Hampshire Pension Fund

Provisional Audit planning report

Year ended 31 March 2023

September 2023

Building a better working world

15 September 2023

Hampshire County Council
The Castle
Winchester
SO23 8UJ

Dear Audit Committee Members

Audit planning report

We are pleased to attach our provisional audit planning report for the forthcoming September meeting of the Audit Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2022/23 audit, in accordance with the requirements of the 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 Hampshire Pension Fund. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Audit 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 27 September 2023 as well as understand whether there are other matters which you consider may influence our audit. As ever, as our risk assessment and work continues, we will update the Committee as required, notably if any significant changes in key risks or audit approach.

Yours faithfully

Ben Lazarus

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/).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 (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 Audit Committee and management of Hampshire Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Hampshire 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 Committee and management of Hampshire 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 2022/23 audit strategy

Overview of our 2022/23 audit strategy

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

Audit risks and areas of focus

Risk/area of focus	Risk identified (see key over-page)	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively. We have not identified anything specific to Hampshire on this risk.
Valuation of level 3 investments	Significant risk	No change in risk or focus	Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. Significant judgements are made by the Investment Managers or administrators to value these investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.
Valuation of non-exchange traded pooled funds (Level 2 Fair Value hierarchy)	Inherent risk	No change in risk or focus	Hampshire Pension Fund hold a significant balance of non-exchange traded pooled funds which are classified as Level 2. Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. We consider the valuation of non-quoted pooled investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty.
Valuation of directly-held property investments	Inherent risk	No change in risk or focus	We consider the valuation of property investments to be of a higher degree of inherent risk because of the level of estimation uncertainty. Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.
IAS 26 – Actuarial present value of promised retirement benefits	Inherent risk	New Risk in year	We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to its nature. IAS 26 information is not updated in between triennial revaluations. The last triennial revaluation was at March 2022. Therefore we consider the higher inherent estimation risk to be present in this years accounts.

Overview of our 2022/23 audit strategy

Key – Risk definitions

Risk Type	Definition
Significant risk	An identified and assessed risk of material misstatement of the accounts that, in the auditor's judgment, requires special audit consideration.
Fraud risk	Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional and involves deception or is unintentional. A risk of material misstatement due to fraud is always a significant risk.
Inherent risk	The risk posed by an error or omission in a financial statement due to a factor other than a failure of internal control. Inherent risk is most likely to occur when transactions are complex, or in situations that require a high degree of judgment in regard to financial estimate

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Overview of our 2022/23 audit strategy

Materiality

Planning materiality

£89.6m

Materiality for the Fund has been set at £89.6m, which represents 1% of net assets in the draft 2022/23 financial statements. We consider net assets, to be the appropriate basis of materiality for the Fund due to the scale and interest to users of the financial statements. This is the same basis as that used in the prior year.

Performance materiality

£67.2m

Performance materiality has been set at £67.2m, which represents 75% of materiality. This is consistent with the prior year. Our assessment reflects the strong control environment present at the Fund and our expectation of a relatively low level of misstatements based on results from previous audits.

Audit differences

£4.5m

We will report all uncorrected misstatements relating to the primary statements (fund account and net asset statement) greater than £4.5m. Other misstatements identified will be communicated to the extent that they merit the attention of those charged with governance.

Overview of our 2022/23 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 and the amount and disposition at that date of its assets and liabilities for 2022/23.
- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Hampshire County Council.

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.

We will provide an update to Audit Committee Members on the results of our work in these areas in our report to those charged with governance scheduled for the September 2023 meeting of the Committee.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. 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". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of complex investment assets, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years. Therefore to the extent any of these are relevant in the context of Hampshire Pension Fund audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2022/23 audit strategy

Audit team

The audit will be led by Ben Lazarus as the new Partner in Charge for 2022/23. Ben will be supported by James Stuttaford, Manager, and Yi Ong, Lead Senior, who both have previous experience of working on a Pension Fund audit. See Section 05 for further details of the audit team and the areas where management and EY specialists are expected to provide input for the current year audit.

Audit timescales

Full details of the planned timeline for delivery of the audit are set out in Section 06. We expect to have fully completed our risk assessment and work to walkthrough the Fund's key systems and processes, including work to comply with the enhanced requirements of ISA (UK) 315 (Revised), by the end of September 2023. Our detailed testing of balances and disclosure in the financial statements is expected to be complete by the end of October. We expect to present our final audit results report to the 14 December meeting of the Audit Committee.

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, and the key judgements and estimates?

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.

Our response: Key areas of challenge and professional judgement

We will undertake our standard procedures to address fraud risk, which include:

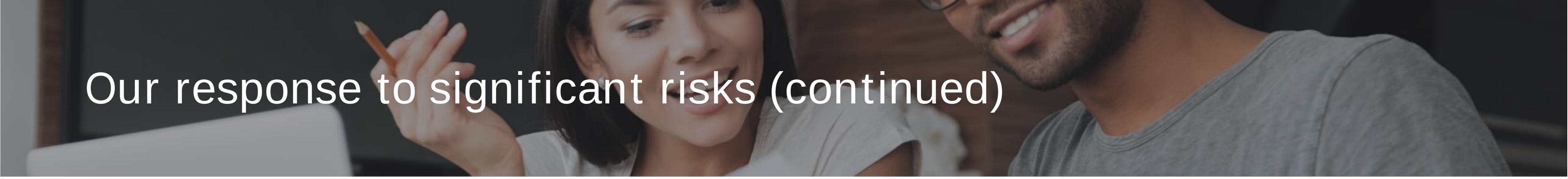
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

We will include a focus on ensuring that the investment valuations provided through the custodian and fund managers are appropriately journaled into the financial statements, where we have identified the opportunity and incentive for override to occur.



Our response to significant risks (continued)

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 Level 3 investments

What is the risk, and the key judgements and estimates?

We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations.

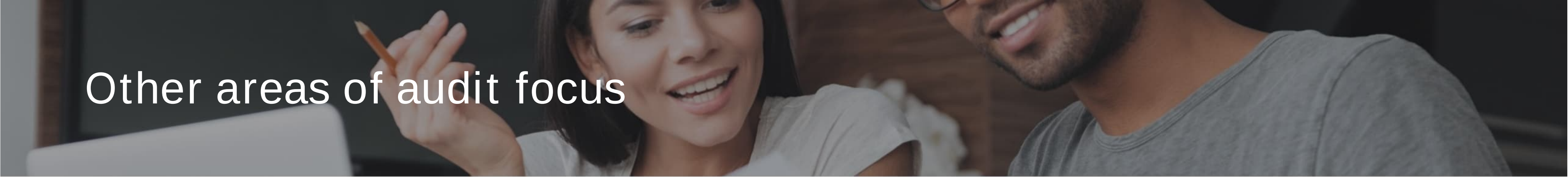
Significant judgements are made by the Investment Managers or administrators to value these investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

The Fund’s private equity, private debt and infrastructure investments are categorised as being at level 3 in the fair value hierarchy. This is due to the uncertainty associated with the valuation of such investments and the absence of a liquid market, meaning that the valuations are not based on observable inputs.

Our response: Key areas of challenge and professional judgement

We will:

- Agree the valuation of Level 3 investments appearing in the financial statements to valuation reports from the fund managers.
- Obtain audited financial statements of fund managers and obtain bridging letters for the controls reports to year end if necessary. where the latest audited accounts were not as at 31 March 2022, we performed analytical procedures and other procedures to assess the valuation for reasonableness against our own expectations;
- Review the fund managers’ latest controls report to assess whether the fund manager maintained appropriate controls to prevent and detect material misstatement in the pricing of assets; and
- Test accounting entries have been correctly processed in the financial statements.



Other areas of audit focus

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

Our response: Key areas of challenge and professional judgement

Valuation of directly held property investments

We consider the valuation of property investments to be of a higher degree of inherent risk because of the level of estimation uncertainty. As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher inherent risk that directly held property may be under/overstated.

Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.

We will:

- Consider the work performed by the Fund's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Challenge the key assumptions used by the valuer and test a sample of inputs and calculations used to inform the valuation by reference to relevant available market data and other supporting evidence.
- Test accounting entries have been correctly processed in the financial statements.
- Ensure the value applied to each property agrees back to the listing of deeds owned. We will view the deeds of any new properties acquired in the year, and a sample of existing property deeds.

We will consider whether our work in this area needs to be supported by our EY Real Estate valuation professionals.

Valuation of non-exchange traded pooled funds (Level 2 Fair Value hierarchy)

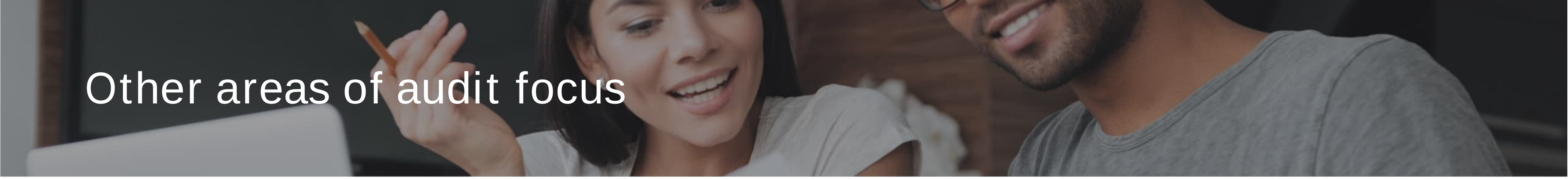
Hampshire Pension Fund hold a significant balance of non-exchange traded pooled funds which are classified as Level 2.

Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

We consider the valuation of non-quoted pooled investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty.

We will:

- Reconcile the valuation of the non-quoted assets provided by the custodian and fund manager;
- Verify the fund manager unit valuation to recent unit sales using externally available market information;
- Review the latest available audited accounts for the relevant fund and ensure there are no matters arising that highlight weaknesses in the fund's valuation;
- Performing an analytical review of the pooled funds movement in year against the specific market movements the fund is invested in.



Other areas of audit focus

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

IAS 26

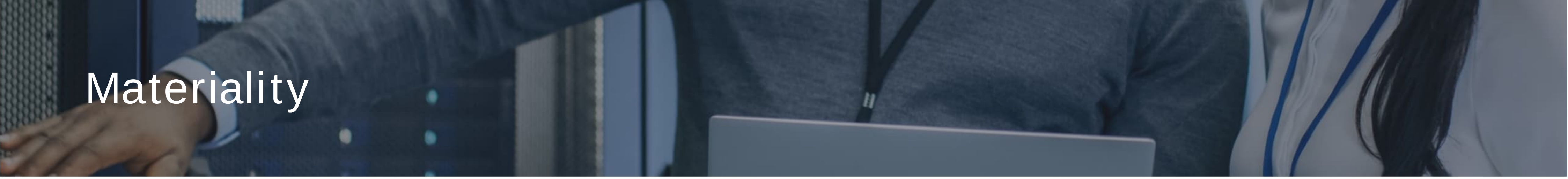
We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to it’s nature.

Our response: Key areas of challenge and professional judgement

We will:

- Agree the disclosure to the IAS 26 actuarial statement and reporting requirements.
- Engage auditor’s specialists to review the IAS 26 calculation approach and comment on the underlying assumption.
- Review the work of the management specialist (the actuary) and auditor’s specialist.
- Consider the controls used by Aon in undertaking the calculation.
- Perform IAS 19 procedures, which give us assurance over the data input into the calculation. In addition to our usual IAS 19 procedures, in 2022/23 we have been required to test membership data informing the 2022 triennial valuation of the Fund which will provide IAS19 assurance for scheduled body audits across a number of years

03 Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2022/23 has been set at £53m. This represents 1% of the Fund's net assets in the draft 2022/23 financial statements. We consider net assets, to be the appropriate basis of materiality for the Fund due to the scale and interest to users of the financial statements. We have provided supplemental information about audit materiality in Appendix C.

Net Assets

£8,965m

Planning materiality
£89.6m

Performance materiality
£67.2m

Audit differences
£4.5m

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

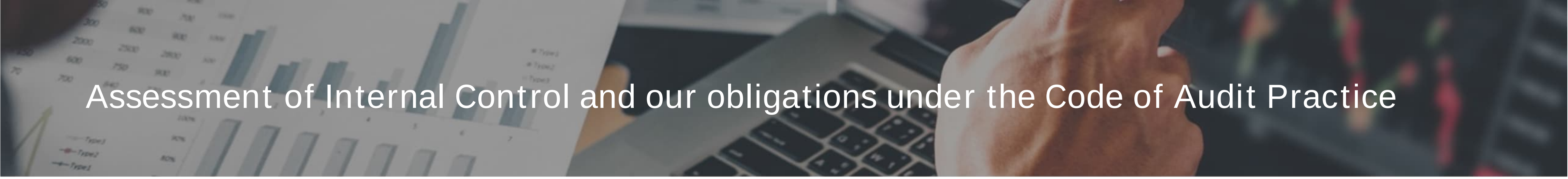
Key definitions

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 £67.2m which represents 75% of group materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount.

04 Scope of our audit



Assessment of Internal Control and our obligations under the Code of Audit Practice

Obligations under the Code of Audit Practice

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

Financial statement audit

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 203 and the amount and disposition at that date of its assets and liabilities for 2022/23; 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.

Consistency statement:

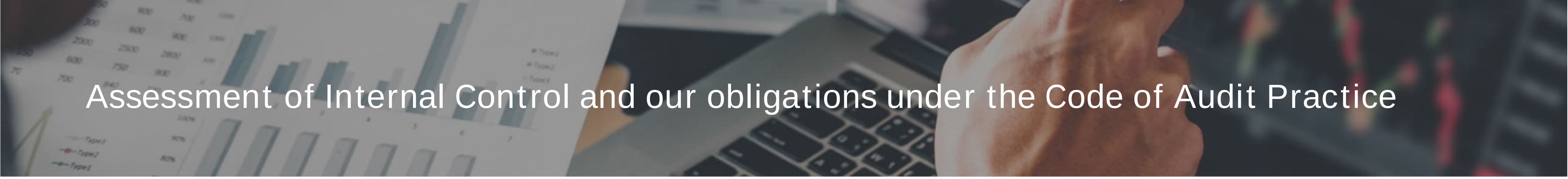
- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Hampshire County Council.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.



Assessment of Internal Control and our obligations under the Code of Audit Practice

Changes to auditing standards – ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent.

The aims of the revised standard is to:

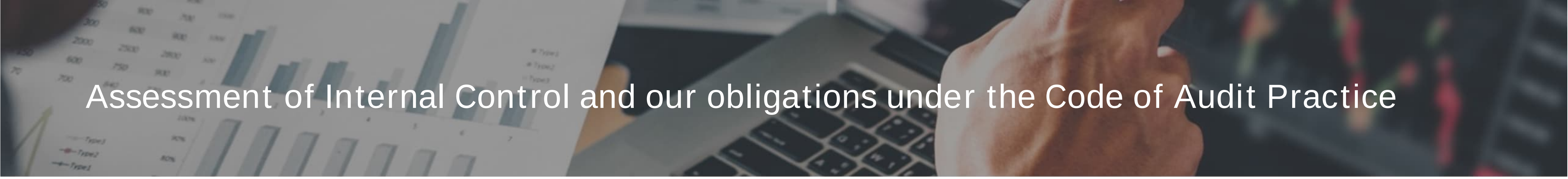
- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
    - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
    - how auditors understand the entity's use of information technology relevant to financial reporting.

Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

The key impacts are:

- Significant increase in work on entity's use of IT in business and system of internal control.
- Clearer workflow within the standard to highlight the importance of the auditor's understanding of the entity and environment, the applicable financial reporting framework, and system of internal control.
- New concepts: e.g. inherent risk factors, spectrum of inherent risk
- Changed definitions: notably, the definition of 'significant risk', which is an identified risk of material misstatement:
    - For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
    - That is to be treated as a significant risk in accordance with the requirements of other ISAs (UK)

See Appendix D for our assessment of the impact of ISA (UK) 315 on the current year audit.



Assessment of Internal Control and our obligations under the Code of Audit Practice

Changes to auditing standards – ISA (UK) 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

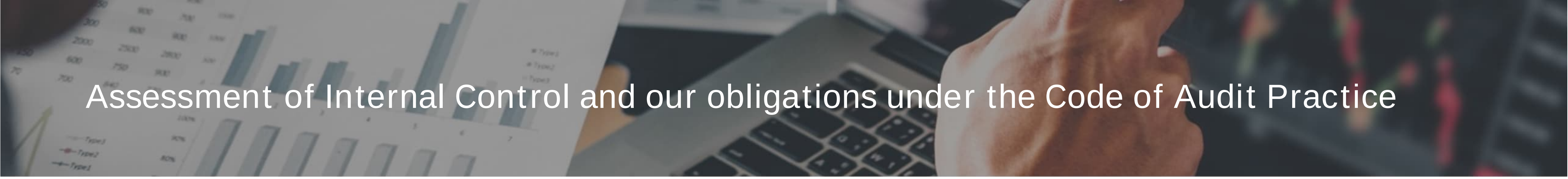
Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional and involves deception or is unintentional. ISA (UK) 240 deals with the auditor’s responsibilities relating to fraud in an audit of financial statements.

The revision to the standard is effective from FY 2022/23 aims to clarify the obligations of auditors to identify and assess the risk of material misstatement due to fraud, as well as including supplemental requirements and guidance to enhance the auditors’ procedures.

Key changes are:

- The objectives of the auditor have been revised to emphasise the requirement to obtain reasonable assurance about whether the financial statements are free from material misstatement due to fraud.
- There is a greater focus on professional scepticism including that audit approaches don't show bias to looking for corroborative evidence or excluding contradictory evidence.
- There are new requirements for the auditor to determine whether the engagement team requires specialised skills or knowledge to perform their work on fraud, including their assessment of fraud risk, associated procedures and evaluation of the evidence obtained.
- There is additional guidance regarding the discussion required by ISA (UK) 315 among the audit engagement team. This is to discuss the susceptibility of the entity's financial statements to material misstatement due to fraud or error. The revised ISA (UK) 240 emphasises the need for an exchange of ideas among all engagement team members about fraud risk factors.
- The auditor shall make inquiries of management, or others within the entity who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties.
- Auditors are to hold a discussion with those charged with governance regarding the risks of fraud in the entity and to consider the implications for the audit.
- The auditor must communicate with those charged with governance matters relating to fraud (unless prohibited by law or regulation) and the auditor's assessment of the risks of material misstatement due to fraud.
- Auditors must evaluate whether their assessment of the risk of material misstatement due to fraud remains appropriate at audit conclusion, that sufficient appropriate audit evidence has been obtained, and that the financial statements are not materially misstated as a result of fraud.

The auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud.



Assessment of Internal Control and our obligations under the Code of Audit Practice

Assessment of Internal Control

Our audit involves:

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

For 2022/23 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain 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 Audit Committee.

Internal audit:

We will review internal audit plans and the results of their work.

05 Audit team

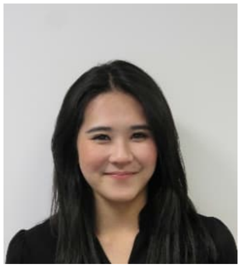
Audit team

Audit team structure :

Ben Lazarus
Lead Audit Partner

James Stuttaford
Manager

Yi Ong
Lead Senior



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 management and EY specialists are expected to provide input for the current year audit are:

Area	Specialists
Investment valuations (Level 2 and Level 3)	Management Specialist – Colliers We will consider whether our work in this area needs to be supported by our EY Valuation professionals.
IAS 26	Management Specialist – Aon EY Specialist – PWC as consulting actuary and EY Pensions

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 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; and
- 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 2022/23.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chair as appropriate.

Audit phase	2023 Timetable	Deliverables
Planning: Risk assessment and setting of scopes	August - September	This audit planning report to be presented to the 27 September meeting of the Audit Committee.
Walkthrough of key systems and processes	September	
Execution of audit procedures on the financial statements	October	
Audit Completion procedures	October - November	Draft audit results report shared with management and, in turn, committee.
Audit Conclusion	November - December	Audit opinion and completion certificates. We intend to present our final audit results report to the 14 December meeting of the Audit Committee. The target date for publication of the Fund's 2022/23 audited financial statements, as set out in the Accounts and Audit (Amendment) Regulations 2022, is 30 September 2023. The accounts will therefore need to be published by 30 September without the audit report. We will work with the Fund to arrive at an appropriate form of words to include together with the published accounts to reflect this.

07 Independence

Introduction

The FRC Ethical Standard 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.

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 external experts used have confirmed their independence to us;
- 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.

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 Ben Lazarus, 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 the Authority. Examples include where we have an investment in the Authority; 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 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. For accounting period ended 31 March 2023 non-audit fees subject to the fee cap cannot exceed 70% of the average audit fees for the past three years.

At the time of writing, there are no non-audit fees associated with Hampshire Pension Fund. No additional safeguards are required.

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.

Relationships, services and related threats and safeguards

Other threats

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

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

EY Transparency Report 2022

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 year ended 30 June 2022 and can be found here:

https://www.ey.com/en_uk/about-us/transparency-report

08 Appendices

Appendix A – 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.

As part of our reporting on our independence, we set out here a summary of the expected fees for the year ended 31 March 2023.

Scale fee variations are agreed when we incur work in addition to the planned level of work built into the scale fee.

For the Hampshire Pension Fund audit, we do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise and therefore we expect to agree a scale fee variation with management and PSAA for the 2022/23 audit.

	Current Year 2022/23	Prior Year 2021/22
	Proposed fee £	£
Scale Fee – Code work	30,673	24,442
Scale Fee Variation – see Note 1	TBC	39,699
Scale fee variation - new auditing standard – see Note 2	603	603
Scale fee variation – use of EY specialist - see Note 3	0	TBC
Total fees	TBC	TBC

All fees exclude VAT

Note 1 – In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our 2021/22 audit should increase by £39,699. As the 21/22 audit is not yet closed, this submission has not yet been made to the PSAA so we are unable to confirm the final approved fee for the 21/22 audit. This will be presented to the Committee when the final fee is determined. We expect similar recurrent costs to our assessment in 2022/23. However, PSAA has stated that this will need to be determined each year. We also expect to charge additional fee for work to comply with the enhanced requirements of ISA (UK) 315 (Revised).

Note 2 – From 2020/21, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs, predominantly ISA540. We have continued to include the impact at the lower end of the PSAA's communicated range, submitted in our 2020/21 fee variation proposal.

Note 3 - Fees in 21/22 relate to our use of an EY specialist to conclude on the valuation of L3 investments in 2021/22. As per Note 1 as the 21/22 audit is ongoing, the Scale fee variation has not yet been determined. Based on the findings of the specialist during the 21/22 audit, we do not expect to need to re-engage with the specialist for the 22/23 audit

Appendix B – Required communications with those charged with governance

We have detailed the communications that we must provide to those charged with governance.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by those charged with governance of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. 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.	Provisional audit planning report – September 2023
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; and ► Other matters if any, significant to the oversight of the financial reporting process. ► Findings and issues regarding the opening balance on initial audits.	Audit results report – December 2023

Appendix B – Required communications with those charged with governance (cont'd)

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; and ► The adequacy of related disclosures in the financial statements.	Audit results report – December 2023
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 – December 2023
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.	Audit results report – December 2023

Appendix B – Required communications with those charged with governance (cont’d)

Required communications	What is reported?	Our Reporting to you 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; and ► Difficulty in identifying the party that ultimately controls the entity.	Audit results report – December 2023
Independence	Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, 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; and ► Information about the general policies and process within the firm to maintain objectivity and independence. Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Provisional audit planning report – September 2023 Audit results report – December 2023
External confirmations	► Management’s refusal for us to request confirmations; and ► Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report – December 2023
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; and ► Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of.	Audit results report – December 2023

Appendix B – Required communications with those charged with governance (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Internal controls	► Significant deficiencies in internal controls identified during the audit.	Audit results report – December 2023
Representations	► Written representations we are requesting from management and/or those charged with governance.	Audit results report – December 2023
Material inconsistencies and misstatements	► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit results report – December 2023
Auditors report	► Key audit matters that we will include in our auditor's report; and ► Any circumstances identified that affect the form and content of our auditor's report.	Audit results report – December 2023

Appendix C – Additional audit information

Regulatory update

Our objective is to form an opinion on the 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 formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Mayor. The audit does not relieve management or those charged with governance 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 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 to express an opinion on the financial statements. Reading other information contained in the financial statements and 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; and
- Maintaining auditor independence.

Appendix C – Additional audit information (cont'd)

Other required procedures during the course of the audit

Other procedures

- We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice

We have included in Appendix B 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:

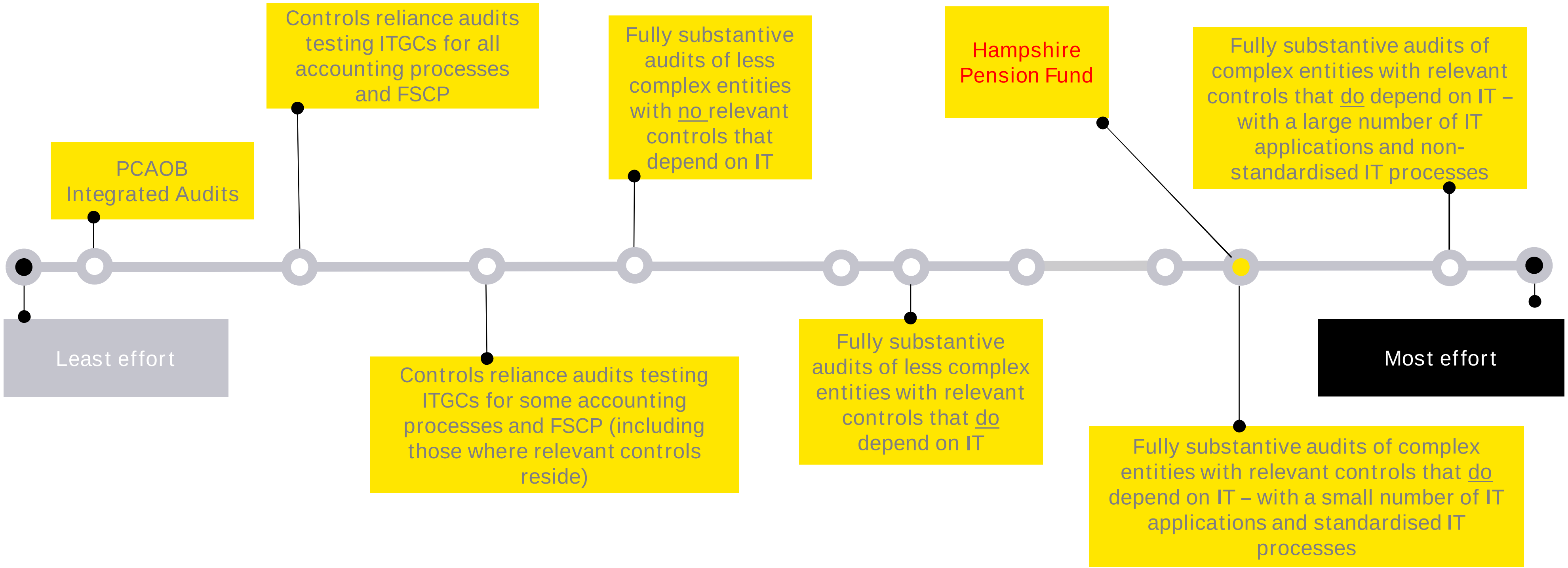
- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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 D – Impact of ISA (UK) 315 (Revised)

Other required procedures during the course of the audit

The graphic below indicates where we have anticipated that the audit of Hampshire Pension Fund falls on the spectrum of effort as it applies to the new requirements of the revised standard relating to understanding the effect of the entity's use of IT. The level of effort is displayed relative to the circumstances applicable to Hampshire Pension Fund, and why that level of effort may differ to that required on the audits of entities with different circumstances.



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.

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

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