

North Yorkshire Pension
Fund

Report to the Audit
Committee on the 2012/13
Local Government Pension
Fund Audit

Final Report

Audit Committee
North Yorkshire County Council
County Hall
Northallerton
DL7 8AD

18 September 2013

Dear Sirs

We have pleasure in setting out in this document our report on the North Yorkshire Pension Fund to the Audit Committee of the North Yorkshire County Council for the year ended 31 March 2013, for discussion at the meeting scheduled for 26 September 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

In summary:

- The matters arising during our audit, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- Work is continuing on some aspects of underlying audit work, the most notable being work on the disclosure notes to the accounts and the review of events after the end of the reporting period. We will be in attendance at the Audit Committee meeting on 26 September 2013 and will present an update to our final report on our audit at that time.
- In the absence of unforeseen difficulties, we expect to meet the agreed audit and financial reporting timetable and issue an unmodified audit report.

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.



Christopher Powell

Engagement Lead

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Executive Summary

We have pleasure in setting out in this document our report to the Audit Committee of North Yorkshire County Council on our audit of the North Yorkshire Pension Fund for the year ended 31 March 2013 for discussion at the meeting scheduled for 26 September 2013.

This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013. The main audit visit took place during July and the audit has progressed as planned. Working papers provided by Management were of a good standard. We would like to thank those officers involved in the audit. This summary is not intended to be exhaustive but highlights the most significant matters which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Description

Public Service Pensions Act 2013

As we communicated to you in our Planning Report in July, the Public Sector Pensions Bill received Royal Assent on 25 April 2013. 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 the 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 close the great offices of State pension schemes.

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

Findings on key audit risks

We discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2012/13 accounts, and which were presented to the Audit Committee in July 2013 as follows:

1. **Contributions:** contribution income from the Scheduled and Admitted bodies has been received at the correct rates as defined by the Actuarial Valuation report and Local Government Pension Scheme regulations
2. **Benefits:** benefits have been paid in accordance with the Pension Increases Act and the wishes of pension fund members;
3. **Investments:** investments are appropriately valued within the annual report;
4. **Management Override of Controls:** we have not identified any management override of control; and
5. **Revenue recognition:** work performed in the current year has not indicated that the rebuttal of revenue recognition risk is inappropriate.

Executive Summary (continued)

Audit status

We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our Audit Plan.

At the time of writing this report, certain procedures are still outstanding and need to be finalised before we can formally complete our audit:

- completion of internal quality control procedures;
- completion of review of disclosure notes;
- completion of review of final accounts;
- update on events after the end of the reporting period; and
- receipt of signed management representation letter.

We will report to you verbally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

At the date of this report and subject to the satisfactory completion of the outstanding matters referred to above, there are no matters in relation to the Local Government Pension Scheme that would result in the issuance of a modified audit opinion.

Identified misstatements

In our Planning Report we communicated to you that materiality was set preliminarily at £12.8m. After receiving the materiality levels to be applied to other scheduled and admitted bodies audited by PricewaterhouseCoopers and Deloitte, we revised our materiality to £12.0m (2011/12: £12.0m). This resulted in a recalculation of our clearly trivial threshold. As set out in our planning report we report all unadjusted misstatements greater than 2% of materiality, which is calculated as £241,000 (2011/12: £256,000) to the Audit Committee.

One uncorrected misstatement above the 2% reporting level was identified and has been set out at Appendix 3. Management has concluded that the total impact of the uncorrected misstatement is not material in the context of the financial statements taken as a whole. There are no qualitatively material misstatements that we wish to bring to your attention.

Scope of work and audit approach

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.

In respect of current assets of £7,700,000, current liabilities of £2,300,000, Additional Voluntary Contributions of £353,000, transfers in of £6,772,000, benefits payable of £231,000 (which relates primarily to Spouses Added Years benefits), refunds of contributions of £17,000, transfers out of £6,241,000, admin expenses of £1,664,000, investment income of £2,470,000, investment manager fees of £3,324,000 and irrecoverable withholding tax of £379,000, we determined that these classes of transactions did not require further audit procedures because our risk assessment, taking into account qualitative factors and our understanding of these balances, resulted in us assessing the risk of material misstatement as remote.

Executive Summary (continued)

Accounting policies and financial reporting

As part of our audit, we consider the quality and acceptability of the Fund's accounting policies and financial reporting.

The Statements of Accounts have to be prepared under an International Financial Reporting Standards ("IFRS"), based on the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Systems and controls

Our audit approach in relation to internal control is set out in our 'Briefing on audit matters' circulated to you along with this report. We outline in Appendix 2 our current year findings and give an update on the matters identified in previous years in Appendix 4.

We noted that there has been no change to the cash pooling arrangements with North Yorkshire County Council which was identified in the prior year and have also given further details of this in Appendix 4. .

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Contributions	
Audit risk	<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>
Deloitte response	<p>We have performed the following testing to address the significant risks around contributions:</p> <ul style="list-style-type: none">• 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;• performed tests of details to test whether each material income stream was calculated in accordance with the Local Government Pension Scheme regulations;• reviewed monthly returns from contributing bodies to ensure that contributions had been classified correctly;• selected a sample of members from contributing bodies to the Fund 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• developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year. <p>We note that North Yorkshire County Council as the Administering Authority is not responsible for the calculation of contributions. We have therefore performed our testing, where necessary, with the assistance of the Scheduled and Admitted bodies.</p> <p>All testing was completed with satisfactory results.</p>

1. Key audit risks (continued)

Benefits	
Audit risk	<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.</p> <p>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>Some employers may not have retained the necessary records to enable these calculations to be undertaken by the Fund.</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>
Deloitte response	<p>The following tests were performed to address the significant risk around benefits:</p> <ul style="list-style-type: none">• 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 that controls were in force during the year under review;• we obtained, from officers, a schedule of benefits paid and supporting calculations and tested whether benefits paid were in accordance with the appropriate rules;• we performed tests of detail, on a sample of benefits paid, by agreement to supporting 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. <p>All testing was completed with satisfactory results.</p>

1. Key audit risks (continued)

Investments	
Audit risk	<p>The Pension Fund's investments include derivatives, absolute return vehicles and quoted property funds. These investments are more complex to measure, account for and disclose correctly. Accordingly we have treated the appropriateness of the accounting and disclosure of these investments as a specific risk.</p>
Deloitte response	<p>The following tests were performed to address the significant risk around investments:</p> <ul style="list-style-type: none">• 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 investment managers used by the Fund and reviewed their internal controls reports to identify any areas of potential weakness;• we have reconciled the total value of the investments held by the Fund as reported in the investment report from Bank of New York Mellon to the value of investments reported in the Net Assets Statement. The net assets of the Fund reported in the financial statements are based on the custodian valuation of the investments;• we have performed testing on a sample basis of quoted investments and compared the value reported by the Bank of New York Mellon to the quoted price obtained from Bloomberg, Financial Times or other third party sources;• where prices were not publically available, we have reviewed transactions around year end on to ascertain a market value for them and reviewed audited accounts of the Funds and internal controls reports; and• we have understood the rationale for the use of derivative financial instruments. The Fund's use of derivatives is limited to simple forward foreign exchange contracts to match against the risk of holding overseas investments. We discussed these with a Financial Instruments expert and tested these by comparing the forward rate to the year end spot rate given they were all short term and in currencies which do not fluctuate significantly. <p>Through our testing, we noted a variance of £330,000 between the amount quoted by the Custodian and the Newton investment confirmation.</p> <p>This difference has been included within our proposed audit adjustments at Appendix 3.</p>

1. Key audit risks (continued)

Management override of controls	
Audit risk	We are required by ISA 240 'The auditor's 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.
Deloitte response	<p>We have addressed the deemed risk of management override as follows:</p> <ul style="list-style-type: none">• we have reviewed analysis and supporting documentation for journal entries, key estimates and judgements;• we have performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale;• we have reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings;• we have reviewed significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and• we have made enquiries of those charged with governance as part of our planning and detailed audit processes. <p>All testing was completed with satisfactory results.</p>

Revenue recognition	
Audit risk	We are required by ISA 240 'The auditor's responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of fraud in revenue recognition and conduct our audit testing accordingly, unless the presumption is rebutted.
Deloitte response	<p>We have considered the risk of fraud in revenue recognition in respect of the Fund and no significant risks have been identified. Revenue in respect of a pension fund relates to contributions income and we have concluded that there is no incentive to misstate contributions on this Fund.</p> <p>We are satisfied that the work performed in the current year has not indicated that the rebuttal of the revenue recognition risk is inappropriate.</p>

2. Control recommendations

This section of the report summarises the key control recommendations that we have raised during the audit, together with management's responses.

We have not identified any significant control weaknesses from our audit in the current year however we have noted one area of potential improvement to the control environment:

Bank reconciliations	
Background	On review of the year end bank reconciliation, it was noted that a number of cancelled cheques appeared on the reconciliation when they should have been removed. Whilst the total value of the cancelled cheques was well below the clearly trivial threshold for the Fund, there is the risk that if these items are not treated appropriately, that this could lead to a more significant misstatement in the future.
Recommendation	That management reviews the bank reconciliation for cancelled cheques and ensures that these are appropriately dealt with.
Management response	Cancelled cheques will be removed from the bank reconciliations promptly and excluded from month end reconciliations.

Areas of potential improvement in the control environment identified in the prior year have been followed up with management and are attached at Appendix 4

3. Accounting policies and financial reporting

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.

We note that the Fund has continued to produce good quality working papers for audit. We would like to take this opportunity to thank the Corporate Director and his team for their assistance during the process.

Our comments on the quality and acceptability of the Fund's accounting policies and financial reporting are discussed below.

Accounting policies

The 2012/13 accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 based on International Financial Reporting Standards.

Accounting policies have been included in respect of cash and cash equivalents, taxation and financial instruments which reflects the change in emphasis on the applicability of the whole Code of Practice in the preparation of pension fund accounts. There are no matters to bring to your attention from our review of these accounting policies.

Financial reporting

There are no matters that we would like to bring to your attention from our review of the financial statements.

4. Other matters for communication

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

We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.

If the Audit Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.

There are no relationships (including the provision of non-audit services) we have with the North Yorkshire County Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.

Non-audit services

We are not aware of any inconsistencies between APB Revised Ethical Standards for Auditors and the Administering Authority's policy for the supply of non-audit services or of any apparent breach of that policy.

An analysis of professional fees earned by Deloitte LLP in the period from 1 April 2012 to 31 March 2013 will be provided to the Audit Committee in due course by the North Yorkshire County Council audit team in their report to the Audit Committee.

Fees payable to the auditors for the audit of the annual accounts of the North Yorkshire Pension Fund (excluding VAT) were £24,943 (2011/12 £40,695).

Our fee is consistent with the scale fee determined by the Audit Commission.

International Standards on Auditing (UK and Ireland)

We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal auditor, reviewed the findings of internal audits to inform the risk assessment and considered the impact on our audit approach.

No adjustments were made to the audit approach as a result of our review of the work of internal audit.

Written representations

A copy of the representation letter to be signed on behalf of the Authority is attached at Appendix 1.

5. Responsibility statement

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 audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Council by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Audit Commission. The audit may also include reviews such as this report which address locally determined risks and issues the scope of which is agreed with management in advance of the work. In this case it is for management to determine whether the scope is adequate and appropriate to their needs.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the 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.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditor's report.

We view this report as part of our service to you for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person 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.



Deloitte LLP

Chartered Accountants
Leeds
18 September 2013

Appendix 1: Draft representation letter

Deloitte LLP
1 City Square
Leeds
LS1 2AL

Our Ref: CDP/AJL/NYPF2013

September 2013

Dear Sirs

**North Yorkshire Pension Fund (the “Fund”)
2012/13 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 2013 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 2012 to 31 March 2013 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 2012/13.

We acknowledge as members of North Yorkshire 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.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the 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.

Appendix 1: Draft representation letter (continued)

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by members, former members, employers, regulators or others.
6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
7. 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.
8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.

We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fund and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice – Financial Reports of Pension Schemes (revised May 2007) (“Pensions SORP 2007”), Code of Audit Practice on Local Authority Accounting in the United Kingdom in 2012/13: based on International Financial Reporting Standards or other regulations.

9. 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.
10. We confirm the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Fund should change.
11. You have been informed of all changes to the Fund rules during the year and up to the current date.
12. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.
13. No claims in connection with litigation have been or are expected to be received.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
15. Other than those described in the financial statements there have been no events subsequent to 31 March 2013 which require adjustment of or disclosure in the financial statements or notes thereto.
16. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

Appendix 1: Draft representation letter (continued)

17. The Pension Fund accounts and related notes are free from material misstatements, including omissions.
18. 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.
19. The Fund has satisfactory title to all assets.
20. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
21. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequently.
22. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.
23. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.
24. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2013 is complete, accurate and consistent with the information that is contained within the Accounts.
25. We confirm that:
 - all retirement benefits and schemes, 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 scheme 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 North Yorkshire County Council

Appendix 2: Draft Opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH YORKSHIRE COUNTY COUNCIL

Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. 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 2012/13.

This report is made solely to the members of North Yorkshire County Council 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 published by the Audit Commission in March 2010. 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 auditor's 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 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 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 Corporate Director – Strategic Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. 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 fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Appendix 2: Draft Opinion (continued)

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Christopher Powell FCA (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
Leeds, UK
Date

Appendix 3: Audit adjustments

Uncorrected misstatements:

We will obtain written representations from the Audit Committee confirming that after considering all of these uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

	Charge/ (credit) to current year Fund Account £	Increase/ (decrease) in net assets £	Increase/ (decrease) in prior year retained earnings £
Factual errors:			
Being the understatement of the Newton investment based on Investment Manager confirmation			
Dr Investments		329,619	
Cr Change in Market Value of Investments	(329,619)		
Total	<u>(329,619)</u>	<u>329,619</u>	<u>-</u>

Appendix 4: Update on prior year internal control observations

We reviewed management's implementation of recommendations made in our prior year Management Letter. We have summarised the response and provided our evaluation, based on the audit work we have undertaken in respect of internal controls.

No.	Recommendation	Management's Implementation
1	Journal Authorisation: that journals entered into Oracle must be input and authorised by separate individuals.	Journals posted into Oracle are now input and authorised by separate individuals. Deloitte noted through a sample of journal postings that this has been implemented effectively. Status: Closed.
2	Cash Pooling with North Yorkshire County Council: in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations, assets of the Pension Fund should be clearly ring-fenced from other monies of the Local Authority.	Management have indicated discussions are underway with Barclays Bank to resolve the matter. Management are confident that they will be able to agree with the bank that the consolidation of the Fund's cash with that of the County Council (for investment on the money markets) can continue. The issue is expected to be resolved in the next few months. Status: On-going.

Appendix 5: Briefing on audit matters

Published for those charged with governance



This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the trustees on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework;
- to form an opinion as to whether the Annual Report contains the information specified in regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Appendix 5: Briefing on audit matters (continued)

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements. We use a different materiality for the examination of the summary contributions to that used for the financial statements as a whole.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

The materiality in relation to the audit of the pension scheme's financial statements will not necessarily coincide with the expectations of materiality of an individual member of the scheme in relation to his or her expected benefits. Our judgments about materiality are made in the context of the financial statements as a whole and the account balances and classes of transactions reported in those statements, rather than in the context of an individual member's designated assets, contributions or benefits.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Appendix 5: Briefing on audit matters (continued)

Audit methodology Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to trustees and create value for management and those charged with governance whilst minimising a “box ticking” approach.
Our audit methodology is designed to give trustees the confidence that they deserve.

Audit methodology (cont’d) For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities relating to other information in documents containing audited financial statements

Appendix 5: Briefing on audit matters (continued)

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.

Safeguards and procedures (cont'd)

- Periodic rotation takes place of the audit engagement partner and, where appropriate, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Financial Reporting Council (FRC). The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;

Appendix 5: Briefing on audit matters (continued)

Independence policies (continued)

- state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

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