is expected to apply not only to both core public bodies delivering public services but also private bodies delivering public functions such as those on a government contract. The Bill also proposes: ▪ A new statutory duty on public authorities to promote and take steps to maintain high standards of ethical conduct, as defined by the Seven Principles of Public Life, or "Nolan Principles"; ▪ Reforms that will make it easier to prosecute misconduct in public office; and ▪ An offence of misleading the public.	▪ While the Bill continues to make its way through the House of Commons Committee processes, the Fund should ensure that training and support for members is enhanced to take account of greater expectations in relation to local government standards.

Appendix E — Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

Required communications	What is reported?	Our Reporting to you 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 on the planned work to be undertaken ▪ The planned use of internal audit ▪ The significant risks identified 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	Audit Planning Report dated April 2026
Significant findings from the audit	▪ 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 – November 2026 Audit Committee meeting

Appendix E — Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▪ 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 – November 2026 Audit Committee meeting
Misstatements	▪ 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 – November 2026 Audit Committee meeting
Fraud	▪ 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: 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 – November 2026 Audit Committee meeting

Appendix E — Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	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 ▪ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – November 2026 Audit Committee meeting
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence ▪ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▪ 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 Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report dated April 2026 Audit Results Report – November 2026 Audit Committee meeting

Appendix E — Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
	▪ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▪ Details of any inconsistencies between the Ethical Standard and Fund's policy for the provision of non-audit services, and any apparent breach of that policy ▪ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▪ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▪ Management's refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – November 2026 Audit Committee meeting
Consideration of laws and regulations	▪ 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 – November 2026 Audit Committee meeting
Internal controls	▪ Significant deficiencies in internal controls identified during the audit	Audit Results Report – November 2026 Audit Committee meeting

Appendix E — 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 – November 2026 Audit Committee meeting
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report – November 2026 Audit Committee meeting
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2026 Audit Committee meeting
Auditors report	▪ 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 – November 2026 Audit Committee meeting

Appendix F — Additional audit information

Objective of our audit

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

Other required procedures during the course of the audit

- 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 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 Fund to express an opinion on the 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.

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.

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

Ernst & Young LLP

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

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