

# Staffordshire Pension Fund

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

12 September 2016

Ernst & Young LLP

DRAFT



Building a better  
working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and 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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure –** If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. We regard Staffordshire County Council's Audit Committee as the member forum ultimately responsible for the governance of the Staffordshire Pension Fund.

This report summarises the findings from the 2015/16 audit which is substantially complete. At time of writing this report, the audit work is still subject to our internal review and approval processes. It includes messages arising from our audit of the Pension Fund's financial statements.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Staffordshire Pension Fund for the year ended 2015/16. Subject to satisfactory completion of the outstanding items included in Appendix A we will issue an audit opinion in the form which appears in Appendix D.</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Pension Fund's financial statements.</p> <p>We are also required to issue a report to confirm that the Pension Fund's annual report is consistent with the financial statements. Our proposed opinion is also contained in Appendix D.</p> <p>At the time of writing this report we have not received the draft Annual Report so our work in this area remains outstanding. We understand that this report is due mid-September to enable us to issue an opinion on the annual report by the end of September 2016.</p>
Audit differences	<p>There are no unadjusted audit differences.</p> <p>Our audit identified a number of disclosure errors which were highlighted to management for amendment. We do not consider any of these significant and therefore we have not provided further detail of these amendments.</p> <p>We identified an overstatement in contributions of £3.5 million. The contributions were missed in 2014/15 so the entry in 2015/16 is a correction of this understatement. As such we are not proposing an amendment to the statements.</p> <p>During the audit management identified that the private equity assets had been undervalued by £5 million, due to an updated valuation being issued after the draft accounts were presented to audit. This adjustment has resulted in an increase in the Fund's net assets from £3.747 billion to £3.752 billion.</p>
Scope and materiality	<p>In our audit plan presented at the 21 March 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £37m. We have reassessed this based on the actual results for the financial year and there has been no change to the materiality level we have applied.</p> <p>The threshold for reporting audit differences which impact the financial statements has also not changed from £1.8m. The basis of our assessment is 1% of net assets value.</p>
Significant audit	<p>We identified the following significant audit risk during the planning phase of our audit, and reported this to you in our audit plan:</p>

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risks

- Risk of management override.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.

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Other reporting issues

We currently have no other matters we wish to report. We will update the audit committee as appropriate.

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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 of which you are not aware.

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We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Richard Page

Executive Director  
For and on behalf of Ernst & Young LLP

## **2. Responsibilities and purpose of our work**

### **The Council's responsibilities**

Staffordshire County Council as the administering authority of the Pension Fund is responsible for preparing and publishing its Statement of Accounts which includes the financial statements of the Pension Fund.

The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Pension Fund.

### **Purpose of our work**

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements of the Pension Fund;
- Report on whether information in the Annual Report is consistent with the financial statements.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Pension Fund's accounting policies and key judgments.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these in our Audit Plan which was presented to the Audit Committee on 21 March 2016. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>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 audit engagement.</p>	<ul style="list-style-type: none"> <li>· Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of the journals posted to the Fund's general ledger during the year, which totalled 50,923 journals. We reviewed the journals for:               <ul style="list-style-type: none"> <li>▶ Journals that do not net to zero as this is indicative of error.</li> <li>▶ Preparer ID: Reviewed journals by preparer to establish whether these appear reasonable and within expectations.</li> <li>▶ Year End: Analysis of significant journals raised at year-end, focusing on journals posted immediately before the ledger is closed.</li> <li>▶ Unusual Dates: Testing journals posted at weekends and on public holidays to identify unusual activity.</li> <li>▶ Phrases: We have investigated specific phrases which may be used to indicate management override.</li> </ul> </li> <li>· Reviewed accounting estimates for evidence of management bias. We have carried our audit procedures to gain assurance that:               <ul style="list-style-type: none"> <li>▶ Direct Private Equity investments, Hedge Fund and Alternative investments are based on the NAV statements, adjusted for distributions and FX translations at the year end.</li> <li>▶ Pooled Property- WELPUT investments are based on the NAV statements from the Property Manager.</li> <li>▶ Limited Partnership Property- ASHFORD Investments is based on the fair value of the underlying properties less fair value of the debt.</li> <li>▶ We have carried out audit procedures to assess the qualifications, methodologies and outputs of the actuarial reports produced by Hymans Robertson. We have gained assurance that the actuary's' approach is acceptable and consistent with previous years.</li> </ul> </li> <li>· Evaluated the business rationale for any significant unusual transactions, which would be outside of the normal course of business.</li> </ul>	<p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <ul style="list-style-type: none"> <li>· We did not identify any matters to bring to your attention as a result of our journal testing.</li> <li>· We did not identify any indication of bias within the calculation of accounting estimates.</li> <li>· We did not identify any significant unusual transactions outside the normal course of business.</li> </ul>

We also identified the following audit risk during the planning phase of our audit, and reported this in our Audit Plan. D

Other risks	Audit procedures performed	Assurance gained and issues arising
<p><b>Valuation of complex investments</b></p> <p>The Fund's investments include unquoted alternatives, hedge funds and private equity in addition to direct property investments. The balance presented to audit was £585.7 million.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>We have obtained confirmation from third parties- Fund Managers gaining assurance over the existence and valuation of the unquoted alternatives, hedge funds and private equity investment assets.</li> <li>We have also obtained SOC 1 reports for internal controls and we reviewed the assessment of the operating effectiveness of controls environment around the level 3 investments to identify if there are any weaknesses identified which may raise the risk of inaccurate valuation.</li> <li>We have evaluated the competence, capabilities and objectivity of the property valuer, Jones Lang LaSalle Limited (JLL). We have directly obtained JLL's independent valuation to provide third party confirmation and have agreed the property valuations through to from the financial statements to the valuers report. We have carried out testing to gain assurance over the ownership of the property included in the accounts, by reviewing the deeds for sampled properties, and have tested all significant additions to the portfolio in the year, tracing these to the bank statements and the deeds.</li> </ul>	<p>Our testing did not reveal any material misstatements with respect to the valuation of complex investments.</p>

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to the oversight of the Pension Fund's financial reporting process, including the following:

- Qualitative aspects of the Fund's accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

We have no matters we wish to report.

## Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control for the Pension Fund and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as auditor is to consider whether the Council has put



adequate arrangements in place to satisfy itself that the Pension Fund's systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Pension Fund only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of 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.

### **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E. We are not requesting any specific representations over and above the standard ones.

## Appendix A – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit Committee
Annual report and accounts	<ul style="list-style-type: none"> <li>· Receipt and review of annual report and final version of the accounts to ensure all expected changes have been made</li> <li>· Checking the financial statements for consistency with the County Council financial statements</li> <li>· Approval of accounts by Audit Committee</li> </ul>	EY, management and Audit Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Audit closing procedures	Audit closing procedures and review procedures including review by the Engagement Lead and the Engagement Quality Reviewer.	EY

## Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 21 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 12 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 21 March 2016.

## Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	28,637	28,637	None

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We are proposing an extra fee of £5,500 to take into account the additional work required to respond to IAS19 assurances from scheduled bodies. We have received and responded to 15 requests in 2015/16. This additional fee is subject to approval by the PSAA.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

## Appendix D – Draft audit report

### **a) AUDITOR’S REPORT TO A LGPS ADMINISTERING AUTHORITY– REPORT ON PENSION FUND FINANCIAL STATEMENTS**

#### **Independent auditor’s report to the members of Staffordshire County Council**

##### **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement, the Statement of Accounting Policies and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Staffordshire County Council 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 authority and the authority’s members as a body, for our audit work, for this report, or for the opinions we have formed.

##### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer’s Responsibilities set out on page 11, the Chief Finance Officer 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

##### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

##### **Opinion on financial statements**

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

##### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

**b) AUDITOR'S STATEMENT TO A PENSION FUND IN RESPECT OF THE FINANCIAL STATEMENTS PUBLISHED WITH THE PENSION FUND ANNUAL REPORT WHEN AN OPINION HAS ALREADY BEEN ISSUED ON THE PENSION FUND FINANCIAL STATEMENTS IN THE STATEMENT OF ACCOUNTS OF THE ADMINISTERING AUTHORITY**

**Independent auditors statement to the members of Staffordshire County Council on the pension Fund financial statements**

We have examined the pension fund financial statements for the year ended 31 March 2016, which comprise the:

- Fund Account;
- Net Assets Statement; and
- related notes 1 to 26 .

This report is made solely to the members of Staffordshire County Council, 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 authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities asset out on page 11, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Staffordshire Council Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only *[TBC upon receipt of the annual report – we will include information contained in the pension fund annual report as applicable]*.

We conducted our work in accordance with guidance issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Staffordshire County Council for the year ended 31 March 2016 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

*TBC - [We have not considered the effects of any events between the date we signed our report on the full annual statement of accounts ([insert date]) and the date of this statement.] [Delete this paragraph if we are signing this consistency report on the same day as the opinion on the pension fund financial statements contained within the annual statement of the administering authority]*

## Appendix E – Management representation letter

*To be prepared on the Council's letterhead and addressed to Ernst & Young LLP*

1. This representation letter is provided in connection with your audit of the financial statements of Staffordshire County Council Pension Fund ("the Pension Fund") for the year ended 31 March 2016. 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 show a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016, and of the amount and disposition at the end of the year of its assets and liabilities, in accordance with applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We understand that the purpose of your audit of the Pension Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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.
3. 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 for the preparation of the financial statements in accordance with Accounts and Audit Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.
2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.
3. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above show a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with Accounts and Audit Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. We believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with Accounts and Audit Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Pension Fund's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Pension Fund.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
2. 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.
3. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Pension Fund year or subsequently concerning matters of non-compliance with any legal duty.

## **D. 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 as agreed in terms of the audit engagement.
  - 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 Pension Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the Pensions Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on 8 September 2016.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund's related parties and all related parties and related party 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 the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We have disclosed to you, and the Pension 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.
7. No transactions have been made which are not in the interests of the Pension Fund members or the Pension Fund during the Scheme year or subsequently.

#### **E. 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 confirm that we have given no guarantees to third parties.

#### **F. Subsequent Events**

1. There have been no events subsequent to the year-end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Advisory Reports**

1. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Pension Fund's financial statements

#### **H. Independence**

1. We confirm that no-one charged with governance 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.

#### **I. Derivative Financial Instruments**

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the Pension Fund Committee of the limitations in their use imposed by The Occupational Pension Schemes (Investment) Regulations 2005; namely that they contribute to a reduction in scheme risk, facilitate efficient portfolio management, and that any such investment has been made so as to avoid excessive risk exposure to a single counterparty and to other derivative operations. The Pension Fund's statement of investment principles has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions.
2. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the Pension Fund at the scheme year end and the terms and conditions relating thereto.
3. We have duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Pension Fund is holding, and these have been communicated to you.

**J. Actuarial valuation**

1. The latest report of the actuary (Hymans Robertson) as at 31 March 2013 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. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

**L. Use of the Work of a Specialist**

- We agree with the findings of the specialists that we engaged with in regards to the actuarial valuation of the scheme, valuation of property and valuation of investment assets. We have evaluated 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.

**M. Investment managers' control reports ISAE 3402**

1. The latest reports available do not for all fund managers cover the whole of the 2015/16 audit year. 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*

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Director of Resources

I confirm that this letter has been discussed and approved at the Audit Committee on 12 September 2016

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Chair of Audit Committee

## Appendix F – Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <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>	Audit Results Report
<p><b>Going concern</b></p> <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>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Staffordshire Pension Fund's ability to continue as a going concern for the 12 months from the date of our report.
<p><b>Misstatements</b></p> <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>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity'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 entity</li> </ul>	We have no matters we wish to report.

Required communication	Reference
<p><b>External confirmations</b></p> <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>	<p>As required</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit 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 committee may be aware of</li> </ul>	<p>We have not identified any material instances of non-compliance with laws and regulations.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's 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>Audit Plan and Audit Results Report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit Results Report</p>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan and Audit Results Report</p>

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