



Shetland Islands Council Pension Fund
Report to the Members of the Council and the Controller of Audit on the
2017/18 audit

Issued on 13 September 2018 for the meeting on 19 September 2018

Contents

01 Our final report

Introduction	3
Our audit explained	5
<i>Financial statements audit</i>	
Dashboard	7
Significant risk	8
Areas of audit focus	9
Other matters	11
<i>Audit dimensions</i>	
Financial sustainability	13
Financial management	14
Governance and transparency	15
Value for money	15

02 Technical update 16

03 Appendices

Purpose of our report and responsibility statement	23
Audit adjustments	24
Fraud responsibilities and representations	25
Independence and fees	26

Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Members and Audit Controller for the 2018 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in February 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of Best Value and the five Strategic Audit Priorities agreed by the Accounts Commission.



Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- As communicated in our planning report dated 7 February 2018, we identified management override of controls as our significant audit risk.
- In addition, we identified the following areas of audit focus:
 1. Accuracy of contributions payable to the Pension Fund; and
 2. Valuation of investments
- We have not amended the significant audit risk and areas of focus during our testing and further details of our work performed and findings can be found on pages 7 to 10.
- We have not identified any misstatements from our procedures to date.
- Based on our audit work, we expect to issue an unmodified audit opinion on the financial statements.

Misstatements and disclosure deficiencies

- We have included any disclosure deficiencies found as a result of our testing on page 24.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Completion of the outstanding testing as advised to you;
 - Independent confirmation of the bank account balance at 31 March 2018;
 - Receipt of the final version of the financial statements;
 - Finalisation of our internal quality control procedures;
 - Receipt of a signed management representation letter; and
 - Satisfactory completion of our post year-end events review.

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

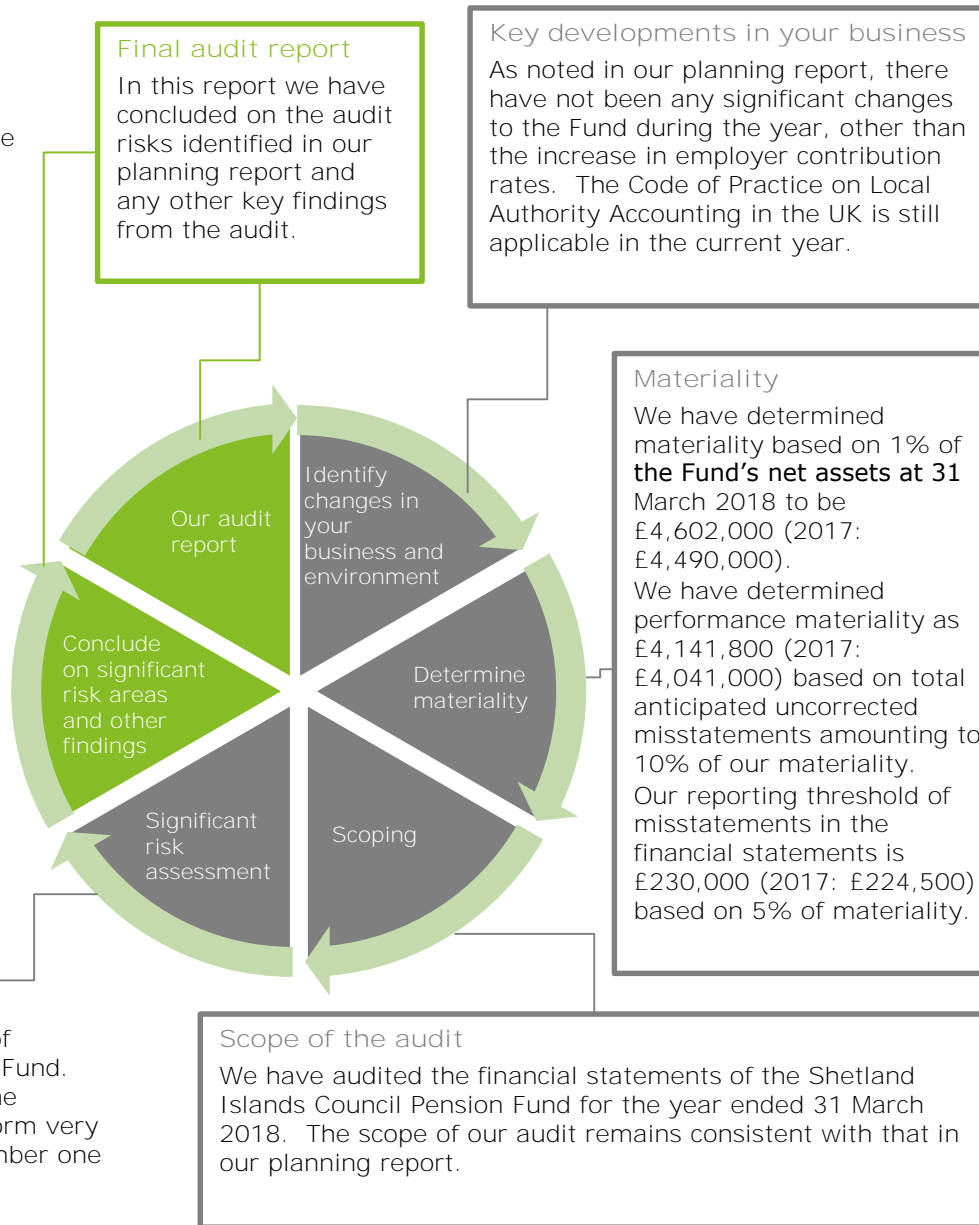
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 7 provides a summary of our risk assessment of your significant risk (and areas of audit focus).

Quality and Independence

We confirm we are independent of Shetland Islands Council Pension Fund. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.












Timeline 2017/18










Financial statements audit



Significant risk and areas of audit focus Dashboard

Risk	Risk level	Fraud risk	Level of judgement	Planned approach to controls testing	Comments	Page no.
Significant audit risk						
Management override of controls				D&I	Satisfactory	8
Areas of audit focus						
Accuracy of contributions payable to the Fund				D&I	Satisfactory	9
Valuation of investments				D&I	Satisfactory	10

	Low levels of judgement/management involvement		Not a Fraud Risk		Significant Audit Risk
	Medium levels of judgement/management involvement		Fraud Risk		Area of Audit Focus
	High degree of judgement/management involvement		D & I Design and Implementation		

Significant risk

Management override of controls



Risk identified

In accordance with ISA 240 (UK) management override is a significant risk.

This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Pension **Fund's** controls for specific transactions.

Deloitte response

In order to address this significant audit risk, we performed the following audit procedures:

- Made enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Performed testing on the design and implementation of controls surrounding the financial reporting process and the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. As part of our work in this area, we performed an analysis of journal entries which enabled us to focus on journals meeting specific pre-determined parameters determined during our audit planning;
- Reviewed the financial statements for any accounting estimates which could contain management bias, and assessed the judgements taken against supporting evidence;
- Confirmed that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year; and
- Made enquiries of management in relation to the identification of related party transactions.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

Areas of audit focus

Focus area 1 – Accuracy and timeliness of contributions payable to the Fund

Risk identified

The correct deduction of contributions depends on systems-based processing of membership data and salary details, together with a robust internal control framework. Errors in processing contributions can lead to issues such as non-compliance with the Funding Strategy Statement and deducting incorrect amounts from active members' payroll which can be costly to rectify and cause reputational damage.



Deloitte response

In order to address this area of audit focus we performed the following audit procedures:

- Reviewed the design and implementation of key controls over the contribution process;
- Performed an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- For a sample of monthly contributions, checked that they were paid within the time limits stipulated in the Local Government Pension Scheme (Scotland) Regulations 2014 (“**LGPS Regulations**”)
- For a sample of active members, we recalculated individual contribution deductions to ensure that these are being calculated in accordance with the rates stipulated in the Funding Strategy Statement for employer contributions; and
- Tested that the correct definition of pensionable salary is being used per the LGPS Regulations to calculate contribution deductions.

Deloitte view

In our sample across the different employers, we noted 3 instances of late payment:

- July 2017 and October 2017 contributions paid by SADA were paid 2 days and 1 day late respectively.
- January 2018 contributions paid by SAT were underpaid by £2,544. This amount was paid in the subsequent month.

We have no other issues to report to the Members and the Audit Controller from the testing we have performed.

Areas of audit focus

Focus area 2 – Valuation of investments



Risk identified

There is a risk that investments are not valued accurately in the Pension **Fund's** financial statements due to the levels of judgement involved in pricing such investments.

Deloitte response

In order to address this area of audit focus, we performed the following audit procedures:

- Reviewed the design and implementation of key controls over the valuation of these investments by obtaining investment manager and custodian internal control reports and evaluating the implications for our audit of any exceptions noted;
- Agreed year end valuations, sales proceeds and purchases in the financial statements to the reports received directly from the investment managers and the **Fund's** custodian;
- Performed a unit reconciliation of all the investments held to ensure completeness;
- Agreed the valuations as at 31 March 2018 to the reports received directly from the investment managers and the **Fund's** custodian; and
- Performed valuation testing on the valuation of the investments at 31 March 2018 by using a range of techniques depending on the type of investment. Where the investment was not directly quoted on an exchange we confirmed if it is a registered fund and obtained an independent price. Where this was not the case we confirmed if the fund was structured as a unitised insurance policy or used sales transactions close to year end as an estimate of the price. Where none of these options are available we obtained audited financial statements and compared the price per the statement to the audited accounts.

Deloitte view

The Schroder Liquidity Fund is currently disclosed under Cash income due in note 11a of the financial statements. As this is a Pooled Investment Vehicle, it should really be disclosed under that heading. The result of the current classification is that £973,000 of sales are not presented in note 11a. While not considered material, this is a disclosure deficiency.

We have no other issues to report to the Members and the Audit Controller from the testing we have performed.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We expect to report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant **to users' understanding of the** audit that we consider necessary to communicate in an other matter paragraph.



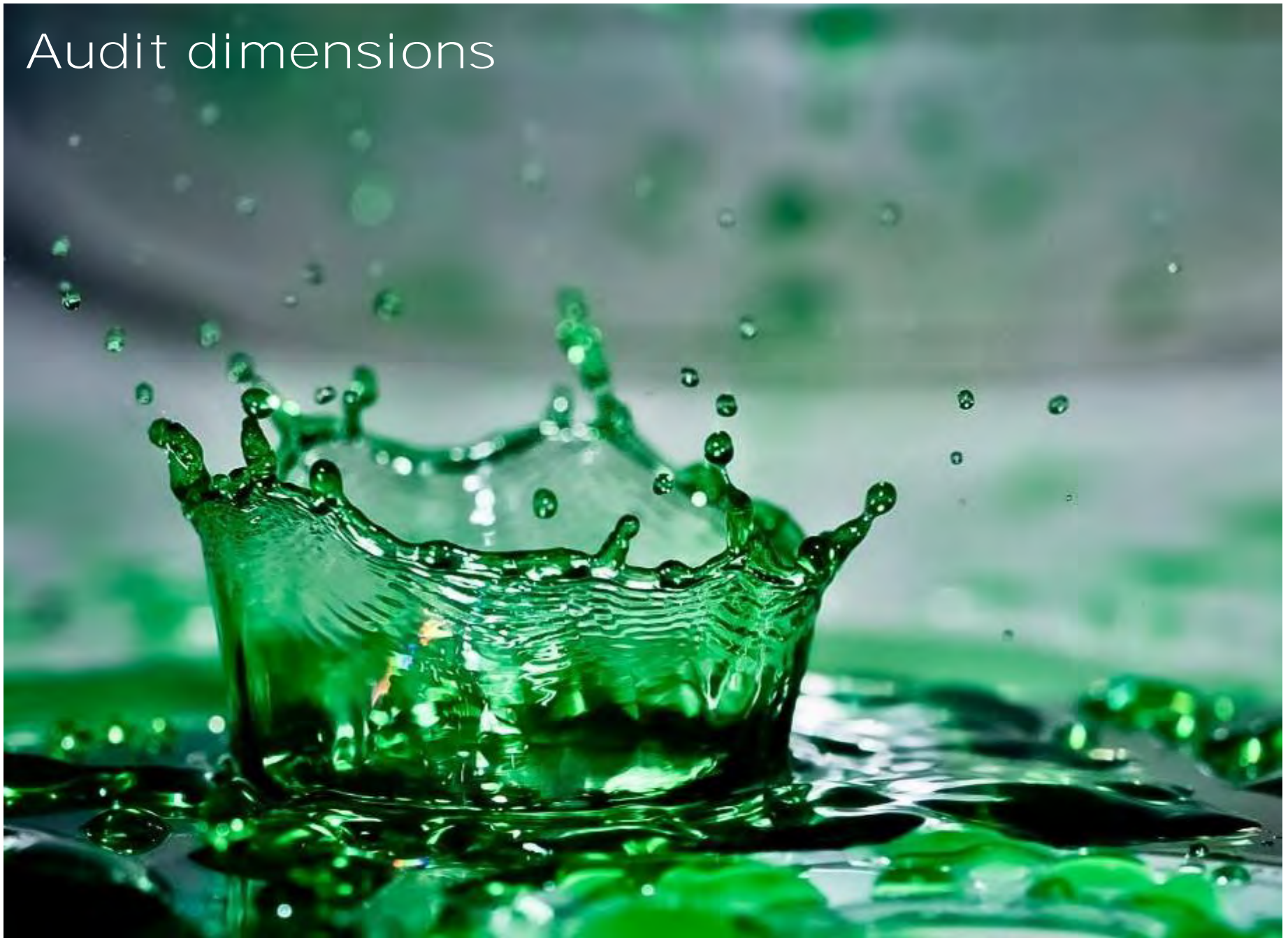
Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 25.



Audit dimensions



Wider Scope Requirements

Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We have considered how the Pension Fund addresses these areas as part of our audit work as follows:

Audit dimension	Audit work completed	Audit conclusion
<p>Financial sustainability looks forward to the medium and longer term to consider whether the Pension Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<ul style="list-style-type: none"> • We reviewed the financial planning systems in place by the Pension Fund to ensure that its services can continue to be delivered. • We also reviewed the arrangements in place to address any funding gaps. • We looked at the affordability and effectiveness of funding and investment decisions made. <p>This included:</p> <ul style="list-style-type: none"> • a review of the latest actuarial valuation of the Pension Fund and the plans in place to reduce the deficit over the shorter and medium term; and • A review of the funding policy as set out in the Shetland Islands Council Pension Fund Investment Strategy 2014-2027 ("Investment Strategy"), which aims to ensure the long-term solvency of the Pension Fund, so that there are sufficient funds available to meet all benefits as they fall due. 	<p>From our work completed we are satisfied the Fund has sufficient plans in place to continue to be financially sustainable in the medium and long term. We did not identify any issues regarding non-payment of contributions due from the Scheduled and Admitted Bodies which would have an impact on the financial sustainability of the Fund.</p> <p>In addition from our review of the Investment Strategy, the Fund has taken investment advice on how best to use it's resources appropriately to ensure future benefits can be settled when the liability arises and the Fund will be 100% funded within 20 years.</p>

Wider Scope Requirements (continued)

Audit Dimensions (continued)

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We have considered how the Pension Fund addresses these areas as part of our audit work as follows:

Audit dimension	Audit work completed	Audit conclusion
<p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<ul style="list-style-type: none"> • We reviewed the budget and monitoring reporting by the Pension Fund during the year to assess whether financial management and budget setting is effective; • We ensured that there is a proper officer who have sufficient status to be able to deliver good financial management, that monitoring reports contain information linked to performance as well as financial data, and that members have the opportunity to provide a sufficient level of challenge around variances and under-performance; and • We reviewed the design and implementation of the Pension Fund and third party advisers controls in place to ensure they were operating effectively. 	<p>From our testing completed we can confirm that an Executive Manager – Finance has been appointed who has the appropriate status to act in that role and complies with the five principles outlined in the CIPFA guidance.</p> <p>From our review of the budget process we are satisfied that appropriate financial reports are provided to the Pension Fund Committee to challenge variances and underperformance and that this is performed.</p> <p>Although for our audit purposes, we did not perform operating effectiveness testing, our implementation walkthroughs of controls in place did not show evidence of failing controls. In addition, our review of the investment managers’ published controls reports did not raise any matters.</p>

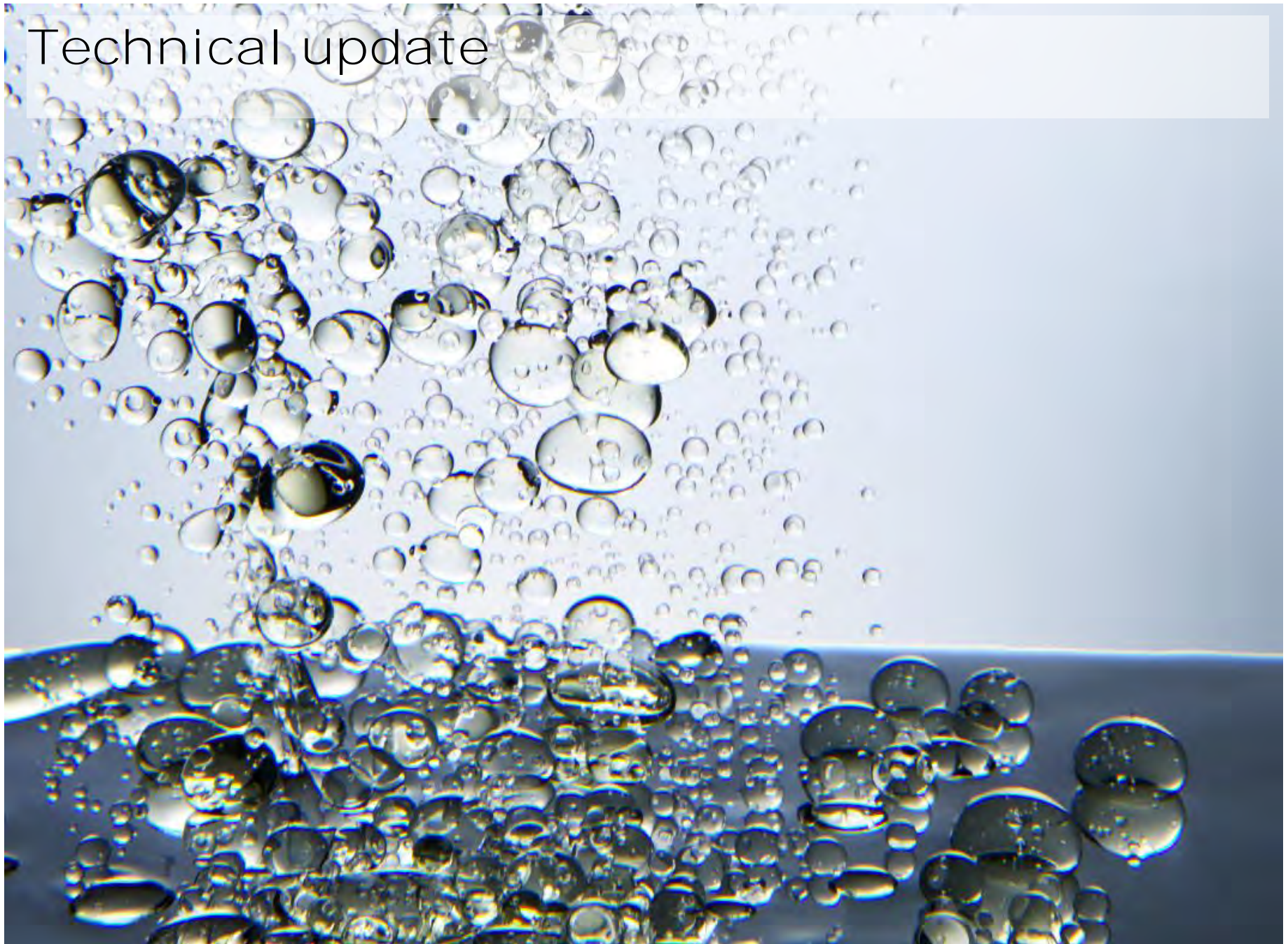
Wider Scope Requirements (continued)

Audit Dimensions (continued)

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We have considered how the Pension Fund addresses these areas as part of our audit work as follows:

Audit dimension	Audit work completed	Audit conclusion
<p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<ul style="list-style-type: none"> • We reviewed the Pension Committee meeting minutes to assess the effectiveness and scrutiny of governance arrangements. • We reviewed other aspects of governance around the Pension Fund including Codes of Conduct for officers and members, fraud and corruption arrangements, and arrangements for reporting regulatory breaches to the Pensions Regulator. • In addition we reviewed the Annual Governance Statement and Governance Compliance Statement to confirm the governance arrangements observe the guidance issued by Scottish Ministers. 	<p>From our testing performed we have no issues to note. The Annual Governance Statement and Governance Compliance Statement contains the required information.</p> <p>The procedures and policies around governance, Codes of Conduct, etc. are clear and transparent and available for all Members to read on the Shetland Island Council website.</p>
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none"> • We gained an understanding of how the Pension Fund demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered. • We reviewed the scrutiny that is in place to challenge the Pension Fund's investment managers on fees and performance. 	<p>From our review of the budget process we are satisfied that there is sufficient scrutiny over expenditure of the Fund, in particular investment management fees. We noted that the main reason for the increase in management expenses was due to an increase of £32k in oversight and governance expenses compared to prior year.</p> <p>In addition the Investment Strategy document outlines how the Fund will achieve value for money in where the assets are invested, ultimately aiming for 100% funding within 20 years.</p>

Technical update



Topical matters

tPR governance programme

21st Century trusteeship

The Regulator has launched a long-term programme to improve governance of both DB and DC schemes.

The Regulator is not seeking to implement new governance or administration standards but is focussed on ensuring all trustees satisfy the current standards.

They have confirmed they are intending to be clearer, quicker and tougher in their approach and that they will set out their expectations more clearly and enforce further regulatory action more readily. The Regulator has set out the key areas they believe support good decision making:

- Clear roles and responsibilities and clear strategic objectives.
- A skilled, engaged and diverse board led by an effective chair.
- Close relationships with employers, advisers and others involved in running the scheme.
- Sound structures and processes focussed on outcomes.
- A robust risk management framework focussed on key risks.

tPR support and guidance

In September 2017 the Regulator launched clear guidance setting out their expectations (link below).



<http://www.thepensionsregulator.gov.uk/21st-century-trusteeship.aspx>

Deloitte view

We welcome the **Regulator's** focus on driving up governance and administration standards.

We recommend trustees take this as an opportunity to review their current governance arrangements and assess their compliance with the **Regulator's** standards. The Regulator's published guidance is a useful resource for trustees considering their annual training requirements.

The guidance focusses on:

- Good governance.
- Clear roles and responsibilities.
- Clear purpose and strategy.
- Trustee training and improving trustee knowledge.
- Skills and experience.
- Advisers and service providers.
- Managing risk.

Recent examples of the Regulator putting clearer, quicker and tougher into action are:

- Being clear that when employers pay high dividends, this should be reflected in the amounts paid into pension schemes.
- Quickly making it clear to GKN and Melrose Trustees what is expected of them in the event of a takeover.
- Tougher:
 - C.£1bn recovery into pensions schemes through exercising anti-avoidance powers.
 - Restitution of assets in the event of a potential scam.
 - Appointing of skills persons.
 - Criminal prosecutions – non-compliance with auto enrolment, misleading the Regulator and failing to answer Regulator requirements for information in the event of an investigation.



Topical matters

Regulator enforcement action

Effective governing of pension schemes

The Pensions Regulator has recently taken a more robust approach to ensure that pension plans are governed in line with existing legislation.

Action taken by the Pensions Regulator against schemes in contravention of laws and regulations include:

- Recovering late or missing payments.
- Barring trustees that are not considered fit and proper for the role.
- Issuing fines for any contraventions to the Pensions Acts.
- Adding names of all employers ordered to pay TPR fines to a compliance and enforcement quarterly bulletin.
- The government could impose civil fines of up to £1m, as well as criminal sanctions on bosses and employers who are deemed to be failing their pension scheme.



For more information:

www.thepensionsregulator.gov.uk/docs/monetary-penalties-policy.pdf

Deloitte view

The Regulator has stated that they will be taking a stronger stance towards enforcement and so we can expect to see an increase in enforcement action in the year ahead. Trustees may want to consider obtaining extra assurance over their compliance with key legislation.



Recently in the news

Pension Trustee fined
TPR fined a trustee for not reporting to the regulator nor members of £900,000 worth of unpaid contributions.

Master Trust Trustee
A Master Trust Trustee fined £70,000 for continued administrative issues.
TPR fined the trustee £50,000 in November 2017 for failing to ensure that all employee and employer contributions were collected and invested and a further £20,000 in January 2018 for failing to keep some members properly informed.

Local Authority Pension Scheme
TPR issued the fine of £1,000 against the LGPS scheme manager for failing to submit its 2016 scheme return.

There is a discretionary penalty for failing to provide a scheme return, and TPR can impose a maximum fine of £5,000 for each individual trustee and up to £50,000 in other cases (e.g. corporate trustees).

Construction Company
The Pensions Regulator is considering enforcing its anti-avoidance powers against the company directors, forcing **them to pay into the firm's collapsed pension schemes.**

Topical matters

Pension transfers

FCA policy statement on advising on pension transfers

On 26 March 2018 the Financial Conduct Authority (FCA) published a new policy statement (PS18/6: Advising on Pension Transfers) which provides feedback on the **FCA's** consultation paper (CP17/6) and contains new rules and guidance on how advice should be provided to consumers on pension transfers where consumers are considering giving up safeguarded benefits, primarily for transfers from defined benefit to defined contribution pension schemes. The resulting policy will come into force over the period April 2018 to April 2019.

The policy statement sets a requirement for advice on a transfer and/or conversion of safeguard benefits to include a personal recommendation based on individual needs. Some of the new rules considered are as follows:



The new rules outline the **FCA's** expectations of advisers and pension transfer specialists to ensure that consumers receive advice which considers all relevant factors. This is emphasised by considering the advice as a personal recommendation from the advisor.



The changes replace the current transfer value analysis (TVAS) with a requirement to analyse a **client's** options.



There is a handbook with guidance on the role of a Pension Transfer Specialist (PTS) when they review pension transfers, opt outs or conversion of safeguarded benefits, among other matters. The guidance seeks to make clear the **FCA's** expectation that this is not just restricted to numerical analysis and it can be accessed at <https://www.handbook.fca.org.uk/handbook>.



The new rules on advice will apply to advice on pension opt outs. However, the FCA will not require the appropriate pension transfer analysis (APTA) and transfer value comparator (TVC) in the case of opt-outs, and excludes opt-outs that do not involve safeguarded benefits from these provisions altogether.


Topical matters


Pension transfers (continued)


Consultation paper on improving the quality of pension transfer advice


Alongside the policy statement, the FCA also published a consultation paper (CP18/7) on improving the quality of pension transfer advice. The proposals in the new consultation paper follow from a number of questions posed in the FCA's previous paper, some of which have been addressed in the new pension statement.

The recommendations in order to improve the pension advice given include:

 Requiring a Pension Transfer Specialist (PTS) to have the investment advice qualification. The new rules require that a firm must ensure all advice on pension transfers is given or checked by a PTS.

 The role of the PTS in relation to the destination of a **client's** transfer funds is clarified, including the relationship a PTS has with another adviser firm that provides the investment advice. The paper also sets out expectations for how pension transfer advisers should interact with a "self investor".

 A requirement for firms to provide a suitability report regardless of the outcome of advice.

 Guidance is set to illustrate how firms can carry out an appropriate 'triage' service (an initial conversation with potential customers), without stepping across the advice boundary, by providing generic, balanced information on the merits of pension transfers, among other rules.

Next steps:

The consultation closed 25 May 2018 and the FCA are due to publish a policy statement in autumn 2018.

Deloitte view

In light of the changes to guidance and rules, trustees should work towards ensuring controls and safeguards are put in place or updated to match up to the new policy so as to ensure compliance with the new requirements.



Topical Matters

DWP White Paper - March 2018: Protecting Defined Benefit Schemes

This follows from the DWP Green paper - Security and Sustainability in DB Pension Schemes – issued in February 2017.



The review has not identified systematic issues, however it has highlighted that there are irresponsible employers who eventually cost other schemes when their schemes enter the Pension Protection Fund. The best defence is considered to be a solid and in the money employer that practices good governance. The key areas addressed are:

1. A Stronger Regulator:

The government policy has made a guarantee to take action against the trustees and employers whose activities put pension schemes at risk:

- The government will give the regulator the authority to discipline and penalise trustees who intentionally put the schemes at risk.
- Legislation will be passed to present a criminal offence to punish those found to have practices involving irresponsible conduct and to disqualify company directors.
- The regulatory framework will reinforce the current notifiable events framework and voluntary clearance regime so that employers have respect for pension considerations in any business transactions e.g. buy outs.
- The Regulator will have the power to obtain information required to examine compliance. Penalties will be introduced to ensure co-operation.

2. Scheme Funding:

To reinforce the regulator's ability to enforce standards a code will be in place to focus on :

- How prudence is shown when measuring the scheme liabilities.
- What factors are suitable when making an allowance for a recovery plan.
- Ensuring a long-term view is considered when setting the statutory funding principles.

The code will also require the trustees of a DB Scheme to elect a Chair who will be accountable to the Regulator for a **Chair's statement** submitted with the triennial valuation (not in the annual accounts as with DC schemes).

3. Scheme Consolidation:

Benefits of consolidation

- Economies of scale (cheaper administration cost per member);
- more effective and efficient investment strategies; and
- improved governance.

To simplify and enable consolidation the Department of Works and Pensions will:

- Work on a channel within which new methods of consolidation will operate.
- Form a new accreditation regime to build assurance on existing forms of consolidation.
- Consider some changes to GMP conversion legislation to reduce intricacies in the benefit structure.

Next step:

Changes will be made via a phased approach. The Regulator has already started implementing their two programmes -TPR Future and 21st Century Trusteeship in order to be more efficient, effective and flexible.

Deloitte response: For more information please refer to the full White Paper:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693655/protecting-defined-benefit-pension-schemes.pdf

We recommend trustees monitor the result of the White Paper and ensure any necessary changes are made.

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Pension Fund Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Fund.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

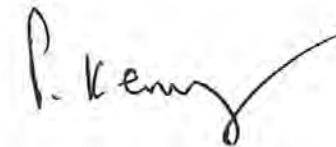
The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

This report has been prepared for the Pension Fund Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents.

We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



for and on behalf of Deloitte LLP
Glasgow

13 September 2018

Audit adjustments

Unadjusted misstatements and disclosure deficiencies

We have identified the following misstatements and disclosure deficiencies from our audit work, most of which have been corrected by management but we nonetheless bring to your attention.

	Debit/ (credit) in Fund Account £'000	Debit/ (credit) in net assets £'000	If applicable, control deficiency identified
Uncorrected misstatements			
None			
Corrected misstatements			
None			
Total			

Disclosure deficiencies

[1] The Schroder Liquidity Fund is currently disclosed under Cash income due in note 11a of the financial statements. As this is a Pooled Investment Vehicle, it should really be disclosed under that heading. The result of the current classification is that £973,000 of sales are not presented in note 11a.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Pension Fund to confirm in writing that it has disclosed to us the results of its own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that it is not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Pension Fund to confirm in writing its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in complying with recognition of grant income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with internal audit, management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2017/18 is £29,486 as detailed in our Audit Plan. No fees for non-audit services have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.





Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a **UK private company limited by guarantee ("DTTL")**. **DTTL and each of its member firms are legally separate and independent entities**. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.