



**Northumberland County  
Council Pension Fund  
Audit Results Report**

Year ended 31 March 2019

November 2019



**EY**

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November 2019

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 County Council Pension Fund ("the Fund") for 2018/19.

We have substantially completed our audit of the Fund for the year ended 31 March 2019 and anticipate issuing an unqualified audit opinion in the form set out in section 3 of this report.

This report is intended solely for the use of the Audit Committee, Pension Fund Panel, other members of the Council, 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 27 November 2019.

Yours faithfully



Hassan Rohimun  
Associate Partner  
For and on behalf of Ernst & Young LLP  
Encl

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As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Contract and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website. The Terms and Conditions of our appointment contained within the Engagement Contract 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 Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.



**01**

## **Executive Summary**

# Executive Summary

## Scope update

In our Audit Planning Report presented at the 27 March 2019 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 £14m (Audit Planning Report £13.4m). This results in updated performance materiality, at 75% of overall materiality, of £10.5m, and the threshold for reporting misstatements remains at £0.25m as requested by the Pension Fund Panel.

## Status of the audit

We have substantially completed our audit of the Fund's financial statements for the year ended 31 March 2019 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 Pension Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

### Outstanding Items

- ▶ Consideration of the impact of the proposed merger with the Tyne and Wear Pension Fund on the disclosures in the financial statement;
- ▶ Update of subsequent events procedures, including liaison with the actuary regarding updates to the estimate for the Northumberland College transfer liability; and
- ▶ 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 ask that the unadjusted audit differences 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 Representations.

We have included 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
- ▶ Due to the upgrade of the Oracle General Ledger and difficulties in accessing the relevant reports, key control account reconciliations have not always been performed on a timely basis.

We have also made some recommendations in relation to the overall control environment at Northumberland County Council, the administering authority of the Northumberland Pension Fund, following allegations received by us and considered under our audit guidance for 'protected disclosures'. We have not repeated these recommendations here; however they are included in the Audit Results Report for Northumberland County Council to be presented at the Audit Committee on 27 November 2019.

## Independence

Please refer to Section 7 for our update on Independence.



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## 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.





## 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 and infrastructure 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 and infrastructure 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 2019 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 £4,591,657

Management have chosen not to adjust for this as they do not believe that it is material to the financial statements. We ask that the unadjusted audit differences 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 Representations.





## Areas of Audit Focus

### Other areas of audit focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

#### What was the risk/area of focus?

The CIPFA Code of Practice adopts two new accounting standards for 2018/19:

##### IFRS 9 financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9 which will need to be applied.

##### IFRS 15 - revenue from contracts with customers

As the main revenue stream of the Pension Fund is contributions, rather than contracts with customers, we do not expect there to be a significant impact on the financial statements of the Pension Fund of this new standard.

##### General Ledger Upgrade

Northumberland Council, as administering authority, upgraded the Oracle General Ledger system to the Oracle Cloud in December 2018. We will therefore be required to perform a transfer of data to ensure that the financial statements are based on a complete set of transactions for the year.

#### What were our conclusions?

We made a few minor recommendations for updates to disclosures following the implementation of IFRS 9 but were satisfied that the classification and measurement of the financial instruments was appropriate.

We considered the requirements of the implementation of the new accounting standards and were satisfied that IFRS 15 has no impact on the financial statements of the Pension Fund.

We liaised with our IT audit colleagues to develop a work programme and reviewed and tested the reconciliations performed for the transfer of data from the old to the new systems.

We did not identify any findings that suggest the financial statements are based on an incomplete set of data.



**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 Northumberland County Council Pension Fund financial statements for the year ended 31 March 2019 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 25. 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 2018/19.

In our opinion the Northumberland County Council Pension Fund financial statements:

- ▶ give a true and fair view of the financial transactions of the Northumberland County Council Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### 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 Northumberland County Council 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 Northumberland County Council 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 Introduction to the Supplementary Financial Statements - Pension Fund set out on pages 177 - 178, 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

#### Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 25, the Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the Northumberland County Council 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 2018/19, and for being satisfied that they give a true and fair view.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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 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  
[Date]

The maintenance and integrity of the Northumberland County Council 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.



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## 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 2019 (£000)	Effect on the current period:		Net asset statement (Decrease)/Increase		
	Fund Account Debit/(Credit)	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"> <li>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</li> </ul>	(4,591,657)		4,591,657		



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# Other reporting issues



## 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 which required us to make written recommendations to the Authority, copied to the Secretary of State.

### Other matters

On 11 November 2019, management informed us that a decision to pursue a merger with the Tyne and Wear Pension Fund had received the support of Cabinet on 8 October 2019. Formal approval for a merger has not been received from the Secretary of State; however management are aiming for a proposed merger date of 1 April 2020. We have agreed with management that a post balance sheet event note is required disclosing this fact and we are also consulting on the impact of the proposed merger on the going concern disclosures in the financial statements, given that the target date for the implementation of the merger is less than 12 months after the date that we plan to sign the Pension Fund financial statements.

We will update the Audit Committee on this matter at the meeting on 27 November 2019.

A blurred office desk with a laptop, papers, and glasses of water. The scene is brightly lit, likely from a window with blinds in the background. A green plant is visible on the left side. The focus is on the foreground objects, which are slightly out of focus, creating a sense of depth.

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## 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:

- ▶ Management are able to create and authorise their own journal postings; and
- ▶ Due to the upgrade of the Oracle General Ledger and difficulties in accessing the relevant reports, key control account reconciliations have not always been performed on a timely basis.

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

We have also made some recommendations in relation to the overall control environment at Northumberland County Council, the administering authority of the Northumberland Pension Fund, following allegations received by us and considered under our audit guidance for 'protected disclosures'. We have not repeated these recommendations here; however they are included in the Audit Results Report for Northumberland County Council to be presented at the Audit Committee on 27 November 2019.



# 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 2019.

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 27 November 2019.

## 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 2019.

	Planned fee 2018/19	Final Fee 2017/18
	£	£
Total Fee - Code work	17,250	22,516
<b>Total Audit fee</b>	<b>17,250</b>	<b>22,516</b>



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## Appendices

## Appendix A

# Summary of communications

Date 	Nature 	Summary 
17 October 2018 5 December 2018 6 February 2019 11 April 2019	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Section 151 Officer in post at the time and the Chief Internal Auditor to discuss accounting developments and other matters arising during the course of the year.
27 March 2019	Report	The Audit Planning Report, including confirmation of independence, was presented to the Audit Committee.
11 July 2019	Meeting	Audit status meeting with the Interim Section 151 Officer to discuss the preliminary findings of the audit.
24 July 2019	Report	The draft Audit Results Report setting out the current status of work, including confirmation of independence, will be presented to the Audit Committee.
27 November 2019	Report	The final Audit Results Report setting out the current status of work, including confirmation of independence, will be presented to the Audit Committee.

In addition to the above specific meetings and other written communications, the audit team has met with management multiple times throughout the course of the audit to discuss audit findings. Additionally, there has been regular attendance at meetings of the Audit Committee.

## Appendix A

# Required communications with the Audit 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
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Engagement contract signed December 2017
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report - presented March 2019
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 2019
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>	Audit Results Report - July 2019 Updated Audit Results Report - November 2019

## Appendix B

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
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>	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"> <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>	Audit Results Report - July 2019 Updated Audit Results Report - November 2019
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Committee - July 2019 Updated Audit Results Report - November 2019
Fraud	<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 Authority</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 Authority, 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 Committee responsibility.</li> </ul>	Audit Committee - July 2019  Audit Results Report - July 2019 Updated Audit Results Report - November 2019

## Appendix B

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
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"> <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 Fund</li> </ul>	<p>Audit Results Report - July 2019 Updated Audit Results Report - November 2019</p>
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> <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit, Governance and Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit Planning Report - presented March 2019</p> <p>Audit Results Report - July 2019 Updated Audit Results Report - November 2019</p>

## Appendix B

		Our Reporting to you
Required communications	 What is reported?	  When and where
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.
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 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>	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"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report - July 2019 Updated Audit Results Report - November 2019

## Appendix B

		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"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - July 2019 Updated Audit Results Report - November 2019
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>	Audit Results Report - July 2019 Updated Audit Results Report - November 2019
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>	Audit Results Report - July 2019 Updated Audit Results Report - November 2019
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>	Audit Planning Report - presented March 2019 Audit Results Report - July 2019 Updated Audit Results Report - November 2019

# 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 County Council Pension Fund ("the Fund") for the year ended 31 March 2019. 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 2018 to 31 March 2019 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2019, 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 2018/19.

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 2018/19.

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 2018/19, 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 2018/2019 that are free from material misstatement, whether due to fraud or error.

# 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	£4,591,657
Cr Change in Market Value	£4,591,657

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

Other than the matters disclosed in note 25 to the accounts, 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 Limited 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,

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Section 151 Officer

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Georgina Hill, Chair of Audit Committee

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ED None

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