

# Northumberland County Council Pension Fund

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

Ernst & Young LLP

16 September 2016

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

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 from 1 April 2015’ issued by PSAA 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure –** If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Pension Fund Panel – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2015/16 audit which is substantially complete.

Below are the results and conclusions on the significant areas of the audit process.

Audit Area	Results and conclusions
Status of the audit	<p>We have substantially completed our audit of the financial statements of Northumberland County Council Pension Fund ('the Fund') for the year ended 2015/16 and of the Annual Report of the Fund.</p> <p>Subject to the satisfactory completion of the outstanding items listed in Appendix A, we will issue an audit opinion in the form which appears in Appendix D.</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Fund's financial statements.</p>
Audit differences	<p>There is a difference of £1.1 million between the Ventures and Partnerships value per the Financial Statements and the confirmations received from the Investment Manager. This is due to the values as at 31 March 2016 not being available for inclusion in the draft Financial Statements. Therefore as the difference is immaterial the decision has been made not to amend the Financial Statements.</p> <p>There have been no other audit differences identified.</p>
Scope and materiality	<p>In our audit plan presented at the Pension Fund Panel meeting on 27 May 2016, we communicated that our audit procedures would be performed using a materiality level of £10.671 million which is based on the Fund's total net assets at the year end.</p> <p>Using EY's methodology, we calculated a threshold for reporting audit differences of £0.533 million. However during the planning meeting you highlighted that the Panel's preference would be for us to use a lower level of £250,000 which we have applied in our audit file and strategy.</p> <p>We carried out our work in accordance with our Audit Plan.</p>

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**Significant audit risks** We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:

- ▶ Risk of fraud in revenue recognition;
- ▶ Risk of management override of controls; and
- ▶ Valuation of complex investments (private equity).

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.

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**Other reporting issues** We have also set out in the "addressing audit risks" section, how we have obtained audit assurance over some of the other significant accounts in the financial statements.

We have no other matters we wish to report.

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**Control observations** We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

During the audit we identified an improvement recommendation which is set out in the next section of our report under "Control themes and observations."

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We would like to take this opportunity to thank the Fund's staff for their assistance during the course of our work.

Careen Gray

Executive Director  
For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### **The Council's responsibilities**

Northumberland County Council as the administering authority of the Fund is responsible for preparing and publishing its Statement of Accounts which includes the financial statements of the Fund.

The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Fund.

### **Purpose of our work**

Our audit was designed to:

- ▶ Express an opinion on the 2015/16 financial statements;
- ▶ To ensure that the Fund's Annual Report is consistent with the financial statements presented in Northumberland County Council's Statement of Accounts; and
- ▶ Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Fund's accounting policies and key judgments.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 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.</p>	<ul style="list-style-type: none"> <li>▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewed accounting estimates for evidence of management bias; and</li> <li>▶ Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>We have no matters to report arising from our work.</p>
<p><b>Valuation of complex investments (private equity)</b></p> <p>The Fund's investments include unquoted pooled investment vehicles. 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.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p>	<ul style="list-style-type: none"> <li>▶ Obtain third party investment manager confirmations of unit holdings and values</li> <li>▶ Reviewed the basis of valuation of private equity funds and other alternative investments and assessed the appropriateness of the valuation methods used</li> <li>▶ Review the most recently available investment managers' controls' reports for any qualifications or exceptions which may impact our audit work, in particular in relation to the processes and controls over pricing</li> <li>▶ Where available, review the most recent audited accounts of the investments held to obtain independent evidence of the accuracy of the valuation process</li> <li>▶ Performed tests of valuation such as reviewing transactions around the year end to ensure that year end valuation used is appropriate.</li> </ul>	<p>Since the initial draft of the accounts were presented for audit, further up to date information has become available on the valuation of the private equity funds resulting in a difference of £1.1m between the draft accounts and the confirmations received. It has been decided that this value will not be amended as it is immaterial to the financial statements.</p> <p>We have still to complete our final work on reviewing audited accounts to support the valuations and this is listed as an outstanding point.</p> <p>We have no other matters to report from our audit work.</p>

We also identified the following audit risk during the planning phase of our audit, and reported this in our Audit Plan. During the audit we have changed our assessment of this risk and have reported our updated assessment below.

Risk identified at planning	Updated assessment	Assurance gained and issues arising
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p>	<p>This presumed risk is rebuttable. Having considered the risk factors set out in ISA 240 and the nature of the Fund's revenue streams of contributions and investment income we have determined that the risk of fraud arising from revenue recognition can be rebutted. This is because there is little incentive and limited opportunity to manipulate the significant revenue streams.</p>	<p>Notwithstanding our revised assessment of the risk, we have carried out work on the material revenue streams of contributions and investment income as shown below.</p>

For your information, we have also set out how we have obtained audit assurance over the other significant account balances.

Other Financial Statement Risks	Audit procedures performed	Assurance gained and issues arising
<p><b>Investments</b></p> <p>Investments is a significant account and there is a risk that the value may be misstated in the accounts.</p> <p>We will perform tests to provide evidence to support the existence, valuation, completeness and disclosure.</p>	<ul style="list-style-type: none"> <li>▶ Obtained third party investment manager confirmations of unit holdings and values</li> <li>▶ Reviewed the current investment managers' control reports (where available) for any qualifications or exceptions which may impact our audit work</li> <li>▶ Sample tested valuations to independent pricing sources (where relevant)</li> <li>▶ Performed sales and purchases testing including agreement of significant transactions to third party</li> <li>▶ Reviewed year end reconciliation between the investment manager and custodian records for any differences and ensure properly accounted for</li> <li>▶ Performed analytical review work to assess the overall reasonableness of the valuations</li> <li>▶ Obtained satisfactory audit support over the classification of funds in the fair value hierarchy table</li> </ul>	<p>We have still to complete our final work in relation to the appropriateness of the classification levels within the fair value hierarchy table and this may be subject to change in the accounts.</p> <p>We also have a difference between the valuations stated in our investment confirmations and those reported in the accounts. Our confirmations would suggest that the valuations in the accounts are understated by approximately £2.7 million.</p> <p>Other than this, we have no matters to report arising from our work.</p>

Other Financial Statement Risks	Audit procedures performed	Assurance gained and issues arising
<p><b>Contributions</b></p> <p>Contributions may not be included in the year end accounts.</p> <p>There is also a risk that contributions are not paid over on a timely basis.</p>	<ul style="list-style-type: none"> <li>▶ Completed an analytical review of contributions recorded in the accounts to our expectations based upon member numbers for each employer and contribution rates, which are provided by the actuary</li> <li>▶ Tested a sample of contributions received to ensure the correct contribution rate had been applied and agreed the amounts received to the Fund's bank account.</li> <li>▶ Sample test the timing of contribution receipts to ensure in line with regulatory and Fund deadlines and ensure any late payments are followed up and where appropriate considered for reporting to the Pensions Regulator</li> </ul>	<p>We have no matters to report arising from our work.</p>
<p><b>Investment income</b></p> <p>Investment income is not completely recorded in the accounts.</p>	<ul style="list-style-type: none"> <li>▶ Obtained third party confirmations and agreed all investment income to the confirmations.</li> <li>▶ Perform analytical review to gain assurance that the investment income recognised in the accounts is reasonable compared with assets held in the year and in line with market expectations.</li> </ul>	<p>We have no matters to report arising from our work.</p>
<p><b>Pensions</b></p> <p>Pension payroll is significant number in the financial statements.</p> <p>There is a risk that the pensions payroll is incomplete and that individual pensions payable are incorrect or not added to the payroll on a timely basis</p>	<ul style="list-style-type: none"> <li>▶ Agreed a sample of pension payments to the underlying payroll records</li> <li>▶ Reviewed a sample of member files to ensure that all normal processes and controls have been followed, pensions have been calculated correctly and the new pensions are added to the payroll on a timely basis</li> <li>▶ Obtained audit assurance that the pension payroll is summarised properly</li> <li>▶ Reviewed the membership reconciliation for consistency between the accounting and administration records</li> <li>▶ Undertaken analytical procedures to gain assurance that the actual pensions charge recorded is in line with our expectations</li> </ul>	<p>We have no matters to report arising from our work.</p>

Other Financial Statement Risks	Audit procedures performed	Assurance gained and issues arising
<p><b>Other benefits</b></p> <p>There is a risk that benefits are incorrectly calculated.</p> <p>There is also a risk that benefits are paid to members and others not entitled to receive the benefit.</p>	<ul style="list-style-type: none"> <li>▶ Reviewed a sample of members' files to check input data to source documentation and check a sample of calculations to ensure in line with rules</li> <li>▶ Reviewed the membership reconciliation to consider the risk of benefits being omitted from the year end accounts</li> </ul>	<p>We have performed our sample and no matters to report from this work.</p> <p>We have observed that the Fund's administration system does not produce a detailed listing of member movements in the year which from an audit perspective is helpful to gain assurance that the benefits recorded in the accounts are complete at the year end.</p> <p>We have performed post year end testing to gain assurance that we can evidence that any significant benefits due in the financial period have been recorded as creditors.</p> <p>We have raised a management letter point for consideration on page 8 under Control Themes and Observations.</p>
<p><b>Opening balances</b></p> <p>2015/16 will be the first year that we have completed your audit, and as such the requirements of ISA (UK &amp; Ireland 510) apply.</p> <p>The basic objectives of an initial audit are similar to those of any engagement. However, when performing an initial audit, we report on the current period's assets and liabilities, which are dependent upon the appropriateness of the opening balances.</p> <p>Therefore, we are required to perform additional procedures in order to gain assurance that the opening balances are free from material misstatement. These procedures cover all net asset statement items, including prior year investment movements.</p>	<ul style="list-style-type: none"> <li>▶ Reviewed the work of the predecessor auditor, to identify any issues that may impact upon the opening balances</li> <li>▶ Reviewed the work of the predecessor auditor to ensure the audit has been completed to an appropriate standard to allow us to place reliance on their audit opinion</li> <li>▶ Substantively tested all opening balances to ensure that they agree both to prior year audited accounts and closing trial balance.</li> </ul>	<p>We have completed our procedures with no matters to report from this work.</p>

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Fund's financial reporting process, including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest

We have no matters we wish to report.

## **Change in accounting policy**

The 2015/16 accounts have been restated to reflect the early implementation of CIPFA's Accounting for local government pension scheme management expenses issued this year.

The effect has been to increase last year's investment management expenses by £1.9 million and increase investment income by the same amount.

## **Control themes and observations**

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have not identified any significant deficiencies in the design of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We observed that the listing of active, pensioner and deferred members was provided to us at the year end date and that a listing of member movements during the year for each category was not available. From an audit perspective this full reconciliation is very helpful to enable assurance to be gained that benefits are included in the accounts in the right period and also to provide an overall sense check to support the movement of account balances during the year. We recommend that the Council give consideration as to whether it would be helpful from a controls perspective to introduce a full listing of movements which reconcile between categories in the future.

## **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E.

## Appendix A – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Completion of outstanding work	<ul style="list-style-type: none"> <li>▶ Completion of our work reviewing audited accounts to support the valuation of certain private equity funds</li> <li>▶ Completion of our testing on appropriateness of the disclosures in the fair value hierarchy table</li> <li>▶ Review of any available post year end minutes</li> <li>▶ Completion of closing audit procedures</li> </ul>	EY
Subsequent events review	<ul style="list-style-type: none"> <li>▶ Completion of the subsequent events procedures to the date of signing the audit report</li> </ul>	EY and management
Management representation letter	<ul style="list-style-type: none"> <li>▶ Receipt of signed letter of representation</li> </ul>	Management and Audit Committee of Northumberland County Council
Statement of Accounts and Annual Report	<ul style="list-style-type: none"> <li>▶ Review of final Statement of Accounts and Annual Report to ensure that all expected changes have been made following our comments</li> <li>▶ Checking the financial statements for consistency with the Council financial statements</li> <li>▶ Approval of accounts by the Pensions Fund Panel</li> </ul>	EY, management and Audit Committee of Northumberland County Council

## Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 10 May 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement leader and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Pension Fund Panel on 16 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan.

## Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
<b>Total Audit Fee - Code work</b>	22,516	22,516

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

## Appendix D – Draft audit report

### **Independent auditor’s report to the members of Northumberland County Council – Report on Northumberland County Council Pension Fund Financial Statements**

#### **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Northumberland County Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority’s members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Chief Executive and auditor**

As explained more fully in the Statement of the Chief Executive’s Responsibilities set out on page 237, the Chief Executive is responsible for the preparation of the Authority’s Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the pension funds financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

#### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts for 2015/16 for which the financial statements are prepared is consistent with the financial statements.

## Appendix E – Management representation letter

[Date]

Ernst & Young LLP  
Citygate  
St James' Boulevard  
Newcastle upon Tyne  
NE1 8HW

This letter of representations is provided in connection with your audit of the financial statements of Northumberland County Council Pension Fund (“the Fund”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2015 to 31 March 2016, and of the amount and disposition at the end of the Fund period of its assets and liabilities, in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of the Fund’s financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for keeping records in respect of active members of the Pension Fund and for making accurate representations to you.
2. We confirm the Fund is a registered public sector pension scheme. We are not aware of any reason why the tax status of the Fund would change.
3. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and financial performance of the Fund in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. We believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
6. There is one unadjusted audit difference of £1.1m due to confirmations being received from Investment Managers post the creation of the draft accounts.

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Fund's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Fund.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
3. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - ▶ Additional information that you have requested from us for the purpose of the audit; and
  - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund's rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of the Fund and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on [date].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
7. We have disclosed to you, and 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, including all covenants, conditions or other requirements of all outstanding debt.
8. No transactions have been made which are not in the interests of the Fund members or the pension fund during the fund year or subsequently.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

#### **F. Subsequent Events**

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.
2. We confirm we are not aware of any significant permanent diminution in value of any of the Fund's assets including directly held properties.

#### **G. Advisory Reports**

We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.

#### **H. Independence**

We confirm that no-one charged with governance of the Fund is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

#### **I. Derivative Financial Instruments**

We confirm that the Scheme has made no direct investment in derivative financial instruments.

#### **J. Actuarial valuation**

The latest report of the actuary, Aon Hewitt as at 31 March 2013 been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

#### **K. Private Equity Investments**

We are satisfied that the valuation of the private equity appropriately reflects fair value.

Yours faithfully,

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Chief Financial Officer

## Appendix F – Required communications with the Pension Fund Panel

There are certain communications that we must provide to the Pensions Committee of UK clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Planning Report
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit Results Report
<p><b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit Results Report
<p><b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ 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</li> </ul>	Audit Results Report
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Planning Report</p> <p>Audit Results Report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	Audit Results Report
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Planning Report</p> <p>Audit Results Report</p>

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