



Planning Report to the Pension Fund Committee and Audit Committee for year ending 31 March 2015

July 2015

the
Distinctive
audit

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I am delighted to present our planning report for audit of the North Yorkshire Pension Fund's 2014/15 accounts. This report sets out our audit approach and the more significant areas where we will focus our attention this year.

Chris Powell, Engagement Partner



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.

Key developments in your Pension Fund

- Adoption of LGPS 2014 and transition to Career Average Revalued Earnings (CARE) as basis of pension calculation for current service
- The triennial valuation dated 31 March 2013 was completed by Mercer, showing the assets of the fund to be £1,841m and the Past Service Liabilities to be £2,509m (funding ratio: 73%)
- This valuation established a new schedule of rates with aggregate employer contributions for the 3 years commencing 1 April 2014, 1 April 2015 and 1 April 2016 as being 13.8% of pensionable pay
- There are no significant changes to the financial reporting framework
- Focus within the sector on administration and investment manager fees
- The Pensions Regulator is taking on the role of the regulator of Local Government Pension Schemes from 1 April 2015
- Additional governance arrangements will be applied from 1 April 2015 as required by the Public Sector Pensions Act 2013

Key developments in our audit

- No changes to the overall scope of our audit. We have estimated materiality at the planning stage to be £21.7m based on Q3 net assets of the fund, although this will be confirmed once the materialities for the scheduled and admitted bodies are received from the auditors of those other organisations.
- Contributions remain a risk in view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members pay different rates depending on their pensionable pay.
- Benefits in retirement and ill health remain a risk in view of complexities around their calculation and the implementation of LGPS 14.
- The pension fund in the past has made some use of investments in absolute returns vehicles and quoted property funds which can give rise to complexities in 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 risk due to the unique position management are in to override the controls present. This role is focused around the use of journals, accounting estimates and unusual transactions outside the normal course of business.

Significant Audit Risks

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

A reminder on our conclusions in 2013/14

- In September 2014, we issued the Fund with an unmodified audit opinion on the financial statements.





The big picture

Significant risks

The below dashboard summarises the significant risks we have identified as part of our planning procedures. These are the risks which we consider require a detailed response from the Auditor to address the risk of a material misstatement being undetected by audit procedures.

Each risk is explained in detail on the subsequent pages, together with any observations from our planning procedures.

Auditing standards require us to presume that a significant risk of fraudulent financial reporting exists with respect to the management override of controls, owing to management's unique position to influence the presentation of balances within the accounts.

	Material	Fraud risk	Planned controls testing approach	Level of management judgement
Calculation of Contributions	✓	✗	Design and implementation of controls	
Benefits	✓	✓	Design and implementation of controls	
Investments	✓	✗	Design and implementation of controls	
Management override of controls	✓	✓	Design and implementation of controls	



High level of management judgement



Medium level of management judgement



Low level of management judgement

Our audit quality promise

Our audit quality promise

Our quality standard



The quality of our audit delivery is of great importance to us. In order to ensure we deliver an 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 your control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit at every level.

This section sets out our commitments to management, 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 good degree of continuity to deliver the 2014/15 audit. We will support this team with skilled, experienced and knowledgeable individuals to ensure the timely and effective delivery of our audit.

Chris Powell
Audit Partner

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 6 monthly 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 Audit Committee where updates on the audit progress will be presented.

During the main audit period

We will diarise status updates with the Pensions 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.

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 will also seek direct feedback through regular meetings during the year.

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.

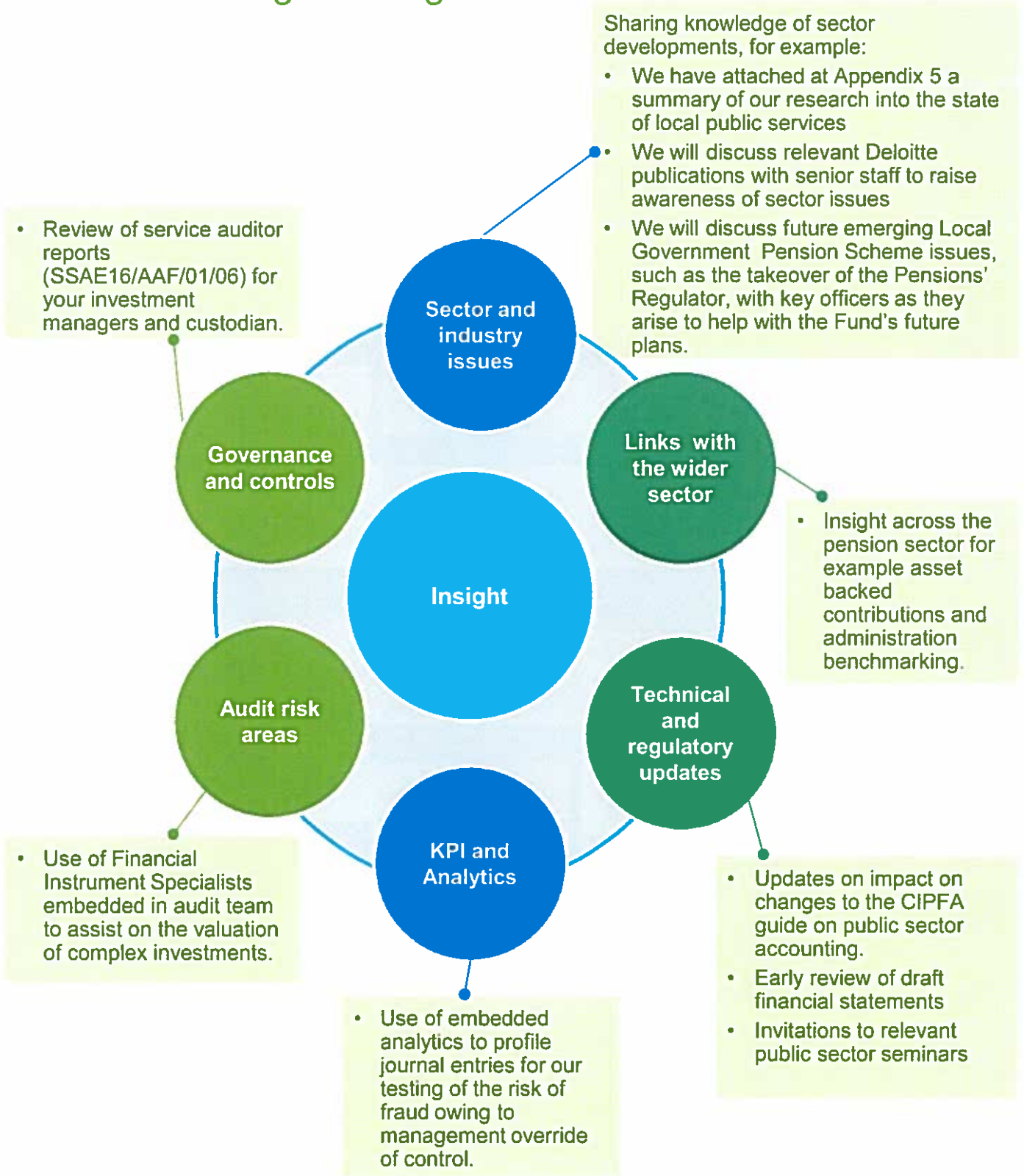
We will proactively set up meetings to discuss any technical accounting or regulatory developments, which could have a significant impact on the Fund, as soon as we become aware.

We will make ourselves available to discuss issues as they arise, in advance of the year end to smooth the closedown and accounts production processes.

Bringing you insight



We have summarised below some of the ways we have and continue to provide the Fund with insight during 2014/15



Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements, as well as in relation to our other responsibilities as your external auditors. 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 upon guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Scheme (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

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

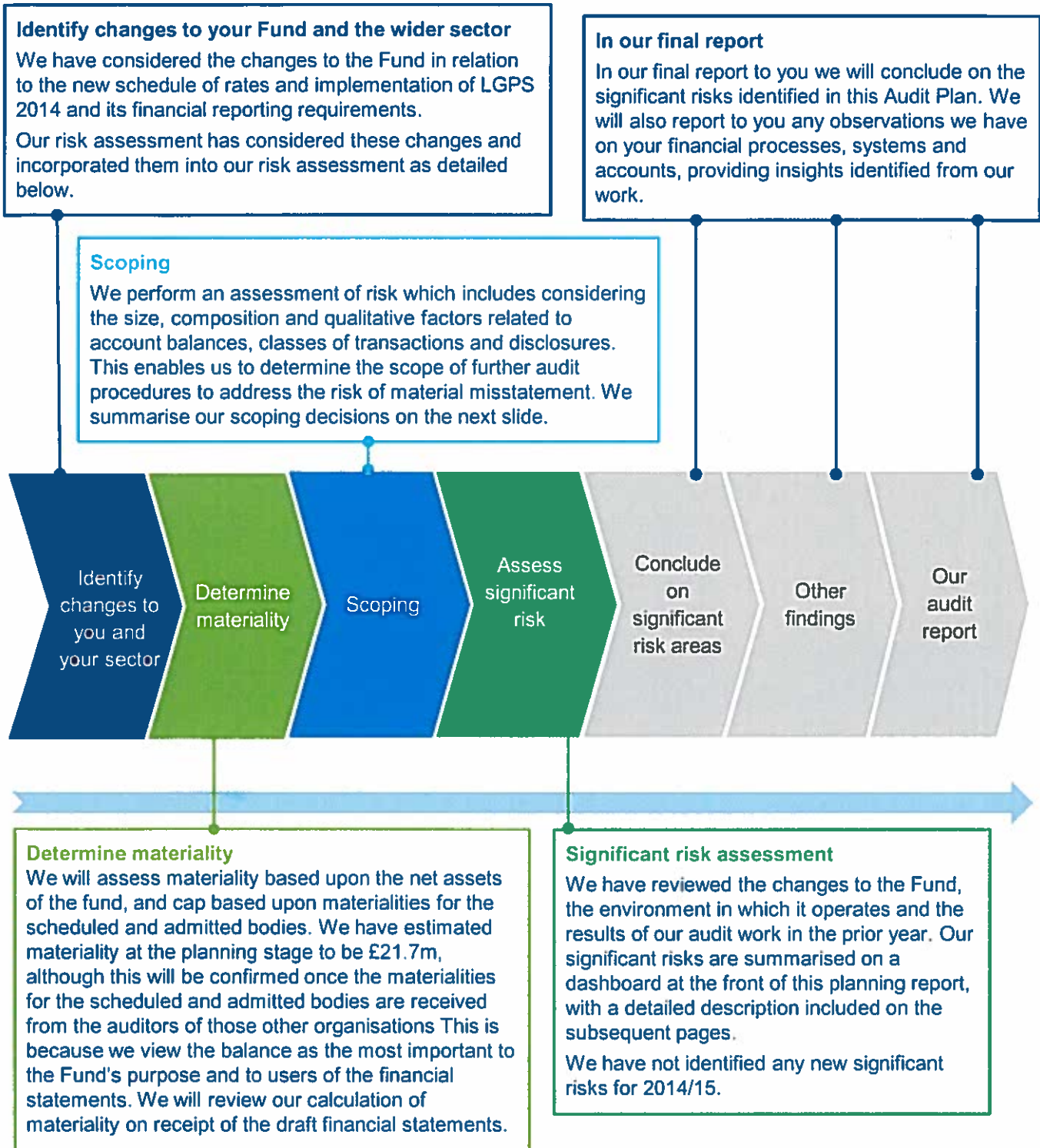
The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the "Code of Practice").

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 with 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.

Our audit explained

We tailor our audit to your Fund and your strategy



Quality and Independence

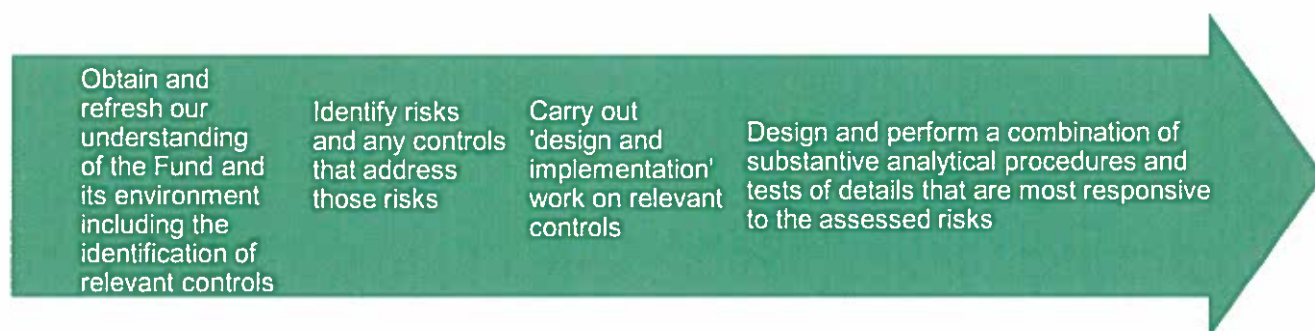
We confirm all Deloitte network firms are independent of North Yorkshire Pension Fund. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach (continued)

Approach to controls testing

As set out in "Briefing on audit matters" included 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").

We will consider the results of our procedures in respect of the Fund's controls and the extent of any impact our findings have on our substantive audit procedures.



Liaison with internal audit

We continue to rely on the work of the Internal Audit function 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 current approach to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and 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.

We plan to hold discussions with the Head of Internal Audit to understand the work they have performed in the year and any weaknesses they have identified in the control environment, so we can assess their impact and plan our audit response.



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 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. We will report to you any significant findings from our scoping work.

For the Funds 2014/15 financial statements, we have estimated materiality at the planning stage to be £21.7m based on Q3 net assets of the fund. We will report to the Audit Committee on all unadjusted misstatements greater than £434k and other adjustments that are qualitatively material. Materiality will be confirmed once the materialities for the Scheduled and Admitted bodies are received from the auditors' of those organisations.

1. Contributions

There are complexities around the calculation of contributions.

We have identified the calculation of contributions as a significant risk on the grounds that:

- There is complexity arising from the participation of different employers within the fund, and employees paying tiered contribution rates depending upon their pensionable pay;
- A new schedule of rates relating to 1 April 2014 and beyond has been brought into force, varying the rates at which employers are expected to pay. This is as a result of the actuary's triennial valuation dated 31 March 2013;
- Complexity also arises because pensionable pay now includes non-contractual overtime for part-time staff; and
- This remains a material income stream for the Fund.

The key judgement areas and their potential impact upon 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.

Our approach

- We will request that management provides an analysis of contribution rates by employer;
- We will test the design and implementation of controls management has put in place to ensure contributions are paid over at the correct rates. We will also perform tests of detail to consider whether each material income stream has been calculated in accordance with the recommendations of the Actuary;
- We will agree monthly payments of contributions to independent member body returns;
- On a sample basis, we will review individual payslips to test the accuracy of the calculation of pensionable pay and to confirm whether the contributions deducted from members have been calculated correctly, in accordance with the schedule of rates;
- On a sample basis we will agree change in membership included in the membership statistics; and
- We will perform an analytical review to gain assurance over the completeness of contributions.

2. Benefits

There are complexities surrounding the calculation of benefits in retirement, ill health and death benefits, as well as adoption of LGPS 14 regulations in the period.

We have identified the calculation of benefits as a significant risk on the grounds that:

- There is complexity arising from the calculation of benefits in retirement, specifically with the adoption of LGPS 2014 and transition to Career Average Revalued Earnings (CARE) as basis of pension calculation from 1 April 14 onwards.
- There have been changes to the accrual and revaluation rate in year, which increases the complexity involved in the calculation of benefits;
- The calculation of ill health retirements and death benefits is inherently complex; and
- This remains a material class of transactions.

The key judgement areas and their potential impact upon the financial statements

The significant number of benefits paid each year and the complexity of the calculations means that incorrect calculation could yield a material error.

Given that payments are made based upon clearly defined rules, there is very limited scope for management judgement in this area.

Our approach

- We will test the design and implementation of controls management has put in place to ensure benefits are calculated in accordance with LGPS regulations;
- We will request that management provide us with a schedule of benefits paid and supporting calculations, and test whether benefits have in all material respects been paid in accordance with the scheme rules;
- We will develop an expectation based upon changes in membership numbers and pension increases to analytically review benefits paid in the year;
- We will review the NFI matches to identify the level of payment made by the Fund to deceased members;
- On a sample basis we will test the calculation and payment of individual benefits;
- On a sample basis we will agree change in membership included in the membership statistics; and
- We will consider on a test basis whether any changes in benefit rates, including the annual uplift, were applied on a timely basis and correctly calculated.

3. Investments

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

We have identified the valuation of investments as a significant risk.

- The pension fund's investments include absolute return vehicles and quoted property funds.
- The valuation of absolute return vehicles and quoted property funds is normally undertaken by the fund managers. As these investments are more complex to value, we have identified the Fund's investments in absolute return vehicles and quoted property as a significant risk.

The key judgement areas and their potential impact upon 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.

Our approach

- We will perform design and implementation procedures on the reconciliation of investments undertaken by management at year end;
- We will vouch the underlying fund manager portfolio valuations received directly by Deloitte to those reconciliations prepared by the Scheme as at 31 March 2015;
- For a sample of investments where independent prices are available, we will confirm the prices quoted by the investment managers to independent pricing sources. Where such prices are not available, we will perform alternative procedures such as reviewing transactions around year-end or performing 'look through' testing; and
- We will liaise with internal financial instrument specialists as part of the above assessment of our approach.

4. Management override of controls

In accordance with International Standards on Auditing (ISA 240), we presume that there is a risk of fraud as a result of management override of controls.

Our approach

- ISA 240 requires auditors to identify a presumed risk of management override of controls. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place. 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 in the year end accounts;
- We will request that management provides us with an analysis and supporting documentation for journal entries, key estimates and judgements;
- We will perform focussed work on the testing of journals, using data analytics to profile the journal population and focus our testing on higher risk journals; significant accounting estimates, and any unusual transactions, including those with related parties; and
- We will use enhanced data analytics to provide support and enable more targeted testing of items which bear the characteristics of a risk.

Data Analytics

We will use our patented Data Analytics tool to drill down into balances and undertake more focussed testing, more appropriate to the account balance or class of transaction. Analytics enables us to undertake sample testing in a risk-focused and user-friendly way.

We are embedding data Analytics technology in all our testing. This provides audit teams on the ground with a range of tools to understand trends in data and highlight areas of audit interest, allowing for more focussed and meaningful testing of risk areas.

We will use Data Analytics to give us insight into your annual financial statements. We will also use Data Analytics to identify high risk journals for our testing the specific identified risk of Management override of controls.

Data Analytics tools will help us to deliver audits in more insightful, better way.

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. We enhance this reporting with observations arising from our audit work and our Insight Plan performed to date which are designed to help the Pension Fund Committee and Audit Committee discharge their governance duties. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit; and
- Key regulatory and corporate governance 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 Scheme 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" which we have included as an Appendix to this report.
- 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
June 2015

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

Appendices

Appendix 1: Independence and fees

We confirm we are independent of 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:

Independence confirmation	<p>We confirm we are independent of 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 2015 in our final report to the Pension Fund Committee and Audit Committee.</p> <p>The engagement partner and senior manager have a "long association" with North Yorkshire Pension Fund having already worked on the fund audit for seven financial year ends. Nevertheless, we have implemented safeguards, such as the inclusion of an Independent Review Partner, a Strategically Focussed Second Partner, as well as an additional junior manager. Each of these additional roles will provide robust and independent challenge to work conducted on our audit of the Fund.</p>
Fees	<p>Our audit fees are set by the Audit Commission in line with national scale fees. Details of the non-audit services fees proposed for the period have been presented separately on the following page.</p>
Non-audit services	<p>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.</p>

Appendix 1: Independence and fees (continued)

We have set out below our audit fees for 2014/15

The professional fees earned or proposed by Deloitte in the period from 1 April 2014 to 31 March 2015 are as follows:

	Current year £'000	Prior year £'000
Audit of the North Yorkshire Pension Fund	25	25

There are no non-audit services provided or proposed to North Yorkshire County Council Pension Fund for the period from 1 April 2014 to 31 March 2015.

Professional fees earned or proposed by Deloitte for services in the period from 1 April 2014 to 31 March 2015 in respect 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 as a whole are free from material misstatement, whether caused by fraud or error.

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Responsibilities

Your responsibilities

- The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities

- We are required to obtain representations from your Management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out above we have identified the risk of fraud in management override of controls as a key audit risk for your organisation

Our responsibilities and those of the Authority are explained in the Audit Commission's publication, 'The responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010.

Appendix 2: Fraud: responsibilities and representations (continued)

We make enquiries of management, internal audit and the those charged with governance regarding fraud.

We will make the following inquiries regarding fraud:

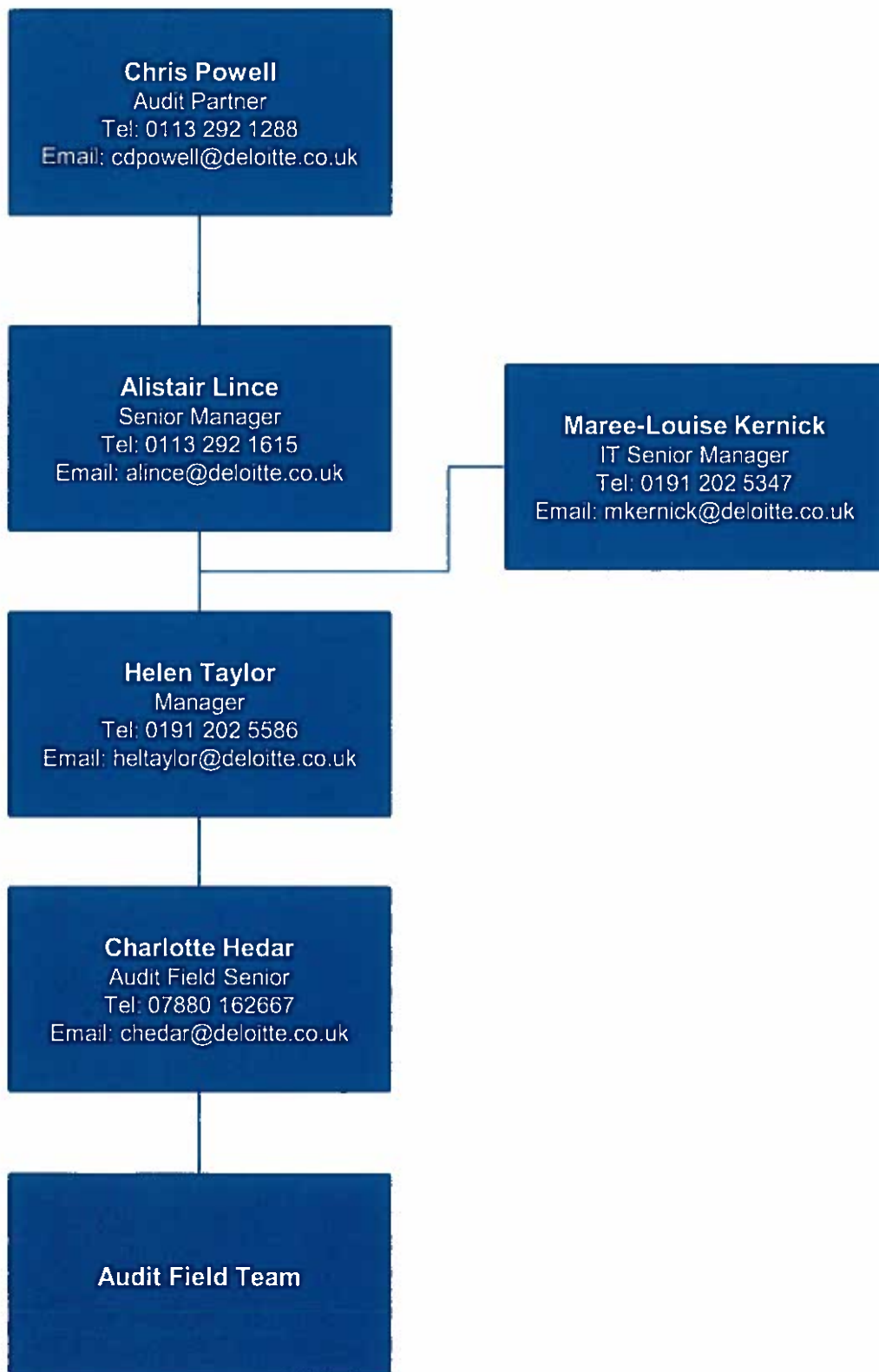
Management	Internal Audit	Those charged with governance
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments.</p> <p>Management's process for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.</p>	<p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, to obtain their views about the risks of fraud, and to obtain status reports on fraud cases during 2014/15.</p>	<p>How the committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management have established to mitigate these risks.</p> <p>Whether the committee has knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>The view of those charged with governance on the most significant fraud risk factors affecting the Authority.</p>

We will request 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.

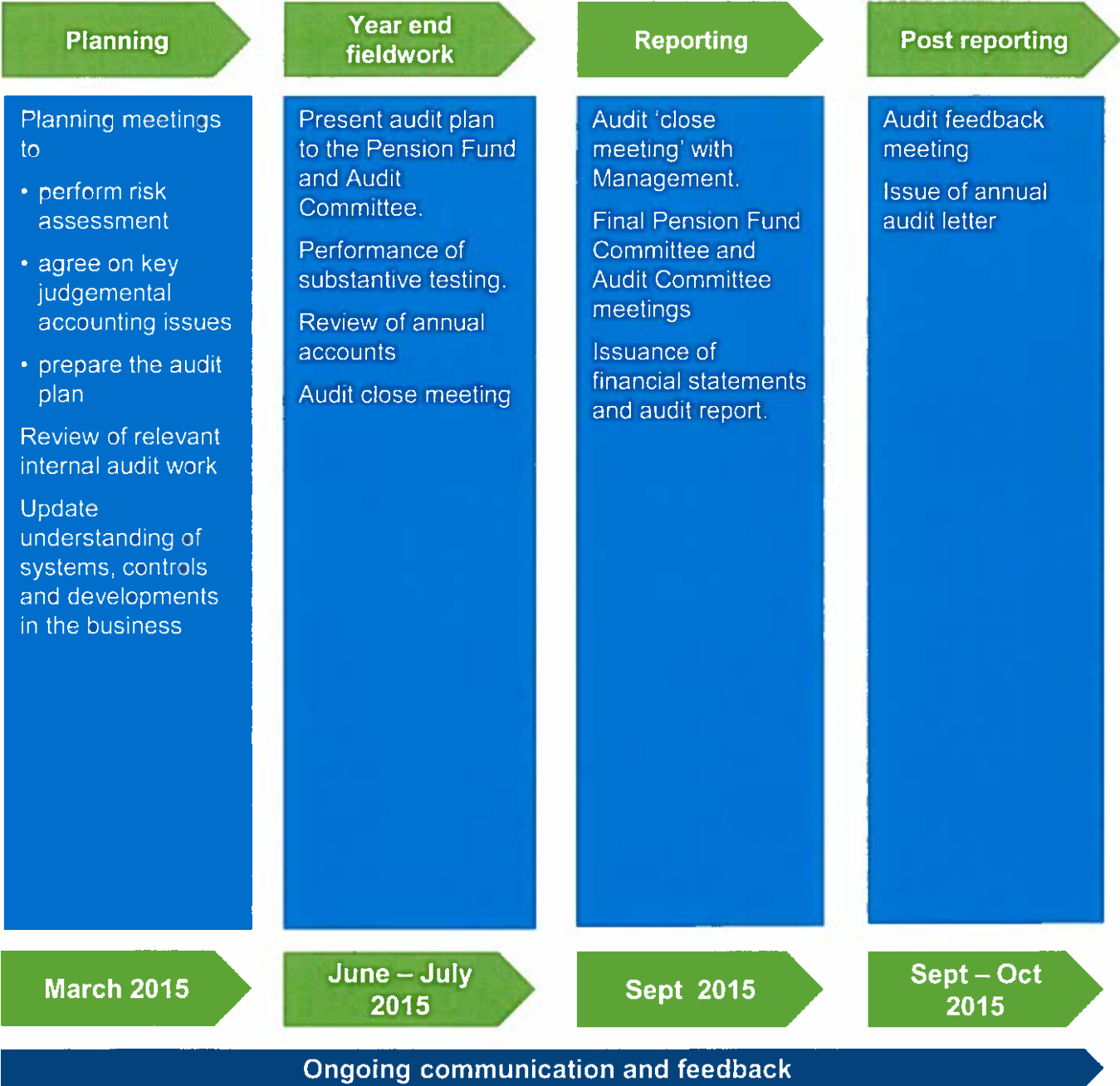
Appendix 3: Your audit team

A senior team, with continuity from last year, that incorporates pension specialists to provide insight and add value



Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with Management and those charged with governance.



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	<p>We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Financial Reporting Council ("FRC") and the Code of Audit Practice as established by the Audit Commission. Our statutory audit objectives are:</p> <ul style="list-style-type: none">• to express an opinion in true and fair view terms to the members on the financial statements;• to express an opinion as to whether the accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting;• 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• to form an opinion as to whether contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary .
Other reporting objectives	<p>Our reporting objectives are to:</p> <ul style="list-style-type: none">• 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 shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

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 also 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.

Appendix 5: Briefing on Audit matters (continued)

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 members and create value for management and those charged with governance whilst minimising a "box ticking" approach.

Our audit methodology is designed to give members the confidence that they deserve.

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

Appendix 5: Briefing on Audit matters (continued)

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 to consider 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 related 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.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements. It has been noted that both the engagement partner and senior manager have a “long association” with North Yorkshire Pension Fund having worked on the fund audit for seven financial year ends. Nevertheless, we have implemented safeguards, such as the inclusion of an Independent Review Partner, a Strategically Focussed Second Partner, as well as an additional junior manager. Each of these additional roles will provide robust and independent challenge to work conducted on our audit of the Fund.
- 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.

Appendix 5: Briefing on Audit matters (continued)

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 closely-related person) 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 closely-related person) 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 closely related persons) 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 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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