

# Staffordshire Pension Fund Audit results report

Year ended 31 March 2018

30 July 2017

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo area.

Building a better  
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30 July 2018



Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Standards Committee.

We have substantially completed our audit of Staffordshire Pension Fund for the year ended 31 March 2018. Subject to completing the final procedures listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report, or any other issues arising from our work with you, at the Audit and Standards Committee meeting on 30 July 2018.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

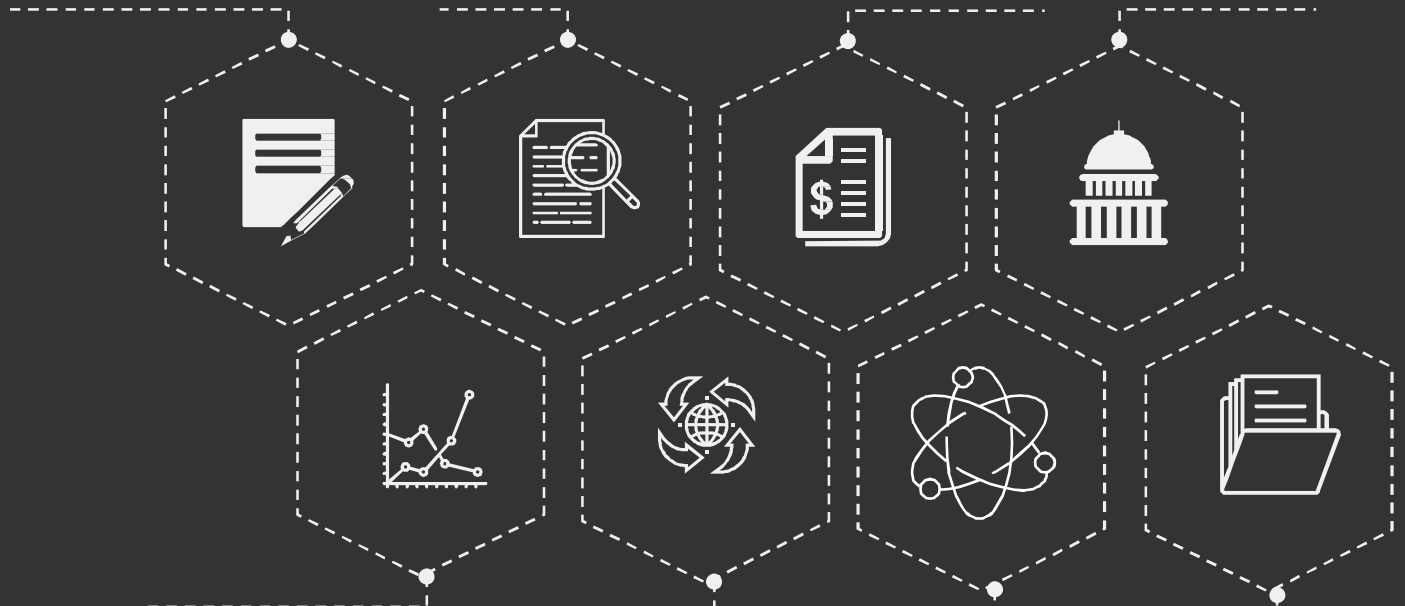
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit and Standards Committee and management of Staffordshire Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, and management of Staffordshire Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee and management of Staffordshire Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report presented at the March 2018 Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the exception of a change to materiality.

We have updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% net assets, we have updated our overall materiality assessment to £95.5 million (Audit Planning Report – £91.8 million). This results in updated performance materiality, at 75% of overall materiality, of £71.6 million, and an updated threshold for reporting misstatements of £4.8 million.

## Status of the audit

We have substantially completed our audit of the Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following items we expect to issue an unqualified opinion on the Staffordshire Pension Fund's financial statements in the form which appears at Section 3.

- Completion of subsequent events review
- Receipt of the signed management representation letter
- Receipt and review of the final version of the financial statements;
- Receipt and review of the Pension Fund Annual Report
- Final review procedures

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Standards Committee.



# Executive Summary

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## Control observations

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

## Audit differences

There are no unadjusted audit differences arising from our audit that we wish to bring to your attention. We identified a small number of amendments to the statements, which management has amended. These are set out in section 4.

## Independence

Please refer to Section 7 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



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## Areas of Audit Focus

### Significant risk

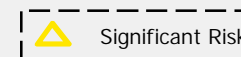
#### Misstatements due to fraud and error - Management Override

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every engagement.



##### What did we do?

- ▶ Tested journals at year-end to ensure there are no unexpected or unusual postings;
- ▶ Tested the valuation of investments provided in fund manager reports and independent bid prices; and
- ▶ Tested the occurrence and measurement of investment income notified in fund manager reports to confirmations from custodians.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias. Our journals testing also specifically considered the risk of inappropriate or incomplete journaling of investment income and changes in market value of investments at year-end. We also consider whether there are any significant or unusual transactions outside of the Pension Fund's usual course of business.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.



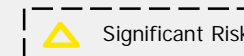
## Areas of Audit Focus

### Significant risk

#### New General Ledger System

##### What is the risk?

The administering authority has implemented a new General Ledger system in year (Integra). Any significant system change creates risks associated with data migration and integrity which could result in a material misstatement.



##### What did we do?

Carried out a review of Internal Audits planned work on the system migration to inform our risk assessment and planned audit response.

In conjunction with our IT Risk Assurance (ITRA) specialists within EY, we carried out a review of the Council's approach and execution of the transfer of data to the new system. We performed tests on the data migrated to the new system to gain assurance on the opening balances in Integra.

We have documented and walked through the IT general controls, assessing the design of those controls.

We have also documented and walked through the old system (SAP) and the new system (Integra) in the year to gain an understanding of the design of the operation of the systems and identify any areas of weakness.

##### What are our conclusions?

Subject to completion of the work outstanding as set out in section 1, we have not identified any material misstatements in the migration of data from the SAP to Integra general ledger systems.

Our ITRA specialist work did not identify any specific areas of weakness as a result of the transfer from SAP to Integra and we have identified no significant weaknesses in IT general controls.

Our review of the Internal audit report on the system migration did not identify any material weaknesses and no further risks were identified from our documentation and walkthrough the SAP or Integra systems.



## Areas of Audit Focus

### Significant risk

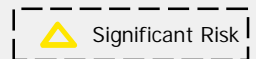
#### Valuation of unquoted investments

#### What is the risk?

The Fund's investments include unquoted pooled investment vehicles and limited partnerships (approximately 9% of fund assets). 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.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.

Additionally, for 2017/18 the Fund has been required to close their accounts within a shortened time frame to previous years. As such the Pension Fund will be taking the latest valuation available from the fund managers and making adjustments for capital calls and distributions, and other material fluctuations to year end to enable them to meet the shorter deadline of 1 June 2018 for submission of the financial statements to audit. As such there is a greater risk that the year end valuation could be materially misstated.





## Areas of Audit Focus

### Significant risk (Valuation of unquoted investments cont'd)

#### What did we do?

- The level 3 investments identified as having a higher risk of misstatement due to the judgemental nature of the valuations are set out in the table below.

Type of investment	Value in 2017/18 financial statements	Balance tested	Basis of the valuation	Audit work completed
Hedge Funds	£88,146 k	£88,146 k	Valuation of the funds are based on net asset value. This is carried out by the Fund Manager.	<ul style="list-style-type: none"> <li>We have documented and walked through the process and design of the controls over the valuation process.</li> <li>As set out, the level 3 investments are typically prepared by fund managers. These fund managers are subject to independent review and assessment of the control environment. We have reviewed these control reports to identify any potential areas of weakness in the control environment which may increase the risk of material valuation misstatements.</li> <li>For each type of asset we have reviewed the basis of the valuation for and compared to the Pension Fund's accounting policy to ensure the basis aligns with accounting policy.</li> <li>For each type of investment we have substantively tested the valuation of the assets by agreeing the net asset value per the confirmation received to the audited accounts provided. Where the audited accounts have not do not have the same year end as the Fund we have performed tests of valuation such as reviewing transactions (purchases and sales or calls and distributions) around the year end, performing 'look through' testing or obtaining latest available audited accounts and fund statements and auditing any subsequent cash movements between the date of the audited accounts and the Fund's year end; and testing of trading and movements in year.</li> </ul>
Private Equity	£141,645 k	£54,786 k	Valuation of the funds are based on net asset value. This is carried out by the Fund Manager.	
Private Debt	£132,531 k	£132,531 k	Valuation of the funds are based on net asset value. This is carried out by the Fund Manager.	

#### What are our conclusions?

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Fund's financial position.



## Areas of Audit Focus

### Other areas of audit focus – valuation of directly held properties



#### Details on procedures/work performed

As detailed in our Audit planning report, the Fund has a significant portfolio of directly held property investments. The balance as at 31 March 2018 is £386 million.

We consider this as a higher inherent risk as the valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.

- In the previous year's financial statements we engaged with our internal valuers to carry out specific procedures to consider the work performed by the Pension Fund's external valuers, which included reviewing the adequacy of the scope of the work performed, their professional capabilities and the results of their work. The detailed work included testing to confirm the valuation was undertaken in accordance with relevant financial reporting guidance, and the key assumptions used in the valuation were appropriate and within expected ranges.
- We did not identify any weaknesses in valuation basis or material misstatements to report to you in 2016/17.

For 2017/18, we carried out the following procedures:

- Considered the work performed by the Pension Fund's external valuers, including reviewing the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Carried out an analysis of the movement in valuation and reviewed any significant property movements by reference to the asset register, and referencing expected indices.

We did not identify any significant uncertainties in the valuations that we need to report to you.





# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAFFORDSHIRE PENSION FUND

##### Opinion

We have audited the Pension Fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the Pension Fund financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Director of Finance and Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Responsibility of the Director of Finance and Resources

As explained more fully in the Statements of Responsibilities set out on page 165, the Director of Finance and Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

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





# 04 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

As set out in section 1, our threshold for reporting misstatements to you is £4.6 million.

We did not identify any material misstatements that we wish to report to you. The Pension Fund has made a small number of adjustments over our reporting threshold which are set out below. These adjustments have been made to the final set of statements.

There are no unadjusted misstatements

### Note 4- Incorrect contributions classification.

Contributions classification per note 4 of the financial statements was not correctly presented with regards to the split between employer normal contributions and contributions towards actuarial deficit funding.

£24.7 million was disclosed as normal employer contribution. It should have been disclosed as actuarial deficit.

### Note 10- commitments

We have noted incorrect disclosure for pooled property and private debt commitments. The amounts were misstated as follows:

UK pooled property- overstated by £10m

Private debt- Highbridge Private Lending Opportunities Fund understated by £2m

### Note 26 – Financial Risk Management

The Pension Fund has not adequately disclosed the financial risk management within their financial statements as they had omitted key disclosures such as foreign exchange risk and credit risk. Management have now revised note 26 and incorporated all the relevant disclosures as required by the CIPFA SORP.





# 05 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements.

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of Staffordshire Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit; Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested; Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process; Related parties;
- External confirmations; Going concern; and Consideration of laws and regulations.

There are no matters that we need to report to you.





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## Assessment of Control Environment



# Assessment of Control Environment

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## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

We have however identified the following control and process related matters. These matters are limited to those deficiencies identified during the audit and important enough for us to report to you.



# Assessment of Control Environment

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Area	Pensionable salary
Observation	<p>As part of our audit we are required to test the accuracy and completeness of contributions received we normally obtain pensionable salary reports.</p> <p>The Pension Fund were unable to provide evidence from Staffordshire County Council at the time of testing as had not received the return from Liberata – the new payroll provider.</p> <p>We recommend that this information is provided in a timely fashion as a matter of course to the County Council to enable them to review their payroll deductions.</p>
Management Comment	<p><u>Management Response</u></p> <p>The County Council payroll returns are received from three payroll providers – Capita, Stoke City Council and Liberata. In all three cases the Pensions Section has received required payroll/contribution returns from the providers, although the Liberata return, in an acceptable format, was not received until the 5<sup>th</sup> July 2018.</p> <p>There are some identified discrepancies with data provided in all three returns, which the Pensions Section will resolve, through its checking process, before finalising year end data.</p> <p><u>Date / Responsibility</u></p> <p>02/08/2018</p> <p>Head of Treasury and Pensions</p> <p>Payroll Providers</p>





07

# Independence



## Independence

### Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2018. We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this. We confirm we have undertaken no non-audit work outside the PSAA Code requirements.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Pension Fund, and its directors and senior management and its affiliates, including all services provided by us and our network to your Pension Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Fees

As part of our reporting on our independence, we confirm that our fees of £28,637 for the year ended 31 March 2018 are in line with the scale fee set by PSAA and have remained consistent to the prior year.

As reported in the Audit planning report there is additional fee of £5,500 will be charged to take into account the additional work required to respond to IAS19 assurances from scheduled bodies. This additional fee has been approved by the PSAA.

We anticipate there will be a further fee for additional work required as a result of the new general ledger system. We are in the process discussing the additional fee with management.



07

## Appendices

## Audit approach update




We are required to communicate whether there have been any changes to the audit of the net assets statement from the prior year audit. In 2017/18 we have again taken a fully substantive approach to the audit and there have been no significant changes to our approach.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

## Appendix B





# Summary of communications

Date 	Nature 	Summary 
Throughout the year	Meetings, calls and e-mails	The Senior Manager has been in regular contact with the Head of Treasury and Pensions and her team throughout the year in respect of the Fund's risks, accounts closedown and the audit approach.
12 March 2018	Meeting	The Senior Manager presented the Audit Plan to the Audit and Standards Committee.
30 July 2018	Meeting	Presentation of the Audit Results Report to the Audit and Standards Committee.

## Appendix C

# Required communications with the Audit and Standards Committee

There are certain communications that we must provide to the Audit and Standards Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:




 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Regulation, Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	12 March 2018 Audit and Standards Committee Audit Plan
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	12 March 2018 Audit and Standards Committee Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report






# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the audit committee include:</p> <ul style="list-style-type: none"> <li>• A declaration of independence</li> <li>• The identity of each key audit partner</li> <li>• The use of non-member firms or external specialists and confirmation of their independence</li> <li>• The nature and frequency of communications</li> <li>• A description of the scope and timing of the audit</li> <li>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>• Materiality</li> <li>• Any going concern issues identified</li> <li>• Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee</li> <li>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>• The valuation methods used and any changes to these including first year audits</li> <li>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>• The identification of any non-EY component teams used in the group audit</li> <li>• The completeness of documentation and explanations received</li> <li>• Any significant difficulties encountered in the course of the audit</li> <li>• Any significant matters discussed with management</li> <li>• Any other matters considered significant</li> </ul>	<p>12 March 2018 Audit and Standards Committee – Audit Plan and 30 July 2018 Audit and Standards Committee – Audit Results Report</p>





## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit and Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit and Standards Committee responsibility.</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Pension Fund</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	12 March 2018 Audit and Standards Committee – Audit Plan and 30 July 2018 Audit and Standards Committee – Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Auditors report	<ul style="list-style-type: none"> <li>• Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	30 July 2018 Audit and Standards Committee – Audit Results Report
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit planning report is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	12 March 2018 Audit and Standards Committee – Audit Plan and 30 July 2018 Audit and Standards Committee – Audit Results Report

# Management representation letter

Staffordshire Pension Fund

## Management Rep Letter

30 July 2016

Suresh Patel  
Associate Partner  
1 More London Riverside  
London  
SE1 2AF

*This letter of representations is provided in connection with your audit of the financial statements of Staffordshire Pension Fund (“the Fund”) for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.*

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

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

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

- 1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.*
- 2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.*
- 3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.*

# Management representation letter

## Staffordshire Pension Fund

### Management Rep Letter

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - Involving financial improprieties
  - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
  - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
  - Involving management, or employees who have significant roles in internal control, or others
  - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.



# Management representation letter

Staffordshire Pension Fund

## Management Rep Letter

4. We have made available to you all minutes of the meetings of the Fund and Audit and Standards Committees held through 2017/18 to the most recent meeting of the Audit and Standards Committee on 30 July 2018.
  5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2018. These transactions have been appropriately accounted for and disclosed in the financial statements.
  6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.
  7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
  8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
  9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
  2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
  3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note xx to the financial statements all guarantees that we have given to third parties.
- E. Subsequent Events
1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.
- F. Other information
1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Staffordshire County Council Annual Report 2017/18.
  2. We confirm that the content contained within the other information is consistent with the financial statements.

# Management representation letter

Merton Pension Fund

## Management Rep Letter

### G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

### H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

### I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

### J. Actuarial valuation

1. The latest report of the actuary, Hymans Robertson as at 31 March 2018, has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

### K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the investment properties and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

# Management representation letter

Merton Pension Fund

Management Rep Letter

## L. Estimates

### Level 3 Investment Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of International Financial Reporting Standards.
2. We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with International Financial Reporting Standards.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

## J. Investment Managers' Control Reports ISAE 3402

1. The latest reports available for all fund managers cover the whole of the 2017/18 audit year, or we have obtained bridging letters to cover the period to 31 March 2018. We can confirm that we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours faithfully,

\_\_\_\_\_  
Director of Finance and Resources

\_\_\_\_\_  
Chair, Audit and Standards Committee

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