

Northumberland County Council Pension Fund

Final Report to the Pension Fund Panel on the Local
Government Pension Fund Audit

31 March 2014

Pension Fund Panel
Northumberland County Council
County Hall
Morpeth
Northumberland
NE61 2EF

15 September 2014

Dear Sirs,

We have pleasure in setting out in this document our report to the Pension Fund Panel of Northumberland County Council with regard to the Northumberland County Council Pension Fund for the year ended 31 March 2014. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

In summary:

- Work is continuing on some aspects of our underlying audit work and the outstanding areas which remain are detailed in our report. We will be in attendance at the Pension Fund Panel meeting on 19 September 2014 and the Audit Committee on the 30 September 2014 and will present an update to our report on our audit at that time.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the Pension team for their assistance and co-operation during the course of our audit work.



Paul Thomson
Engagement Lead

Contents

The big picture	1
Significant audit risks	2
Our review of your annual report	8
Insight - Internal control and risk management	10
Responsibility statement	13
Appendices	15
Appendix 1: Audit adjustments	16
Appendix 2: Fraud: responsibilities and representations	17
Appendix 3: Independence and fees	18
Appendix 4: Our approach to audit quality	19
Appendix 5: Letter of Representation	20
Appendix 6: Draft opinion	24

A reminder of our audit plan:

- We determined materiality as £9.4m and a reporting threshold of £188,000.
- We identified 4 significant risks in our Audit Plan and have not made any changes from the scope set out in the Audit Plan.
- A controls based audit approach has not been considered appropriate for the current year; instead we have taken a substantive approach to testing the financial statements.



The big picture

The big picture

We anticipate issuing an unmodified audit opinion upon completion of our work.

Audit work

- We have discussed our initial comments on the draft financial statements with management.
- From our audit work on the financial statements we have not identified any material misstatements or significant deficiencies in internal controls at the Northumberland County Council Pension Fund. A small number of comments on the annual report and accounts have been identified which we understand will be corrected by management.
- A draft representation letter has been included at Appendix 5.
- From our work undertaken so far we expect to issue an unmodified opinion in line with your specified deadlines. A draft opinion is included at Appendix 6

We have the following principal matters to complete:

- final review and close down procedures;
- completion of internal quality control procedures;
- subsequent events review; and
- receipt of signed letter of representation.

Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/ or disclosure matters within the financial statements.

1. Contributions

There are complexities around the calculation of contributions.

Nature of risk

Unlike the position in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, this remains a material income stream and in view of the complexity arising from the participation of different employers within the Fund, the fact that members pay a tiered contribution rate depending on their pensionable pay and that additional complexities were introduced to the employer contribution rates from 1 April 2011, we have included the calculation and payment of contributions as an area of significant risk.

The key judgement areas and their potential impact on the financial statements and our audit challenge

We note that the authority is not responsible for the calculation of contributions and that any tests to ensure the accuracy of contributions have been undertaken with the assistance of the other scheduled and admitted bodies. Given the material nature of contributions, incorrect calculation of employee/employer contributions by contributing bodies could lead to a material error.

Audit work completed to address the significant risk

We have performed the following testing to address the significant risks around contributions:

- reviewed the design and implementation of controls present at the Fund for ensuring contributions from the Administering Authority and all Scheduled and Admitted bodies are identified and calculated correctly;
- we selected a sample of members from the Administering, Scheduled and Admitted bodies and reviewed breakdowns by individual of pensionable pay, employee and employer contributions. On a sample basis we agreed this information to individual payslips and reviewed whether the contributions tested were calculated correctly in all material respects; and
- we developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year.

Conclusion on contributions risk

All testing was completed with satisfactory results; however it was noted that monthly contributions returns are not obtained from every employer. We have raised this as an insight around process; refer to the Insight – Internal Control and Risk Management section of the report.

Deloitte view

From our testing set out below there are no matters to bring to the attention of those charged with governance.

2. Benefits

There are complexities surrounding the calculation of both benefits in retirement and ill health and death benefits.

Nature of risk

Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits. In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008. The calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Also individuals enjoy greater flexibility in their choice of the mix of pensions and lump sum. In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. The Government has completed the process to amend the revaluation and index factors for statutory minimum uplift from the Retail Price Index to the Consumer Price Index. This change has further increased the complexity of benefit calculations. Furthermore, it is noted that some employers may not have retained the necessary records to enable these calculations to be undertaken by the Fund. The value of benefits paid is material to the financial statements and hence represents an area of significant risk in its own right.

The key judgement areas and their potential impact on the financial statements and our audit challenge

The significant number of Benefits paid each year means that incorrect calculations could yield a material error. Given that payments are made based on clearly defined rules, there is very limited scope for management judgement in this area.

Audit work completed to address the significant risk

The following tests were performed to address the significant risk around benefits:

- we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing to controls were in force during the year under review;
- we performed tests of detail, on a sample of benefits paid, by agreement to supporting calculations and other documentation, to test whether benefits were in all material respects correctly calculated, by reference to their qualifying service, fund rules and benefit choices made;
- we developed an expectation based on changes in membership numbers and Pension Increases Act to analytically review the benefits paid in the year; and
- we considered on a sample basis whether any changes in benefit rates were applied on a timely basis and correctly calculated.

Conclusion on benefits risk

All testing was completed with satisfactory results.

Deloitte view

From our testing set out below there are no matters to bring to the attention of those charged with governance.

3. Investments

There are areas of judgement involved in the valuation of investments.

Nature of risk

The pension fund's investments include overseas unquoted pooled investment vehicles and quoted property funds. The valuation of overseas unquoted funds is normally undertaken by the fund managers. Although these funds are normally subject to external audit, up to date accounts have historically not been available at the time of preparation of the financial statements. In such cases, year end fair values of investments will need to be estimated on the basis of unaudited information. In addition, market volatility raises questions about how to value these investments. It would normally be expected that the reasonableness of the fund manager's valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when there is a significant time period between the latest audited accounts and the fund year end. The valuation of property funds is normally undertaken by the fund managers. As these investments are more complex to value we have identified the Fund's investments in property and pooled investment vehicles as a significant risk.

The key judgement areas and their potential impact on the financial statements and our audit challenge

Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of investments means that any error in judgement could result in a material valuation error.

Audit work completed to address the significant risk

The following tests were performed to address the significant risk around investments:

- we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly;
- we have assessed the competence and independence of the valuers used by the Fund. We have obtained internal control reports for investment managers and reviewed the controls in place around valuation to identify any weaknesses. There are no matters we would like to bring to your attention from our review of the internal control reports. However we note that in the case of Global Infrastructure Partners (GIP) no internal control report has been produced although they are working toward having a SSAE 16 report. Whilst GIP have provided us with a summary of key controls in place this has not been subject to a formal audit report and it is important that the fund request GIP to provide a formally audited internal control report for future years;
- we have obtained a further understanding of the valuation of investments. The majority of the investments held by the Fund being in investments which have a quoted value or are derived from a quoted value.
- we have reviewed the most recent audited accounts for the overseas unquoted pooled investment vehicles and the ventures and partnerships. We have, where possible, reviewed post year-end sales and purchases to confirm that the year-end value is a fair market price. Where this has not been possible we have placed reliance on the investment managers AAF report (where available), and also

Deloitte view

From our testing set out below there are two immaterial differences on the valuation of investments to bring to the attention of those charged with governance. These differences relate to the timing of the receipt of the investment manager reports as at 31 March 2014. The late receipt of the investment manager reports is a known issue from prior years.

obtained the most recently available audited accounts;

- we have performed a test of detail on a sample basis of the quoted property funds compared the value reported by Northern Trust to the quoted price obtained from Bloomberg and other independent sources; and
- we have reviewed the disclosure notes and agreed these to supporting documentation.

Conclusion on investment risk

We have reviewed the additional disclosure included within the draft accounts. Two immaterial misstatements were noted in the carrying value of investments at year end. See the adjustments schedule at Appendix 1.

4. Management override of controls

We have focused on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas and their potential impact on the financial statements and our audit challenge

Any significant judgements made by management could materially impact the financial statements. Items that are particularly of audit interest are estimates and provisions that have been put into the year-end accounts.

Audit work completed to address the significant risk

We have performed the following audit procedures:

- reviewed the processes and performed design and implementation work on the controls management have in place;
- tested a risk focused sample of journals to ensure the appropriateness;
- reviewed accounting estimates for evidence of bias; and
- reviewed the business rationale of any significant transactions that are outside the normal course of business for the Fund.

Conclusion on management override of controls risk

All testing was completed with satisfactory results.

Deloitte view

From our testing set out below there are no matters to bring to the attention of those charged with governance.

This section focuses on the annual report, as well as the sufficiency of other required disclosures. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the disclosures.

Your annual report— our review and insights

Our review of your annual report

We highlight a number of observations from our audit procedures



Financial reporting

The Annual Report is required to be prepared in accordance with Code of Practice on Local Authority Accounting 2013/14 and the additional requirements of regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 (“Regulation 34”)

Management provided a copy of the draft accounts and annual report by 30 June 2014 which is in accordance with the statutory deadline.

We have reviewed the disclosures in the accounts against the current version of the Local Government Pension Accounts and Disclosure checklist. We have not identified any disclosure deficiencies although we did identify a small number of minor points that will be corrected by management.

We have also considered the completeness of the additional information and noted that this is in accordance with the requirements of Regulation 34. The annual report does not report on the level of achievement against performance targets in the pension administration strategy. This is due to the pension’s administration strategy not containing any performance targets. Management should consider including key performance indicators in the strategy when it is next updated.

Accounting policy

The accounting policies have been prepared in accordance with the Code of Practice on Local Authority Accounting 2013/14

There are no matters to bring to your attention from our review of the Fund’s accounting policies.

Other disclosure matter

A statement on the IAS 19 position has been prepared by the Actuary

In accordance with the Code of Practice on Local Authority Accounting 2013/14 the Fund is required to include details of the actuarial present value of promised retirement benefits. In 2013/14 the Fund has continued to adopt a format C presentation, meaning that the report is appended to the accounts.

In accordance with the guidance issued by the Audit Commission when an authority adopt a format C presentation for the actuarial present value of promised retirement benefits then this information is not subject to audit. Our procedures have therefore been limited to considering the consistency of this information with knowledge gained during our audit.

In this section we set out our comments regarding your internal control and risk management processes. We communicate any significant deficiencies in the internal control environment to the Pension Fund Panel.

Insight - Internal control and risk management

Internal control and risk management

We highlight a number of observations from our audit procedures



We are required to provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and other risks arising from the entity's business model and the effectiveness of related internal controls.

Significant Risk	Internal Controls	Current position
Contributions	<ul style="list-style-type: none"> Contributions are accounted for on a monthly basis when received from employers. Annual returns are not always received from employers and are thus not always checked against the monthly records. The pensions team verify a members eligibility to join the scheme via confirmation from the employer. Changes to membership records such as hours worked need to be confirmed by the employer. An additional check is done at the end of the year to reconcile what was paid over by the employer to the Fund to the employers annual return to identify any errors caused by incorrect information in the AXISe software. 	A
Benefits	<ul style="list-style-type: none"> On retirement members are given a choice on the level of pension vs. lump sum. Members are required to sign the retirement option form stating what option they are choosing and this is then uploaded to AXISe. The systems team uploaded the pensions increase and its application date on an annual basis. Death benefits, lump sums and deferred benefits are only processed upon receipt of original documents provided by the member and the employer. Reconciliations between the payroll system and the pensions administration system are undertaken prior to any payroll runs. 	G
Investments	<ul style="list-style-type: none"> Investment reports are received from the Custodian on a monthly basis and reconciled to the information received from the investment manager. Performance of investment are reported to the Pension Fund Panel on a quarterly basis. 	G
Management override of controls	<ul style="list-style-type: none"> Regular financial reporting to the Pension Fund Panel including progress against budget. Electronic approval process for journals with journals posted by the pension team and reviewed by another member of team. For complex transactions the journal is reviewed by Clare Gorman. 	G

G No issues noted

A Acceptable but could be improved

R Requires significant improvement

Internal control and risk management (continued)



Current year control observations

Background	Recommendation	Management Response
<p>Monthly/Annual contributions returns are not obtained from every employer</p> <p>During the course of our testing, it was noted that whilst the smaller employers returned a contributions schedule detailing the amounts of pensionable pay, splitting out employer's and employees' contributions, for NCC, the administering authority and the largest contributing body, the monthly employee and employer contribution schedule does not include detail details of pensionable pay. This is also the case for all NCC payroll sourced bodies.</p>	<p>Ensure that every contributing body completes the monthly return in the form of a formal pro-forma, so that NCCPF may identify if incorrect contribution rates are being used.</p>	<p>Discussed with Pension Fund Accountant who agreed the recommendation and will seek to introduce a monthly return.</p>

Update on prior year control recommendations

Background	Recommendation	2013/14 update
<p>Global Infrastructure Partnerships – lack of internal control report</p> <p>We note that in the case of Global Infrastructure Partners (GIP) no internal control report has been produced.</p>	<p>Whilst GIP have provided us with a summary of key controls in place this has not been subject to a formal audit report and it is important that the fund request GIP to provide a formally audited internal control report for future years.</p>	<p>GIP have still not been able to produce a SSAE 16 in the current period although communication from the investment manager note that this is in the process of being developed.</p> <p>Status - Ongoing</p>

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit and considered any impact upon our risk assessment. We did not place direct reliance on the work of internal audit.

Responsibility Statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Pension Fund Panel discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- results of our work on key audit judgements;
- our views on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and
- Other insights we have identified from our audit.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Fund.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated May 2014 and the supplementary "Briefing on audit matters" which was circulated as an appendix to the Audit Plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP
Chartered Accountants

Newcastle
15 September 2014

This report has been prepared for the Pension Fund Panel, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Audit adjustments

Unadjusted misstatements detail

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report which, as required by International Standards on Auditing (UK and Ireland), we request that you ask management to correct. Uncorrected misstatements increase net assets of the fund by £2.37million.

		Debit/(credit) fund account £000	Debit/(credit) in net assets £000
Misstatements identified in current year			
Investment Valuation	[1]	(2,369)	2,369
Aggregation of misstatements individually < £9.4m			
Total			

[1]: The investment manager valuations for Morgan Stanley were noted to be £1,981k higher than the carrying value in the accounts, and the valuation for NB Alternatives (Lehman Brothers) was noted to be £388k higher than the carrying value. It should be noted that these misstatements did not arise due to management error but late receipt of investment manager reports at as 31 March 2014.

From our work to date we have identified a small number of comments in the financial statements which have been discussed with management and we understand they are intending to correct these within the final version of the financial statements. We will confirm these have been corrected as part of our final review of the financial statements.

Appendix 2: Fraud: responsibilities and representations

Required representations



We have asked the Pension Fund Panel Members to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

Concerns



No concerns have been identified from whistle blowing procedures from the work noted above and our audit procedures.

Audit work performed



In our planning we identified the risk of management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance. We have made direct enquiries in relation to any fraud risk factors and instances of fraud during the year. Our testing of journals provides comfort over the risk of management override of controls which was raised as a fraud risk.

In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Pension Fund Panel on the process for identifying, evaluating and managing the system of internal financial control.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Appendix 3: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

Independence confirmation

We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Fees

We have not provided any non-audit services in the period from 1 April 2013 to 31 March 2014

Non-audit services

In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

There are no other relationships with Northumberland County Council Pension Fund which would impact on our objectivity and independence.

The professional fees earned by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

	Current year £000	Prior year £000
Audit of Northumberland County Council Pension Fund	23	23
Total	23	23

In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to Northumberland County Council in respect of the Northumberland County Council Pension Fund was £3,081.

Appendix 4: Our approach to audit quality

Recognition of and further impetus for our quality agenda

Audit quality is our number one priority. We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

The Financial Reporting Council (“FRC”) issues an Annual Report on Audit Quality Inspections, providing an overview of the activities of its Audit Quality Review (“AQR”) team for the year.

“The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures...”

The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. However, issues continued to arise in some of these areas.”

AQR Report on Deloitte for 2013/14

<https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2014-Deloitte.pdf>

Deloitte response

- Our strategic objective is to execute high quality, distinctive audits.
- We adopt an open and communicative approach with the regulator and their contribution to audit quality is respected and supported at all levels of our firm.
- We consider that the AQR’s report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.
- We value the regulator’s inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process.
- As part of our agenda of continuous improvement we have given careful consideration to each of the FRC’s comments and recommendations. This has included investigation of the root causes of each finding. This has enabled us to develop, in conjunction with findings arising from our own quality review procedures, an effective response to the themes arising.
- Following the AQR review, we have implemented improvements to our audit procedures and our system of quality control.
- Deloitte’s Audit Transparency Report provides further information regarding our approach to delivering quality and is available on our website:
http://www.deloitte.com/view/en_GB/uk/about/annual-reports/index.htm

We will inform you if the AQR team selects your audit as part of their review for this year and will share its final report with you when it is complete.

Twelve of the audits reviewed by the AQR were performed to a good standard with limited improvements required and four audits required improvements. We were disappointed that one audit was assessed as requiring significant improvements in relation to the testing of the collective and individual loan loss provisions although this did not cause the AQR to doubt the validity of our audit opinion. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 67% of audits achieving the top grade from the AQR, the highest proportion amongst our peers.

Appendix 5: Letter of Representation

Deloitte LLP

One Trinity Gardens
Broad Chare
Newcastle Upon Tyne
NE1 2HF

Our Ref: PT/AJL/NCCPF2014

30 September 2014

Dear Sirs

Northumberland County Council Pension Fund (the “Fund”)

2013/14 Audit – Representation Letter

This representation letter is provided in connection with your audit of the Fund’s financial statements for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the period from 1 April 2013 to 31 March 2014 and of amount and disposition at the end of the Fund period of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the period, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We acknowledge as members of Northumberland County Council our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which show a true and fair view.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Appendix 5: Letter of Representation (continued)

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “Related party disclosures”.
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund’s ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

Information provided

7. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter and required by the Fund Administration Regulations.
8. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
9. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
10. 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.
11. We are not aware of any significant facts relating to any fraud or suspected fraud affecting the Fund involving:
 - (i). management;
 - (ii). employees who have significant roles in internal control; or
 - (iii). others where the fraud could have a material effect on the financial statements.
12. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund’s financial statements communicated by employees, former employees, analysts, regulators or others.
13. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, including breaches of the Money Laundering Regulations, and contractual agreements whose effects should be considered when preparing financial statements

Appendix 5: Letter of Representation (continued)

14. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.
15. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
16. No claims in connection with litigation have been or are expected to be received.
17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
18. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Fund should change.
19. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequent.
20. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements
21. You have been informed of all changes to the Fund rules during the year and up to the current date.
22. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
23. The Fund has satisfactory title to all assets.
24. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
25. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Fund (Administration) Regulations 2008 and related guidance.
26. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2014 is complete, accurate and consistent with the information that is contained within the Accounts.

Appendix 5: Letter of Representation (continued)

27. We confirm that:

- all retirement benefits and funds, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the fund liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of Northumberland County Council

Appendix 6: Draft opinion

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF NORTHUMBERLAND COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 23.

This report is made solely to the members of Northumberland County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' 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 Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director – Strategic Resources and the auditor

As explained more fully in the Statement of the Corporate Director – Strategic Resources Responsibilities, the Corporate Director – Strategic Resources is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Northumberland County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

Appendix 6: Draft opinion (continued)

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Northumberland County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

[Signature]

Paul Thomson FCA (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
Leeds UK

30 September 2014

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

© 2014 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Member of Deloitte Touche Tohmatsu Limited