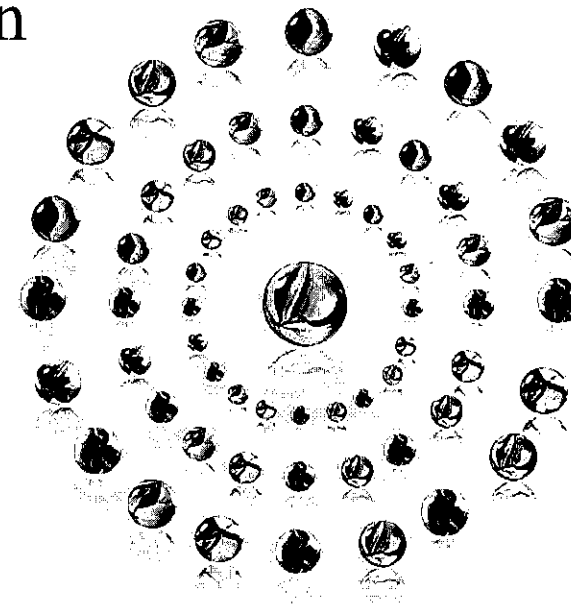


Deloitte.



Our Planning Report to the Pension
Fund Committee and Audit
Committee on the 2012/13 Audit



July 2013



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5 July 2013

We have pleasure in setting out in this document our planning report to the Pension Fund Committee and Audit Committee of North Yorkshire County Council ("the Council") for the year ended 31 March 2013.

This plan has been prepared to inform the members and staff of the Council about our responsibilities as your external auditors and how we plan to discharge them. In this report we have set out the scope and approach of our audit including our initial view on what we consider to be your key audit risks.

Our audit risk assessment is continuously under review during the course of the audit period and should our assessment of risk fundamentally change we reserve the right to revisit the proposed work schedule. Any amendments to the Audit Plan will be discussed with management and agreed with the Pension Fund Committee.

We would like to take this opportunity to thank the management team for their on-going assistance.

For Deloitte LLP
Chartered Accountants
Leeds

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We have the pleasure in setting out in this document our planning report to the Pension Fund Committee of the North Yorkshire Pension Fund for the year ended 31 March 2013.

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

1. Strategic context

Public Service Pensions Act 2013

On 25 April 2013 the Public Sector Pensions Bill received Royal Assent. The Public Service Pension Act 2013 implements the agreements reached between the Government, public servants, trades unions and other member representatives following a consultation on the findings raised by the Independent Public Service Commission.

Whilst the Act does not contain individual scheme design it does provide a framework that will:

- enable the creation of new, fairer, Career Average public service pension schemes to replace the largest existing final salary schemes;
- link normal pension ages to State Pension age to manage longevity risk (except for fire fighters, police and the armed forces, where normal pension age will be age 60, subject to regular reviews);
- introduce an employer cost cap to ensure unforeseen changes in cost are controlled to protect the taxpayer;
- set out requirements for scheme governance, regulation and administration to deliver transparency and accountability;
- allow for the provision of transitional arrangements and protections, where necessary;
- reform public body and ministerial pension schemes and closing the great offices of State pension schemes.

The career average scheme for local government will come in to force on 1 April 2014.

The nature and scope of our planned procedures are similar to those set out in our audit plan for the year ended 31 March 2012

2. Scope of work and approach

Audit scope

Based on guidance issued by the Audit Commission, auditors have been requested, for audit purposes, to treat the Local Government Pension Scheme (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance. Local LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements.

We conduct our work in accordance with the Accounts and Audit Regulations 2011, the Code of Audit Practice 2010 issued by the Audit Commission and our audit of the pension fund annual report in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board (“APB”) and the additional guidance issued by the Commission in relation to the audit of pension schemes. However, this only extends to the audit of the accounts and there is no requirement for a separate value for money conclusion on the pension fund accounts. Aspects of the Value for Money framework will inform the Value for Money conclusion for North Yorkshire County Council and will cover, to the extent necessary, issues relating to the Fund.

North Yorkshire County Council is the administering authority for the Fund. As the administering authority the Code requires North Yorkshire County Council to include the Fund’s accounts in their Statement of Accounts. The LGPS Regulations require administering authorities to prepare an annual report for the Fund, which should incorporate the Fund’s annual accounts. Our audit report on North Yorkshire County Council’s Statement of Accounts will continue to cover the pension fund section of that document.

Our work is carried out under the Code of Audit Practice 2010, issued by the Audit Commission

2. Scope of work and approach

Audit scope

We are required by the Audit Commission to issue a separate audit report for inclusion in the annual pension fund report and to conclude whether the accounts contained in the Fund report are consistent with North Yorkshire County Council's Statement of Accounts. In addition to this we are required to read the other information published within the pension fund annual report for consistency with the pension fund accounts and, where the pension fund annual report is not available until after the auditor reports on the financial statements, to undertake appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the financial statements.

We normally calculate our audit materiality on the basis of the net assets of the Fund but in this case it is capped to meet the scope requirements of other scheduled and admitted bodies. We estimate materiality based on net assets per March custodian report of £1,836 million (2011/12 statutory accounts: £1,566 million) would have been £55.1 million (2011/12: £47.0 million). However we have capped materiality preliminarily at £12.8 million (2011/12: £12.8 million) pending confirmation from the Audit Commission and other Authorities audited by Deloitte and PricewaterhouseCoopers of materiality to be applied at the other scheduled and admitted bodies. We will update you if our materiality changes following these confirmations. Based on our preliminary assessment we will report to the Pension Fund Committee and Audit Committee on all unadjusted misstatements greater than £256,000 (2011/12: £256,000), being 2% of materiality, and other adjustments that are qualitatively material.

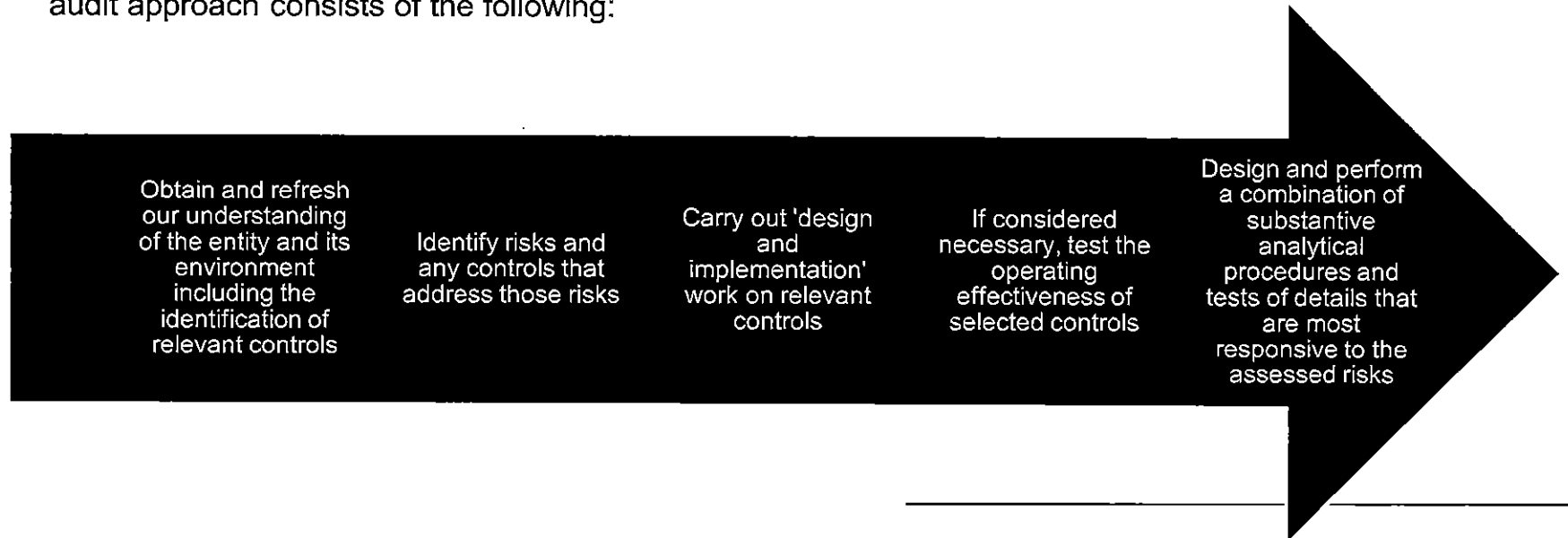
We will update our assessment when the year end results become available.

Our audit materiality had been provisionally capped at £12.8 million to allow us to meet the scope requirements of the scheduled and admitted bodies.

2. Scope of work and approach (continued)

Controls

As set out in "Briefing on audit matters" circulated to you with this report, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I"). Our audit approach consists of the following:



Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Pension Fund, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

The results of our work in obtaining an understanding of controls will be considered in determining the extent of substantive audit testing required

2. Scope of work and approach (continued)

Scoping of material balances and prior year misstatements

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement.

As at the date of this report, we are still to receive the 2012/13 draft accounts. Given the nature of the Pension Fund accounts activities, we do not anticipate that our scoping decisions will be significantly different to those from the prior year. The numbers referred to below relate to 2011/12 balances.

In respect of Contributions Due Debtors of £7,131,000, Non-Investment Debtor of £743,000, Non Investment Creditors of £1,312,000, Transfers into the Scheme of £10,493,000, Payments to and on account of Leavers of £4,466,000, Administration Expenses of £1,492,000, Investment Manager Fees of £4,654,000 and Irrecoverable Withholding Tax of £324,000, we determined that these account balances, classes of transactions or disclosures did not require further audit procedures because our risk assessment, taking into account qualitative factors, resulted in us assessing the risk of material misstatement as remote.

There were no significant unadjusted misstatement or uncorrected disclosure deficiencies reported to you in respect of the 2011/12 accounts.

A risk focussed audit approach allows us to tailor our testing to your Pension Fund, placing greater emphasis on areas that are a greater source of risk and concern for the organisation

2. Scope of work and approach (continued)

Liaison with internal audit

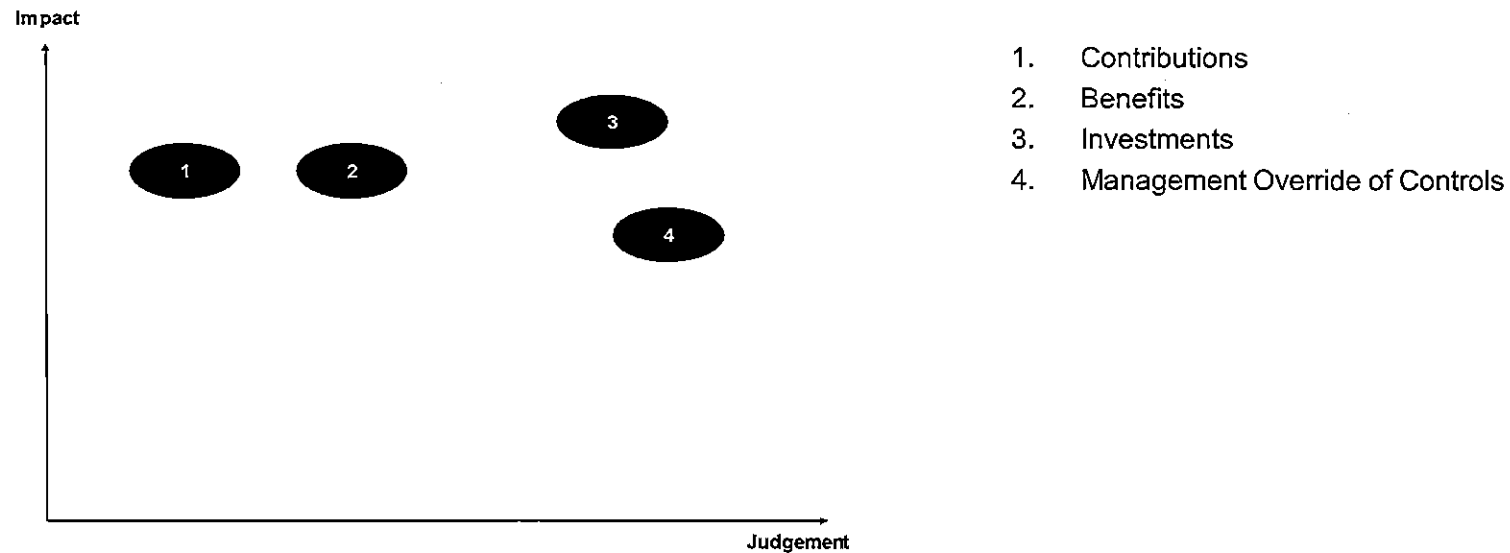
We have and will continue to liaise with the Council's internal audit function on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Council's internal audit function, its systems documentation and risk identification during the planning of the external audit to the extent we determine we can rely on their work.

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function, will review the findings of any relevant internal audits on the Pension Fund and adjust the audit approach as is deemed appropriate. Where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that any new additional specific audit risks are covered by our work.

3. Significant audit risks

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

We have plotted the significant audit risks to show where we believe there is highest level of judgement and impact on the financial statements.



3. Significant audit risks (continued)

	Contributions	Deloitte response
Calculation of contributions	<p>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.</p> <p>We note that the authority is not responsible for the calculation of contributions and that any tests to ensure the accuracy of contributions will need to be undertaken with the assistance of the other scheduled and admitted bodies.</p> <p>For completeness, we confirm that we have rebutted the assumed risk surrounding the recognition of revenue for this Fund.</p>	<p>We will:</p> <ul style="list-style-type: none">• request that Officers provide an analysis of contribution rates by employer and signed annual statements from each scheduled and admitted body;• review the design and implementation of controls and perform tests of detail to consider whether each material income stream has been calculated in accordance with the recommendations of the Actuary;• on a sample basis we will review individual payslips to test the accuracy of the calculation of pensionable pay and confirm whether the contributions deducted from members have been calculated correctly in accordance with the schedule of rates;• reconcile the membership movements in year to the financial statements; and• perform an analytical review to gain assurance over the completeness of contributions. <p>© 2013 Deloitte LLP. Private and confidential.</p>

3. Significant audit risks (continued)

	Benefits	Deloitte response
Calculation of benefits paid	<p>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.</p> <p>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.</p> <p>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.</p> <p>Furthermore, it is noted that some employers may not have retained the necessary records to enable these calculations to be undertaken by the Fund.</p>	<p>We will:</p> <ul style="list-style-type: none">• request that Officers provide us with a schedule of benefits paid and supporting calculations and test whether benefits paid are in accordance with Scheme rules;• review the design and implementation of controls and perform tests of detail on a sample of benefits paid, by agreement to supporting documentation, to test whether benefits have in all material respects been correctly calculated, by reference to their qualifying service, scheme rules and benefit choices made;• develop an expectation based on changes in membership numbers and pension increases to analytically review the benefits paid in the year;• we will review the NFI matches to identify level of payment made by the Fund to deceased members; and• consider on a test basis whether any changes in benefit rates were applied on a timely basis and correctly calculated.

3. Significant audit risks (continued)

	Investments	Deloitte response
Valuation of complex investments	<p>The pension fund's investments include derivatives, absolute return vehicles and quoted property funds.</p> <p>The Pension Fund invests in derivative financial instruments. These investments are more complex to measure, account and disclose for. Accordingly we have treated the appropriateness of the accounting and disclosure of these investments as a specific risk.</p> <p>The valuation of absolute return investments is normally undertaken by the fund managers.</p> <p>The valuation of property funds is normally undertaken by the fund managers.</p> <p>As these investments are more complex to value we have identified the Fund's investments in derivatives, absolute return investment and quoted property funds as an area of significant risk.</p>	<p>We will first understand the approach taken to the valuation of such investments and inspect documentation relating to data sources used by the Fund. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the Fund's investment holding at the year end.</p> <p>For the derivatives investments we will understand the rationale for the Fund's use of derivatives financial instruments. We will also work with internal Deloitte specialist to recalculate the value of any quantitatively material derivative financial instruments by reference to the underlying contracts, assumptions and valuation techniques and compare these to the year end value in the year end investment managers report.</p>

3. Significant audit risks (continued)

	Management override of controls	Deloitte response
Management override of controls is a presumed risk	We are required by ISA 240 'The auditors responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of management override of the system of internal control.	We will: <ul style="list-style-type: none">• request that Officers provide us with an analysis and supporting documentation for journal entries, key estimates and judgements;• perform substantive testing on journal entries to confirm that they have a genuine, supportable rationale;• review ledgers for unusual items and investigate the rationale for any such postings;• review significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and• make enquiries of the Pension Fund Committee (refer to Appendix 2 of this report).

4. Significant changes introduced by the Code in 2012/13 and other relevant guidance

Topic	
IFRS 7 amendments	IFRS 7 “Financial Instruments: Disclosures” requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.
CIPFA Guidance: Preparing the Annual Report	CIPFA have released guidance on the preparation of the Annual Report which discusses the timing of publications. The Administrations Regulations require the Annual Report to be published by 1 December each year. However, in practice, administering authorities may wish to align the publication date with that for the main administering authority statement of accounts (30 September)

5. Responsibility statement

This report sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to you and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities.

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of North Yorkshire Pension Fund's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion, which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

We view this report as part of our service to you for use, as Members, for corporate governance purposes and it is to you alone that we owe a responsibility to its contents. We accept no duty, responsibility or liability to any other parties as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

If you intend to publish or distribute financial information electronically or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon, and for the controls over and security of the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

Deloitte LLP
Chartered Accountants
Leeds
July 2013

Appendix 1: Independence and fees

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

Independence confirmation	We confirm we are independent of the Pension Fund and will reconfirm our independence and objectivity to the Pension Fund Committee and Audit Committee for the year ended 31 March 2013 in our final report.
Fees	Details of the audit fees proposed for the period have been presented separately in this appendix.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Pension Fund's policy for the supply of non-audit services or 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.

Appendix 1: Independence and fees (continued)

The table below details our proposed audit fees and non audit fees for the year ended 31 March 2013:

	Current year £000	Prior year £000
Audit of Pension Fund under Audit Commission Code of Audit Practice		
Audit Commission scale fee (Note 1)	24	41
Non-audit fees	-	-
Total fees	24	41

Notes:

1. The 2012/13 scale fee set by the Audit Commission reflects a reduction of 40% on 2011-12 fees. The fee excludes:

- any work in relation to providing any specific accounting or other views. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
- any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately.
- any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you; and
- value added tax which will be charged at the prevailing rate.

We have also assumed that:

- Internal Audit undertakes appropriate work on all systems, and good quality working papers and records will be provided by the agreed start date for the interim audit visit; and
- good quality working papers and records will be provided to support the financial statements by the agreed start date for the final audit visit.

Appendix 2: Fraud considerations

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware the management has the following processes in place in relation to the prevention and detection of fraud:
 - Internal audit
 - Policies covering hospitality, gifts and inducements and whistleblowing
 - Standards of conduct for members and officers

Responsibilities

- 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.

Process and documentation

- We will make the enquiries on the following page between the date of this report and our final audit visit. Our preferred approach is to schedule a short meeting or phone call to discuss each person's perception of the risk and occurrence of fraud and to facilitate this discussion with a short checklist of consideration points which we would ask participants to review, consider and respond to before our meeting.

Concerns

- As set out in the significant risks and accounting judgements section, we have identified the risk of management override of controls as key audit risks for your organisation. For completeness, we confirm we have rebutted the risk in relation to revenue recognition for this Scheme.
- No other concerns have been identified from whistle blowing procedures or by management about quality of management in any service area.

Appendix 2: Fraud considerations (continued)

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments</p> <p>Management's process for identifying and responding to the risks of fraud in the entity</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity</p>	<p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud and status reports on fraud cases during 2012/13</p>	<p>How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks</p> <p>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity</p>

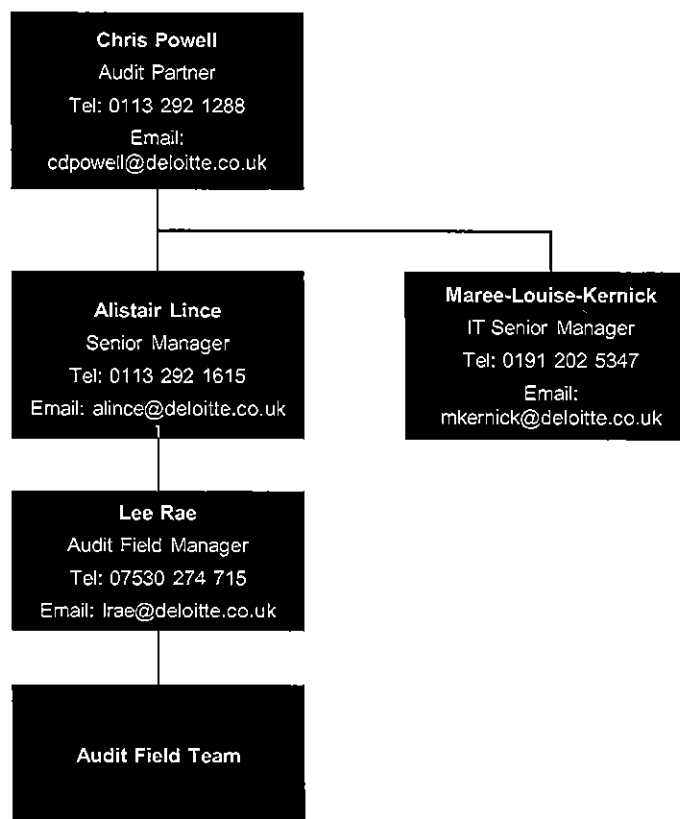
Appendix 2: Fraud considerations (continued)

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 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.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
 - (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.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

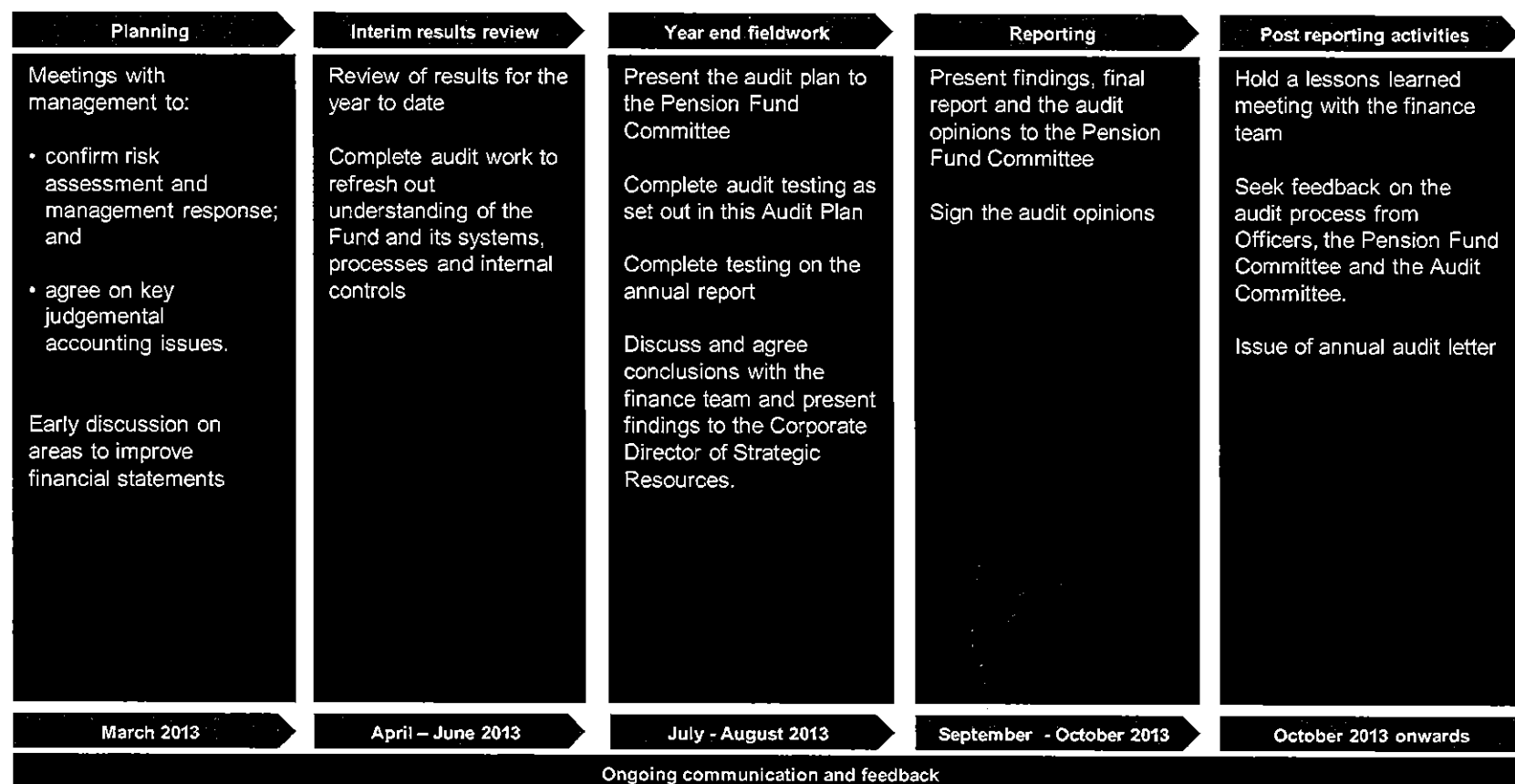
Appendix 3: Audit team

We set out below our audit engagement team. We manage our audit on a basis that is consistent with the prior year and draws on the experience of our team.



Appendix 3: Communication timetable

Set out below is the approximate expected timing of our reporting and communication with the Pension Fund Committee



Appendix 4: Changes for the 2013/14 accounts

Topic	
Changes required by the 2013/14 Code	<p data-bbox="548 357 1084 384">Accounting and reporting by pension funds</p> <p data-bbox="548 403 1904 459">The 2013/14 Code will introduce the requirements for additional commentary on the actuarial present value of promised retirement benefits.</p> <p data-bbox="548 523 786 550">Other amendments</p> <p data-bbox="548 569 1904 625">Other changes include amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> requiring information that will enable users to evaluate the potential effect of netting arrangements.</p>

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