



North Yorkshire Pension Fund

Planning Report to the Pension Fund  
Committee and Audit Committee

Year ending 31 March 2014

the  
Distinctive  
audit

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*I am delighted to present this planning report for the 2013/14 audit of the North Yorkshire Pension Fund. The report sets out our audit approach and the more significant areas where we will focus our attention this year.*

*(Chris Powell, Engagement Partner, June 2014)*



# The Big Picture

# The Big Picture

We have set out below an overview of the key developments in the Pension Fund and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

## Developments in your Pension Fund

- There are no significant changes to the scheme rules or other arrangements affecting the year ended 31 March 2014
- There are no significant changes to the financial reporting framework
- Focus within the sector on administration and investment manager fees

## Developments in our audit and areas of audit focus

- No changes to the overall scope of the audit. Materiality will increase due to an increase in the materiality for the administering authority, North Yorkshire County Council. We have estimated materiality and will confirm it when the materiality for North Yorkshire County Council and the other admitted and scheduled bodies is finalised.
- Contributions remain a significant audit risk in view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members may pay different rates depending on their pensionable pay.
- Benefits in retirement and ill health remain significant audit risks in view of complexities around their calculation.
- The pension fund in the past has made some use of investments in simple derivatives, absolute return vehicles and quoted property funds which can give rise to complexities in accounting, disclosure and measurement and therefore this area remains a significant audit risk.
- Risk of management override of controls, is presumed by auditing standards to be a significant audit risk.

## Significant audit risks

- Contributions
- Benefits
- Investments – namely simple derivatives, absolute return vehicles and quoted property funds
- Management override of key controls, as presumed by auditing standards

## Scheme net assets

2013: £1,840.7m  
2012: £1,565.6m

## Contributions

2013: £105.6m  
2012: £105.2m

## Benefits

2013: £84.6m  
2012: £82.2m

## Materiality

2014: £20.9m (est)  
2013: £12.1m  
2012: £12.8m

Our audit quality promise

# Our audit quality promise

Our new quality standard



"The quality of our audit delivery is of great importance to us. In order to ensure we deliver excellent service to you we have developed our Audit Quality Promise

Key aspects of this delivery are:

- how we communicate with you throughout the year;
- what insight we bring around the quality of control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit.

This brief document sets out our commitments to management and officers and members in these areas and we will actively seek feedback on how we have performed against them.

We have developed a deep understanding of the Pension Fund during our previous audits and we have identified a team with a good degree of continuity to deliver the 2013/14 audit. We will supplement this team with skilled, experienced and knowledgeable individuals to ensure the timely and effective delivery of our audit. We pledge to take the same approach next year with a consistent audit team, drawing on experts as necessary."

**Chris Powell**  
**Audit Partner**

# Ongoing commitment

## The vision for our audit relationship

	FY14	FY15
<b>Overall environment</b>	<ul style="list-style-type: none"> <li>Focus on contributions, benefits, investments and management override of controls as areas of Significant Risk.</li> </ul>	<ul style="list-style-type: none"> <li>First year that Career Average regulations will be implemented.</li> <li>First year of new contribution rates as determined by the Actuary.</li> </ul>
<b>Scope</b>	<ul style="list-style-type: none"> <li>Risk based approach tailored using experience from the previous year.</li> </ul>	<ul style="list-style-type: none"> <li>A risk focused approach that adapts with the changing risks of the Pension Fund, particularly around calculations of benefits based on the new Career Average regulations.</li> </ul>
<b>Focused insight</b>	<ul style="list-style-type: none"> <li>Sector updates and insight (see insight slide).</li> </ul>	<ul style="list-style-type: none"> <li>Insight will be at the heart of our audit and will be delivered by our core audit team.</li> <li>Regulatory updates and sector updates.</li> </ul>
<b>Embedded Analytics</b>	<ul style="list-style-type: none"> <li>Use of Excel Analytics throughout the audit.</li> <li>Risk focused journals testing using Excel Analytics tools.</li> </ul>	<ul style="list-style-type: none"> <li>Continued emphasis on the involvement of analytics with a view to streamline our approach to obtaining valuations of publicly available share prices.</li> </ul>
<b>Team</b>	<ul style="list-style-type: none"> <li>Continuity of senior staff and audit team and Pension's experts.</li> </ul>	<ul style="list-style-type: none"> <li>Commitment to continuity of staff.</li> </ul>
<b>Technical/ regulation</b>	<ul style="list-style-type: none"> <li>Sector Development updates for management.</li> </ul>	<ul style="list-style-type: none"> <li>Focus on changes to the Code.</li> </ul>

# Our commitment to you

## Communication

We believe that regular face to face communication is essential to delivering quality and insight through our audit. We have set out below our planned communications schedule for both the audit period and throughout the year.

### Year round communication

We will hold quarterly calls with Tom Morrison, Pensions Accountant to discuss:

- Developments and changes in the Scheme;
- Regulatory / technical updates; and
- Industry issues and briefings

Senior members of the audit team will attend the Pension Fund Committee and Audit Committee where we will present updates on the audit progress.

### During the main audit period

We will diarise status updates with the Principal Accountant to discuss audit progress and any issues arising before issuing our report.

We will hold an audit close meeting with Tom Morrison to discuss findings and final results.

### Responding to queries and requests

We will always endeavour to respond to queries and requests within 24 hours and to give definitive timescales for delivery or their resolution.

We will proactively set up meetings to discuss any technical accounting or regulatory developments, which could have a significant impact on the Authority as soon as we become aware of them.

We will make ourselves available to discuss issues as they arise, in advance of the year end to assist the efficiency and effectiveness of the closedown and accounts production process.

### Open feedback process

We will carry out debrief meetings with Gary Fielding, Treasurer of the North Yorkshire Pension Fund to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

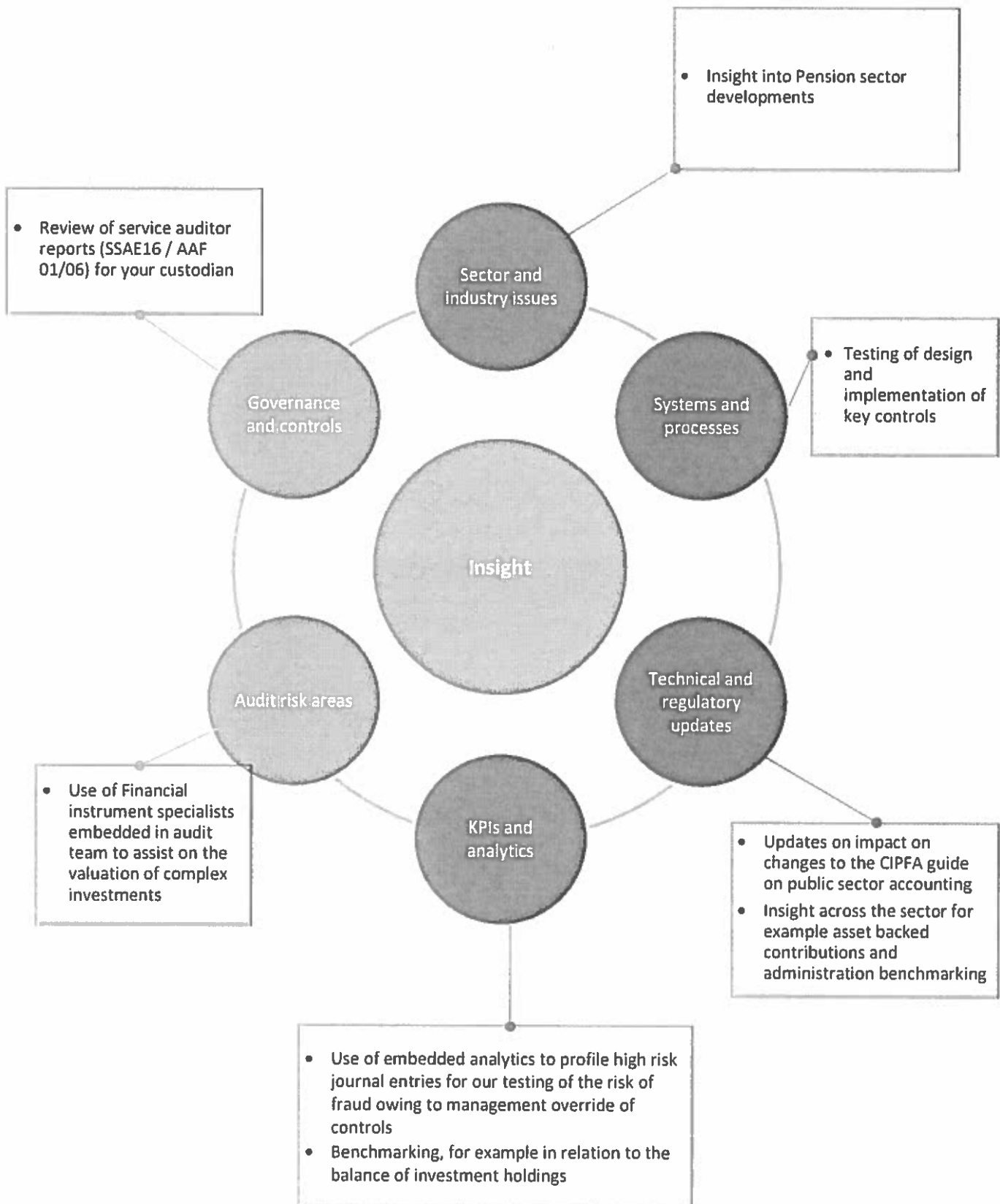
We will respond to this feedback with agreed actions and timescales.

We are also happy to hear and act upon informal feedback at any point during the year.



# Bringing you insight as part of the audit

## Agreed areas of insight



# Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

# Scope of work and approach

## Areas of responsibility under the Audit Commission's Code of Audit Practice

### **Responsibilities related to the accounts of the administering authority and value for money**

Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

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.

Our audit of the pension fund is conducted in accordance with International Standards on Auditing (UK and Ireland) (ISA (UK and Ireland)) as adopted by the UK Auditing Practice Board and the Audit Commission's Code of Audit Practice and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund.

### **Responsibilities related to the Pension Fund annual report**

The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the "Code of Practice").

The Audit Commission has also determined that auditors should give an opinion in accordance with auditing standards on the financial statements included in the pension fund annual report. This entails the following additional work over and above giving an opinion on the pension fund accounts included in the Authority's financial statements:

- comparing the accounts to be included in the pension fund annual report with those included in the Authority's statement of accounts;
- reading the other information published within the pension fund annual report for consistency with the Authority's statement of accounts; and
- where the pension fund annual report is not available until after the auditor reports on the Authority's financial statements, undertaking 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 Authority's statement of accounts.

The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the Authority's statement of accounts.

# Scope of work and approach (continued)

## Approach to controls testing

As set out in "Briefing on audit matters" attached as an appendix to this document, 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").

### Liaison with internal audit

The audit team, consistent with previous years, will rely on the work of Internal Audit to inform our risk assessment.

The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 "Using the work of internal auditors". This prohibits use of internal audit to provide direct assistance to the audit. Our approach this year to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and therefore this development in auditing guidance will not change the existing scope of Internal or External Audit's work. However, this will prevent us from further increasing the extent of our use of Internal Audit's work in future.

Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

For those areas where a significant risk has been identified, no reliance will be placed on the work of internal audit and we will perform all work ourselves.

## Materiality and error reporting threshold

We calculate materiality on the basis of the net assets of the fund and where appropriate we may restrict this to the materiality established for the audit of the Authority's financial statements as a whole. We have estimated materiality for the year to be £20.9 million (2013: £12.1 million) as we are still waiting for confirmation of materiality from the scheduled and admitted bodies that participate in the Fund. We will report to the Pension Fund Committee and Audit Committee on all unadjusted misstatements greater than £402,000, (2013: £242,000) unless they are qualitatively material.

The materiality for the pension fund has historically been calculated using 3% of the Fund's net assets and then capped at the level of materiality for the Authority as the figures form part of the authority financial statements. Following research with pensions governance bodies, the market and regulators we will determine materiality for the 2014 financial statements based on 1% of the Fund's net assets. We note however that historically, due to our materiality caps for reporting to other auditors for assurance in relation to their audits of the contributing bodies that our materiality level has been below 1% of net assets and hence we estimate an increase in materiality of £8.8m to £20.9m for the 2014 year end audit. Materiality for the Fund has increased due to an increased materiality for the administering employer, North Yorkshire County Council given that they have the largest membership in the Fund. Furthermore, the net assets of the Fund have increased and the materiality level is capped at 1% of net assets. We will update our assessment during the planning and interim visit based on latest outturn expectations.

Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.



## Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/or disclosure matters within the financial statements. Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

We will 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 our audit procedures to address the risk of material misstatement. We will report to you in due course any significant findings from our scoping work.

# Significant audit risks

## Our risk focused approach

### Developing our approach

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

Our risk assessment process is a continuous cycle throughout the year, with a large number of inputs influencing each stage of the process.

#### a) Understand the industry and Pension Fund

Our understanding of the industry and North Yorkshire Pension Fund draws from a wide variety of sources including:

- meetings and discussions with Tom Morrison and other senior Finance staff;
- our understanding of your Pension Fund built up during prior year audits; and
- our broader experience of the industry including current and anticipated trends.

#### b) Consider significant events

The second stage of the process involves identification of the significant events in the period under audit, consideration of recent press coverage and assessment of the principal risk factors and uncertainties as defined by management and documented in the financial statements.

#### c) Assess potential risks

Once we have considered the significant events in the period, we assess each of these to understand the potential impact, accounting treatment, and level of judgement when assessing whether this represents a material risk.

At this stage, we perform a top-down risk approach at the financial statement level to identify material account balances and disclosures and consider the level of judgement. We conduct preliminary analytical reviews, understand internal controls over financial reporting, and carry out other procedures to help us determine our risks.

#### d) Determine significant audit risks

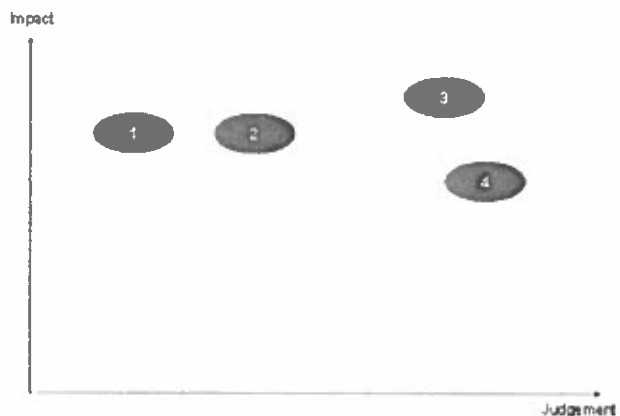
Based on the risks identified in the previous stage, we assess each risk and determine which of the risks identified above are the most significant to our audit and, as such, should be communicated to the Pension Fund Committee and Audit Committee. At this stage, we would also consider any presumed risks not already identified in the process. Namely the risk of risk of fraud through management override of controls.

#### e) Design and conduct the audit

The final step is to design and conduct the relevant audit procedures to address the risks identified. This would typically include a combination of control and substantive procedures. At this stage and again at the end of the audit, we reconsider our audit approach to assess whether all risks were appropriately identified and addressed. We may also identify new risks that need consideration, which would be fed back into the process described above.

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 key audit risks to show where we believe there is highest level of judgment and impact on the financial statements.



1. Contributions
2. Benefits
3. Investments
4. Management Override of Controls

# 1. Contributions

There are complexities around the calculation of contributions.

## Nature of risk

Unlike the position in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, this remains a material income stream (2013: £105.6m, 2012: £105.2m) and in view of the complexity arising from the participation of different employers within the Fund, the fact that members pay a tiered contribution rate depending on their pensionable pay and that additional complexities were introduced to the employer contribution rates from 1 April 2011, we have included the calculation and payment of contributions as an area of significant risk.

## The key judgement areas and their potential impact on the financial statements

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. Given the material nature of contributions, incorrect calculation of employee/employer contributions by contributing bodies could lead to a material error.

## Audit work planned to address the significant risk

We will:

- request that Officers provide an analysis of contribution rates by employer;
- agree monthly payments of contributions to independent member body returns;
- 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 as stated in LGPS regulations;
- reconcile the membership movements in year to the financial statements; and
- perform an analytical review to gain assurance over the completeness of contributions.

## 2. Benefits

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

### Nature of risk

Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits. In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008. The calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Also individuals enjoy greater flexibility in their choice of the mix of pensions and lump sum. In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. The Government has completed the process to amend the revaluation and index factors for statutory minimum uplift from the Retail Price Index to the Consumer Price Index. This change has further increased the complexity of benefit calculations. Furthermore, it is noted that some employers may not have retained the necessary records to enable these calculations to be undertaken by the Fund. The value of benefits paid (2013: £84.6m, 2012: £82.2m) is material to the financial statements and hence represents an area of significant risk in it's own right.

### The key judgement areas and their potential impact on the financial statements

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

### Audit work planned to address the significant risk

We will:

- 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. Investments

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

#### Nature of risk

The pension fund's investments include derivatives, absolute return vehicles and quoted property funds.

The pension fund invests in derivative financial instruments. These investments are more complex to measure, account for and disclose on. Accordingly we have treated the appropriateness of the accounting and disclosure of these investments as a specific risk for our audit.

The valuation of absolute returns and property funds is normally undertaken by the fund managers.

#### The key judgement areas and their potential impact on the financial statements

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

#### Audit work planned to address the significant risk

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. We will liaise with internal financial instrument specialists as part of the above assessment of our approach. For publically available investments we will compare the valuation by BNP Paribas for the Fund with Bloomberg and other such research materials.

## 4. Management override of controls

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

### Nature of risk

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

### The key judgement areas and their potential impact on the financial statements

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

### Audit work planned to address the significant risk

We will:

- request that Officers provide us with an analysis and supporting documentation for journal entries, key estimates and judgements;
- perform substantive testing on journal entries using our Analytics toolbar to confirm that they have a genuine, supportable rationale;
- review ledgers for unusual items and investigate the rationale for any such postings; and
- review significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable.

# Responsibility statement

# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit.
- Key regulatory and industry updates, relevant to you.

## What we don't report

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

## Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" included at Appendix 5.
- Our Audit Quality Promise and Insight Plan are included in the planning document of the Authority.
- We will update you if there are any significant changes to the audit plan.

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



**Deloitte LLP**  
Chartered Accountants

Leeds  
25 June 2014

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

# Appendices

# Appendix 1: Independence and fees

## We confirm we are independent of the North Yorkshire Pension Fund

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Audit Commission's Code of Audit Practice, we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm we are independent of the North Yorkshire Pension Fund - and will reconfirm our independence and objectivity to the Pension Fund Committee and Audit Committee for the year ending 31 March 2014 in our final report to the the Pension Fund Committee and Audit Committee.
<b>Fees</b>	Our audit fees are set by the Audit Commission in line with national scale fees. Details of audit and non-audit fees have been presented separately on the following page.
<b>Non-audit services</b>	No non-audit services fees relating to the pension fund have been paid to Deloitte in the year. In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority'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.

We summarise our relationships with the Authority and explain our assessment of threats to auditor independence and safeguards in the Authority audit plan document.

# Appendix 1: Independence and fees (continued)

We summarise earned or proposed audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2012 to 31 March 2014 are as follows:

	Current year £000	Prior year £000
<b>Audit of the North Yorkshire Pension Fund</b>	24	24

There are no non audit services provided or proposed to North Yorkshire Pension Fund for the period from 1 April 2012 to 31 March 2014.

Professional fees earned or proposed by Deloitte for services in the period from 1 April 2012 to 31 March 2014 in respect of other funds of the Authority are set out in our audit plan for the Authority.

## Appendix 2: Fraud: responsibilities and representations

As auditors, we obtain reasonable, but not absolute assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

<b>Characteristics</b>	<ul style="list-style-type: none"><li>• 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.</li><li>• Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.</li></ul>	
<b>Responsibilities</b>	<b>Your responsibilities</b> <ul style="list-style-type: none"><li>• 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.</li></ul>	<b>Our responsibilities</b> <ul style="list-style-type: none"><li>• We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.</li><li>• 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.</li><li>• As set out in 'Significant Audit Risks' above, we have identified the risk of fraud in management override of controls as a key audit risk for your organisation.</li></ul>



## Appendix 2: Fraud: responsibilities and representations (continued)

We will make inquiries of management, internal audit and those charged with governance regarding fraud

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>Managements process for identifying and responding to the risks of fraud in the entity.</p> <p>Managements communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Managements 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.</p>	<p>How those charged with governance exercise oversight of managements 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>

We will require the following to be stated in the representation letter signed on behalf of the Pension Fund:

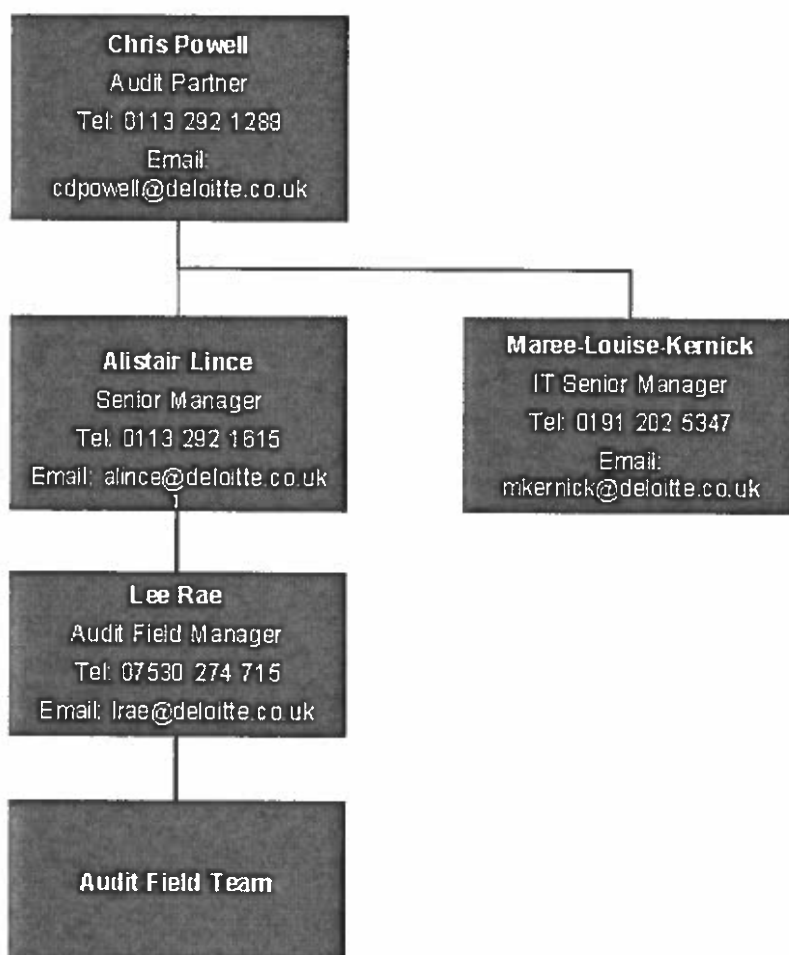
- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are 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 entity or group 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: Operational arrangements

A senior team, with continuity from last year, that incorporate pensions specialist to provide insight and add value.

The work will be led by Chris Powell, supported by Alistair Lince as audit manager.

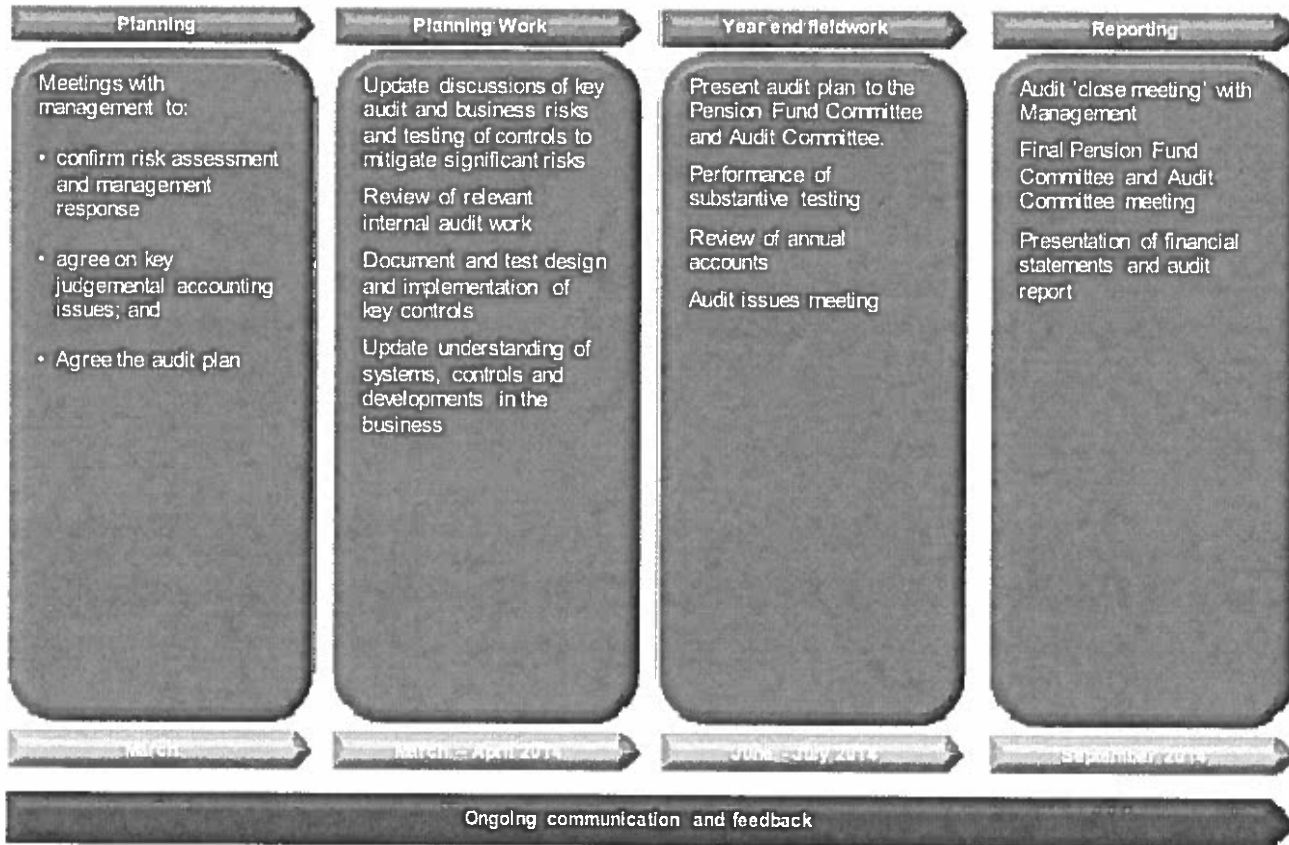
A senior team, with continuity from last year, that incorporate pensions specialist to provide insight and add value.



# Appendix 4: Timetable

## Timing of our work and communication

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



# 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 Financial Reporting Council ("FRC"). 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.

## 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.

# Appendix 5: Briefing on audit matters (continued)

## 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 Ethical Standards issued by the Auditing Practices Board ("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 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;
- 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.

## Appendix 5: Briefing on audit matters (continued)

### **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 Ethical Standards**

The APB 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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