

Draft

**Northumberland
Pension Fund
Audit Results Report**

Year ended 31 March 2018

July 2018

Private and Confidential

July 2018

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our conclusions in relation to the audit of Northumberland Pension Fund ("the Fund") for 2017/18.

We have substantially completed our audit of the Fund for the year ended 31 March 2018. We confirm that we expect to issue an unqualified audit opinion on the financial statements in the form set out in Section 3, before the statutory deadline of 31 July 2018.

This report is intended solely for the use of the Audit Committee, other members of the Fund, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 25 July 2018.

Yours faithfully



Hassan Rohimun
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 the "Statement of Responsibilities of auditors and audited bodies". It is available from the PSAA website (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 Committee and management of Northumberland Pension Fund in accordance with the Statement of Responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Northumberland Pension 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 Committee and management of Northumberland 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 28 March 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of net assets, we have updated our overall materiality assessment to £26.8m (Audit Planning Report £28.1m). This results in updated performance materiality, at 75% of overall materiality, of £20.1m, and the threshold for reporting misstatements remains at £0.25m as requested by the Pension Fund Committee.

Status of the audit

We have substantially completed our audit of the 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 outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

Outstanding Items

- ▶ Final review of financial statements and audit work
- ▶ Audit completion procedures

Audit differences

We identified one audit difference arising from more up to date investment valuations being received after the draft accounts were prepared by management. Management have chosen not to adjust for this as they do not believe that it is material to the financial statements.

We have include more information on this difference in Section 4 of this report.



Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the 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 Section 2 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; and
- ▶ 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 Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls; however during the course of our audit work we have identified the following deficiencies in internal control:

- ▶ Management are able to create and authorise their own journal postings; and
- ▶ As identified in previous years, the Fund does not perform a monthly bank reconciliation.

Independence

Please refer to Section 7 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

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 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.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What did we do?

- ▶ We identified fraud risks during the planning stage of our audit;
- ▶ We inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- ▶ We considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ We determined an appropriate strategy to address those identified risks of fraud; and
- ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

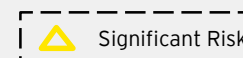
What are our conclusions?

We did not identify any other transactions during our audit which appeared unusual or outside of the Fund's normal course of business.

We did not identify any areas of significant management judgement during the course of our audit.

We did not identify any exceptions as part of our journal entry work.

We have no other matters to report in relation to this risk.





Areas of Audit Focus

Significant risk

Valuation of unquoted investments

What is the risk?

The Fund's investments include unquoted pooled investment vehicles and private equity funds. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. 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.

What judgements are we focused on?

We have identified the Fund's investments in unquoted pooled investment vehicles and private equity funds as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.

What did we do?

- ▶ We documented and walked through the process and design of the controls over the valuation process;
- ▶ We obtained third party confirmations of the unquoted investments at the Fund's year end from the investment manager;
- ▶ We reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- ▶ We reviewed the basis of valuation for unquoted investments and ensure it is in line with the accounting policy;
- ▶ We performed tests of valuation by obtaining the latest available audited accounts and agreeing the net asset value per the confirmation received to the audited accounts provided; and
- ▶ Where the audited accounts did not have the same year end as the Fund we performed other procedures to obtain assurance that the movement to 31 March 2018 is reasonable.

What are our conclusions?

Our testing identified that more up to date valuations had been received from some of the investment managers since the draft accounts had been prepared.

These more recent valuations indicate that the value of investments in the net assets statement are understated by £2,225,945.

Management do not wish to adjust for this variance and therefore we will seek representation from management that they do not believe the difference is material in the form set out in Appendix B of this report





Areas of Audit Focus

Other matters

IFRS 15 - Revenue From Contracts With Customers

- ▶ The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018. The 2018/19 Code will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies.
- ▶ It is our view, that IFRS 15 will not have a material impact on this Fund's financial statements as the vast majority of income comes from employee and employer contributions.
- ▶ We look forward to working with management to ensure any relevant changes in requirements are considered and dealt with effectively.



03

Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBERLAND COUNTY COUNCIL

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 23. 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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Section 151 Officer 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 narrative report set out on pages 4 to 20 and the introduction to the Pension Fund financial statements set out on page 175, other than the financial statements and our auditor's report thereon. The Section 151 Officer 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 Section 151 Officer

As explained more fully in the Section 151 Officer's Statement of Responsibilities set out on page 22, the Section 151 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer 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 Northumberland 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 Northumberland County Council and the Northumberland County Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
27 July 2018



Audit Report

Draft audit report

Our opinion on the financial statements

The maintenance and integrity of the Northumberland Pension Fund web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

A woman with long brown hair, wearing a dark sleeveless top, is pointing her right index finger at a large digital screen. The screen displays multiple financial charts and data tables. The top left chart shows a green line graph with a peak and a dip. The bottom left chart shows a red line graph with a peak and a dip. The bottom right chart shows a red line graph with a peak and a dip. The screen also displays various data tables and charts. The woman is looking at the screen with a focused expression.

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

There were no adjusted misstatements.

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2018 (£000)	Effect on the current period:	Net asset statement (Decrease)/Increase			
		Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors					
Known differences:					
<ul style="list-style-type: none"> The difference arising as a result of more up to date valuations being received from the Investment Managers after the date the draft accounts were prepared 	(2,225,945)		2,225,945		



05

Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in Narrative Statement with the audited financial statements. We are satisfied that the Narrative Statement is 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) 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 the Fund's financial reporting process. We have nothing to report to you in relation to this.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the 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 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 identified the following matters that we would like to draw to your attention:

- ▶ We identified that senior management are able to create and authorise their own journal entries in the general ledger; and
- ▶ As identified in previous years, the Fund does not perform a monthly bank reconciliation.

We recommend that management put processes in place to address these control findings.



7

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented in March 2018.

We complied with the FRC's 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 associate 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 and your Audit Committee 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 at the meeting of the Audit Committee on 25 July 2018.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	22,516	22,516	22,516
Total Audit fee	22,516	22,516	22,516






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Appendices

Appendix A

Required communications with the Audit, Governance and Standards Committee





There are certain communications that we must provide to the Audit 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 Audit 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.	Audit Planning Report - presented March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report - presented March 2018
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - July 2018

Appendix A

		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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about the Fund's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - July 2018
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Committee - July 2018
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Audit Committee - July 2018</p> <p>Audit Results Report - July 2018</p>




Appendix A

		 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 Fund's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Fund 	Audit Results Report - July 2018
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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit, Governance and Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Planning Report - presented March 2018</p> <p>Audit Results Report - July 2018</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 ▶ 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 	We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - July 2018

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - July 2018
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - July 2018
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report - presented March 2018 Audit Results Report - July 2018

Appendix B

Management representation letter

Management representation letter

[To be prepared on the entity's letterhead]
[Date]

Ernst & Young
2 St Peter's Square
Manchester
M2 3DF

This letter of representations is provided in connection with your audit of the financial statements of Northumberland 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

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.

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.

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.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

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.

Appendix B

Management representation letter

Management Rep Letter

We believe that the effects of the following unadjusted audit difference, accumulated by you during the current audit and pertaining to the latest period presented is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected this differences identified by and brought to our attention from the auditor because we believe that it does not have a material impact on the financial statements of the Fund.

Dr Investments	£2,225,945
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Cr Change in Market Value	£2,225,945
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Being the adjustment arising from more up to date valuation information being received by the investment managers after the draft accounts were prepared.

Non-compliance with laws and regulations including fraud

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.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We 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.

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.

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.

Management representation letter

Management representation letter

Information Provided and Completeness of Information and Transactions

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.

You have been informed of all changes to the Fund rules.
All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have made available to you all minutes of the meetings of the Pension Fund Panel and committees of members of the management of the Fund (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 the following date [date].

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 the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

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.

No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

Liabilities and Contingencies

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.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm that we have not given guarantees to third parties.

Subsequent Events

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

Management representation letter

Management representation letter

Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Introduction to the Pension Fund Financial Statements.

We confirm that the content contained within the other information is consistent with the financial statements.

Independence

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.

Derivative Financial Instruments

We confirm that the Fund has made no direct investment in derivative financial instruments.

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

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.

Actuarial valuation

The latest report of the actuary AON Hewitt as at 31 March 2016 and dated 29 March 2017 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.

Yours faithfully,

Barry Scarr, Director of Finance

Georgina Hill, Chair of Audit Committee

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