Crowe

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The YMCA Pension and Assurance Plan
YMCA Group Life Assurance Scheme

Report to Trustee
For the Year ended 30 April 2019

Issued to the Trustee for the meeting held on 24 September 2019

Audit / Tax / Advisory / Risk

Contents

Page

We planned our audit so that we have a reasonable expectation of detecting material misstatements in the accounts or accounting records including those resulting from fraud, error or non-compliance with laws or regulations or breaches of trust. However, you should not rely on our examination to disclose all material misstatements or instances of fraud, error or non-compliance that may exist. This responsibility rests with you. We do not design our audit to identify all significant weaknesses in the Scheme's accounting and control systems but, any such weaknesses that come to our notice during the course of our audit that we think should be brought to your attention, are referred to in this report.

This report is intended only for the purpose of the Trustee. You should not provide this report to third parties without our prior written consent.

1. Executive summary

We have completed our audit of the financial statements of the YMCA Pension and Assurance Plan (the "Scheme") for the year ended 30 April 2019. Our audit was conducted in accordance with our Audit Planning Report which was agreed with Gwynne Jarvis, Richard Lock and Paul Smillie and issued to the Scheme Trustees on18 April 2019.

The Trust has over 20 participating employers and therefore under Pension Scheme Regulations is not required to obtain an auditors statement on contributions. Our audit opinion is unmodified.

We are pleased to report that the standard of accounts preparation and the timeliness of reporting facilitated a smooth year-end audit clearance.

There are no changes to our integrity, objectivity and independence statement made in our Audit Planning Report.

In relation to the control environment we have reviewed those systems of internal control we consider relevant to forming our audit opinion. Our review has not identified any significant weaknesses in the design and implementation of controls as a result of the procedures performed.

We report on any significant weaknesses identified in the design or implementation of controls as a result of the audit procedures performed in this report, however this does not constitute a comprehensive statement of all weaknesses which may exist in the accounting or internal control systems. We are pleased to report that we have not identified any issues to bring to the attention of the Trustee from the work performed.

In section 2 we have provided further information on some topical matters that the Trustee may want to consider.

In section 3 we have included the wording for our letter of representation which we ask the Trustee to present to us, along with the signed accounts, before we sign our audit report and statement about contributions.

Going concern

Under the latest auditing regulations our auditor's report requires us to explicitly report on matters in relation to going concern. In addition the statement of Trustee's Responsibilities included in the annual report has also been updated to state that the Trustee is responsible for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Plan will not be wound up. During our audit we have considered the Trustee assessment of whether the Plan is a going concern for the 12 month period following the approval of the annual report and financial statements and have no points to draw to the attention to the Trustee.

GMP equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustees of the Scheme are aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustees do not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

Member Identity Checks

Prior to a benefit payment being made to a member, checks are made to confirm their identity. We understand that these checks involve the use of Lexis Nexus IDU checks and also require the member to provide copies of proof of identity which can include birth certificates and passports. XPS have confirmed that they require the member to provide answers to a minimum of three security questions including DOB, address and NI number, if they are updating an address or requesting information. For certain updates like

change of bank details, XPS will require the member's signature which we can check against documents on their backfile.

The procedures in place are not out of line with industry practice and checks including electronic member verification noted above are becoming more commonplace amongst administrators and in-house teams due to increasing fraud risk. Furthermore documentation such as government issued photo documents such as passports and drivers' licenses should be sought in preference to birth certificates.

2. Topical matters for consideration

Topical matters
1. Governance Regulations and IORP II The EU pensions Directive (IORP II) was enacted into UK law on 13 January 2019 and will be included in a Code of Practice to be issued by the Pensions Regulator. There are a significant number of changes including: more information to be provided to members annually, clarity on trustee remuneration policies, the consideration of ESG factors when making investment choices and simplifying cross-border transfers. Perhaps the most significant change is the emphasis on the need to establish a system of internal controls that are proportionate to the size and complexity of the arrangements. The regulations refer to a number of areas such as the need to internally evaluate the adequacy and effectiveness of the system of governance, to consider the effectiveness of internal controls, to conduct formal risk management assessments at least every three years and to be subject to regular internal reviews. The Pensions Regulator is currently drafting a code of practice which will be published for consultation later this year.
2. BREXIT There is a lot of uncertainty about what BREXIT will mean. Potentially it could have a number of impacts on pension scheme arrangements that trustees should consider. These include for example; employer covenant, going concern considerations, short to medium term investment strategy and currency hedging impact, fund manager operations in some cases, collateral issues, overseas pension payment issues, data and agreement issues and the impact of any interest rate changes. In a statement published on 24 January 2019, the Regulator reminded trustees and sponsors of the Brexit-related steps they expected them to initiate, as outlined in their 2016 statement and their 2018 Annual Funding Statement. TPR does not expect the UK's departure from the EU to have a significant effect in respect of the legislative basis under which schemes operate or trustees' ability to continue to administer their scheme effectively.
3. GMP equalisation The Lloyds High Court judgement (26 October 2018) on the equalisation of Guaranteed Minimum Pensions ("GMPs") has accounting implications for all schemes with unequal GMPs for members who were contracted out between 17 May 1990 and 5 April 1997. As a result, there is a legal obligation to equalise GMPs through other scheme benefits. It applies to past and future benefits and therefore will impact on scheme and employer accounts and actuarial valuations. Interest is payable at 1% above base. There has been no decision on whether a de-minimis can be set for payments or the extent to which benefits need to be equalised for transfers out, consequently further hearings are expected. Adjustments are required to scheme accounts for years ending on or after the judgement date for these costs if the amounts are material to the scheme.

Topical matters

4. Investment disclosure obligations

In September 2018 the government published its response to the consultation on clarifying and strengthening trustees' investment duties. Before 1 October 2019, trustees have to update their Statement of Investment Principles in relation to:

- Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments. Financially material considerations which trustees must consider when making their investment decisions include, environmental, social and governance factors, including climate change.
- The extent (if at all) to which "non-financial matters" are taken into account in the selection, retention and realisation of investments.
- Stewardship engagement activities in respect of investments, including engagement with investee firms and the exercise of the voting rights.
- Stewardship of their Plan's investments in their money purchase default investment strategies. Relevant Plans (offering money purchase benefits) will be required to publish their SIP on a publicly available website and inform Plan members of its availability in their annual benefit statement.

From 1 October 2020 relevant money purchase Plans will be required to produce an implementation report setting out how they acted on the principles set out in the SIP. This report will also need to be included in the Annual Report and published publicly; and its availability made known to members in the annual benefits statement.

5. New DB Funding Code

TPR will issue a revised DB funding Code, which will include a requirement for a DB statement where trustees will be required to articulate their approach and decisions on funding and investments, to be submitted to TPR following each triennial valuation. Expectation for funding will be clarified with a need to demonstrate compliance with minimum standards or to explain and justify the approach. Downside risks will need to be considered. TPR will consult on these proposals including a number of areas such suitable long-term objectives for schemes, discount rates, recovery plans for different covenant strengths and the use of contingent assets in funding arrangements. The first consultation is expected in the summer of 2019 and will focus on the DB funding framework for DB funding. The second consultation on the draft Code will take place in 2020.

Topical matters

6. VAT update

In recent years there has been a lot of uncertainty in relation to the VAT position for funded pension schemes, both in relation to the fees on which VAT is charged and how much VAT can be reclaimed. However, the position is now becoming clearer. HMRC confirmed that, contrary to expectations, the longstanding 70:30 concession is not being withdrawn and employers and their pension schemes are able to continue to benefit from it. HMRC also set-out alternative options for VAT recovery, which may lead to an increase in the overall amount of VAT reclaimed, in its public guidance. During 2019 further changes have been made in relation to the VAT treatment of pension fund management services provided by insurance companies. From 1 April 2019 such charges, which were exempt from VAT became subject to VAT for defined benefit (DB) schemes, whilst remaining exempt for defined contribution (DC) schemes. DB schemes that use insurers to manage their investments may see an increase in irrecoverable VAT and this should be considered when looking at the overall VAT recovery strategy. Organisations should be aware that there is ongoing litigation in the VAT courts that may result in further changes to the VAT treatment of investment management services received by pension schemes and this is something to be kept under review in the coming months.

7. Cyber resilience

Cyber resilience has become a very topical issue, with the usage of ransom ware and hacking attacks. Pension schemes hold high volumes of personal data which is valuable and pension schemes could be the subject of such attacks. In April 2018 TPR issued guidance for trustees on the ‘Cyber Security Principles for Pension Schemes’. The guidance states that trustees and scheme managers, need to take steps to protect members and assets against cyber risk. PRAG also published their guide 'An Overview of the Effects of Cybercrime on Pension Schemes', which aims to provide guidance to trustees of pension schemes, pension sector organisations that support them and their advisers, about the holistic protection that is needed to minimise the damage that can be caused by cybercrime. It builds on TPRs guidance. At Crowe, we have developed a Pension Funds Cyber Vulnerability survey to help trustees and those supporting trustees assess how to approach this risk.

8. SORP updates

An updated SORP was published in July 2018. The update reflects amendments made to FRS 102 since it was first published. This framework follows guidance previously issued by PRAG and the Investment Association. There are also clarifications on a number of areas and updates to bring it into line with the most recent regulatory changes. The new SORP will be applicable for year ends commencing on 1 January 2019 and afterwards.

Topical matters

9. Strengthening TPR powers on the horizon

In February 2019 the Government issued its response to the 'Consultation on Protecting Defined Benefit Pensions Schemes – A Stronger Pensions Regulator'. New measures will be introduced around giving TPR increased corporate transaction oversight, greater ability to implement penalties, further anti-avoidance powers and greater information gathering powers by TPR. The new measures will be developed and put into legislation. They aim to protect pension scheme members by strengthening TPRs powers to intervene where employers may be evading their obligations. Therefore, the impact on the majority of schemes should be limited.

10. Office of National Statistics Pension Funds Surveys have changed

The Office of National Statistics Pension Fund survey has changed and been renamed the Financial Survey of Pension Schemes. The new spreadsheet based questionnaire gathers detailed financial information about schemes including contributions, benefits, expenditure, investments, assets and liabilities plus membership data. This has to be prepared on a quarterly basis. Schemes selected to participate in the FSPS from June 2019 (the first quarter will cover April to June 2019) should have received a letter from the Office of National Statistics in March 2019. The deadline for completion will be eight weeks after the quarter end. Schemes impacted will need to liaise with their accounts preparers and administrators to ensure this information can be prepared each quarter and in the timescales required.

3. Representation letter

Crowe U.K. LLP
Black Country House
Rounds Green Road
Oldbury
West Midlands
B69 2DG

Dear Sirs

We provide this letter in connection with your audit of the financial statements of The YMCA Pension and Assurance Plan and YMCA Group Life Assurance Scheme and examination of the Scheme's summary of contributions for the year ended 30 April 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Scheme as at [year end date] and the financial transactions of the Scheme during the year then ended and for making a statement about contributions.

We have fulfilled our responsibilities, as Trustees, for obtaining financial statements for the Scheme in accordance with Regulation 2 of The Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 which give a true and fair view, for keeping records in respect of contributions received in respect of active members of the Scheme and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the representations to you as follows:

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Scheme have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Trustees meetings have been made available to you. We have granted you unrestricted access to persons responsible for managing or administering the scheme, for the purposes of your audit. We confirm that you have been informed of all changes to the scheme rules.
2. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and error.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Scheme involving: management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements.
5. We are not aware of any allegations of fraud, or suspected fraud, affecting the Scheme's financial statements communicated by members, former members, employers, regulators or others.
6. We have considered the adjustments in Appendix 1, proposed by you. We confirm that, in our judgement, these adjustments are appropriate given the information available to us. We further confirm that we have now made these adjustments to the financial statements.
7. We reaffirm that the written representations previously made with respect to the prior period remain appropriate and, in particular they remain appropriate in connection with the restatement made to correct a material

misstatement in prior period financial statements that affect the comparative information.

8. In respect of accounting estimates and judgements, we confirm our belief that the significant assumptions used are reasonable.

9. We are not aware of any actual or possible litigation or claims against the scheme whose effects should be considered when preparing the financial statements.

10. We confirm that complete information has been provided to you regarding the identification of related parties and that we are not aware of any significant transactions with related parties other than the matters that have been appropriately and adequately disclosed.

11. We confirm we have appropriately accounted for and disclosed related party relationships and transactions in accordance with the requirements of applicable accounting standards and with the recommendations of the applicable Statement of Recommended Practice for Pension Schemes.

12. We confirm that no transactions have been made which are not in the interests of the Scheme members or the scheme during the scheme year or subsequently.

13. We are not aware of any known or suspected instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

14. We have not made any reports to The Pensions Regulator or other regulatory bodies during the scheme year or subsequently concerning matters of non-compliance with any legal duty nor are we aware of any such reports having been made by any of our advisors.

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

16. We have submitted relevant tax returns for the year which have been accurately prepared and filed with HMRC by the due date. We are not aware of any reason why the tax registration of the Scheme might be withdrawn and we are not aware of any significant tax liabilities which have not been recorded in the financial statements.

17. There have been no events since the scheme year end which necessitate revision of the figures included in the financial statements or inclusion in the notes thereto. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion in the notes thereto, we will advise you accordingly.

18. We are not aware of any potential circumstances or events that could give rise to a cessation event or indicate a material uncertainty that the scheme may not be able to continue as a going concern for the foreseeable future.

19. We confirm that, under section 27 of the Pensions Act 1995, no Trustee of the Scheme is connected with, or is an associate of Crowe U.K. LLP which would render Crowe U.K. LLP ineligible to act as auditor to the Scheme.

20. In the event that we publish the Trustees' report, independent auditor's report and financial statements electronically, we acknowledge our responsibility for ensuring that controls over the maintenance and integrity of the entity's web site are adequate for this purpose.

21. With regard to related party transactions we confirm that to the best of our knowledge and belief these transactions are not significant to the related party or to the Scheme such that they would influence decisions made by a user of the accounts.

22. We confirm that there has been no employer related investment in the scheme during the Scheme year.

23. We have not commissioned advisory reports outside the normal course of business which may affect the conduct of your work in relation to the Scheme's financial statements.

24. We have analysed accounting estimates of GMP equalisation and considered the effect on the Scheme financial statements. We do not consider the amount to be of material significance and therefore the annual report and financial statements does not require disclosure.

Yours faithfully,

…….

Trustee

Signed on behalf of the board

On …….[date]

Appendix 1

Adjustments to the financial statements

The YMCA Pension and Assurance Plan

	Net Assets increase/ (decrease) £
Net assets per draft of financial statements	145,057,635
April 2019 PAYE creditor	(47,922)
Additional accrual for secretarial expenses	(3,011)
Adjustment to cash due to spreadsheet formula error	(2,250)
Adjustment for Investment Manager fees and rebates	31,311
AVC valuation	(48,011)
GMP CEP payment creditor	(38,353)
Adjusted net assets per final financial statements	144,949,399

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