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cutting through complexity

# Scottish Borders Council Pension Fund

Annual audit report to Scottish Border Council as administering authority for Scottish Borders Council Pension Fund and the Controller of Audit

Audit: year ended 31 March 2015

30 September 2015

# Contents

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**About this report**

This report has been prepared in accordance with the responsibilities set out in Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Scottish Borders Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the circumstances set out in the executive summary: scope and responsibilities.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

# Headlines

**Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for the audit.**

**In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance,* this report summarises our work in relation to the financial statements for the year ended 31 March 2015.**

**We wish to record our appreciation of the continued co-operation and assistance extended to us during the course of our work.**

| Area | Summary observations | Analysis |
|---|---|---|
| **Strategic overview** | | |
| **Key issues and update** | The Triennial Funding Valuation of Scottish Borders Pension Council Fund ("the Pension Fund") as at the March 2014 was undertaken during 2014/15. The outcome of the 2014 Valuation was a funding level of 101% which resulted in the Fund being no longer in a funding deficit position compared to 96% deficit funding level of 2011 Valuation.<br><br>In addition to the Council itself, there are two other scheduled bodies and 12 admitted bodies participating in the Pension Fund; the Council accounts for 9,086 out of a total membership of 9,997 (93%) in the Pension Fund. | Page 6 |
| **Financial position** | The net withdrawals from dealings with members for 2014-15 was £1.4m which has increased from £0.8m in 2013-14 during the year. This is primarily due to the number of pensioners having increased in contrast to the relatively static position of the number of contributing members. Investments showed strong positive returns owing to favourable market conditions evidenced during 2014-15 with the net return on investments of £60.4m which has increased from £40.9m in 2013-14. The closing investment assets for 2014-15 were at £545.1m which has increased from £486.1m in 2013-2014. | Pages 7-8 |
| **Financial statements and accounting** | | |
| **Audit conclusions** | Our approach reflected our assessment of financial statement level risks and consideration of audit focus areas. These have been concluded on satisfactorily. We have issued an unqualified audit opinion on the 2014-15 financial statements. The management commentary, annual governance statement, statement of responsibilities for statement of accounts and statement of accounts were received by the statutory date and were supported by high quality working papers. | Page 10 |
| **Significant risks and audit focus areas** | The areas highlighted below are the specific audit focus areas identified within our audit strategy and additional areas identified during the course of the audit:<br>▪ Fraud risk from management override of controls.<br><br>The areas of audit focus were agreed with the management as part of our planning procedures and audit work has been completed to satisfy the requirements of ISA 330 'The auditor's procedures in response to assessed risks, including tests of key financial controls. In respect of each matter, we are content with management's judgements and accounting treatment. | Page 11 |

# Headlines (continued)

| Area | Summary observations | Analysis |
|---|---|---|
| **Financial statements and accounting (cont)** | | |
| Accounting policies | There have been no changes to accounting policy applied by client in 2014-15.<br>No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements. | Page 12 |
| Going concern | The annual accounts have been prepared on a going concern basis. Management consider it appropriate to adopt a going concern basis for the preparation of these financial statements. | Page 12 |
| Management Commentary | We are satisfied that the information contained within the Management commentary is consistent with the financial statements. | Page 12 |
| **KPMG Benchmarking analysis** | | |
| Benchmarking analysis | We have performed work to gather information from management for our benchmarking analysis which will analyse how controls of the Fund compare to other schemes of a similar size and what we consider to be best practice. This has highlighted a number of areas which require further interpretation and consideration before appropriate management responses can be finalised. We intend to report our findings on this matter at the next audit committee meeting. | Not Applicable |
| **Governance and narrative reporting** | | |
| Governance | Over-arching and supporting corporate governance arrangements have been amended significantly under the new governance regulations to provide a more enhanced sound framework for organisational decision-making. | Page 14 |
| Internal controls | Testing of the design and operation of financial controls over significant risk was undertaken as part of our audit and noted that controls relating to financial systems and procedures are designed appropriately and operating effectively. | Page 16 |

# Scope and responsibilities

## Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Scottish Borders Council under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Pension Fund and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the Pension Fund at the outset of our audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

## Chief finance officer responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out the Pension Fund's responsibilities in respect:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

## Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

## Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit and risk committee, together with previous reports to the Pension Fund Committee throughout the year, discharges the requirements of ISA 260.

# Strategic overview

Our perspective on key business issues and financial position

# Key business issues

**Key high level summary of:**

- **The main matter affecting the Pension Fund in 2014-15 is the triennial valuation. The funding level at the 31 March 2014 was 101% which corresponded to a surplus of £2.9m.**
- **Our team of in-house actuaries reviewed IAS 26 Assumptions proposed by the Fund. These are considered to be appropriate.**

## Triennial valuation

In line with the Local Government Pension Scheme Regulations 2014, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The Actuarial Valuation assesses the health of the Fund and provides a check that the funding strategy and assumptions used are appropriate. The 2014 Actuarial Valuation was undertaken for the Fund as at 31 March 2014 and was completed during the financial year 2014 - 15 by the Fund's actuaries, Barnett Waddingham. It was undertaken in accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The funding level at 31 March 2014 was 101%, which was above the valuation as at 31 March 2011 and corresponded to a surplus of £2.9m.

The table below shows the results of the triennial valuation:

| Past Service Funding Position | 2011 £m | 2014 £m |
|---|---|---|
| Value of the Scheme Liabilities | (402.2) | (487.6) |
| Smoothed Asset Value | 384.8 | 490.5 |
| Surplus/ (Deficit) | (17.4) | 2.9 |
| Funding Level | 96% | 101% |

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The next detailed actuarial valuation will be carried out for the Fund as at 31 March 2017.

## IAS 26 assumptions review

In addition to the Triennial Funding Valuation, the Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

Our team of in-house actuaries reviewed assumptions used in the valuation. It is understood from the Barnett Waddingham correspondence that:

- the assumptions considered in this report are based on market conditions at 31 March 2015; and
- the average duration of the liabilities is 19 years at the period ending 31 March 2015.

Overall the assumptions proposed by the employer can be considered to be reasonably balanced.

# Financial position - Fund Account for the year 2014-15

**Management does not budget financial performance of the Pension Fund due to the nature of income and expenditure.**

**The net withdrawals from dealings with members in the year ended 2014-15 was £1.4m (2013-14: £0.8m).**

**Investments showed strong positive returns owing to favourable market conditions evidenced during 2014-15 with net return on investments of £60.4m (2013-14: £40.9m).**

**The net increase in the fund during the year ended 2014-15 was £59.0m (2013-14: £40.1m).**

## Financial position

Current membership of the Fund is 9,797 of which 4,410 are actively contributing and 3,006 are in receipt of pension benefits. There has been a relatively static position in relation to active contributing membership and a continuing rise in the number of pensioners. Total contributions have increased by £0.7m and benefits payable have increased by £1.3m during the year. This is has led to the net withdrawal position from dealing with members.

Net return on investment increased to £60.4m in 2014-15 (2013-14: £40.1m) primarily due to the positive change in market value of investments in line with the investment review performed by the Fund's investment consultants, Aon Hewitt. Investment returns are monitored by the Pension Fund Committee throughout the year (from 2015/16 the detailed review of individual investment manager performance has been delegated by the Pension Fund Committee to the Performance and Investment Sub-Committee) and recent historic performance has been strong.

Management does not budget financial performance of the Pension Fund due to the nature of income and expenditure.

**Fund account**

| £m | 2015 | 2014 |
|---|---|---|
| **Contributions and benefits** | | |
| Contributions receivable | 18.2 | 17.1 |
| Transfers in | 0.7 | 1.1 |
| | **18.9** | **18.2** |
| Benefits payable | (19.1) | (17.2) |
| Payment on account of leavers | (0.8) | (1.4) |
| Administration expenses | (0.4) | (0.4) |
| | **(20.3)** | **(19.0)** |
| Net withdrawals from dealing with members | (1.4) | (0.8) |
| **Return on investments** | | |
| Investment income | 4.6 | 5.2 |
| Change in market value of investments | 58.4 | 37.8 |
| Investment management expenses | (2.6) | (2.1) |
| Net returns on investments | 60.4 | 40.9 |
| Net increase in the fund | 59.0 | 40.1 |
| **Opening Net Assets of the Scheme** | **486.1** | **446.0** |
| **Closing Net Assets of the Scheme** | **545.1** | **486.1** |

# Financial position – Net Assets Statement (continued)

**Investments returns are monitored throughout the year and the performance of investment managers is subject to regular review against benchmarks.**

**Total net assets increased by £59.0m during the year ended 31 March 2015 (2013-14: £40.1m).**

**The main reason of the increase in the investment valuations is the strong performance of the assets and favourable market conditions.**

## Net Assets Statements as at 31 March 2015

The Fund return over 1 year was 12.3% p.a. compared to a benchmark of 11.8% p.a.

| Return on investment | 1 Year rolling return Fund % | Bench[1] % | LA[2] % |
|---|---|---|---|
| Total fund including Currency Hedging | 12.3 | 11.8 | 13.2 |
| global equities including UK | 17.5 | 19.1 | 18.3 |
| UK equities | 6.9 | 6.6 | 6.3 |
| Total bonds | 16.7 | 17.1 | 11.4 |
| UK government bonds | 26.2 | 22.7 | 14.5 |
| UK corporate bonds | 12.4 | 13.1 | 13.0 |
| Property | 17.6 | 10.4 | 15.8 |
| Alternatives | 10.8 | 4.6 | 12.5 |
| Cash | 2.4 | 0.3 | 1.8 |

***Key:***
*[1] **Bench**: Benchmark Return which reflects manager's within the mandate given to them from the Statement of investment principles.*
*[2] **LA**: Local Authority Weighted Average Return based on WM Company's League Tables for period to 31 March 2014.*

The global equities 1 year return was negatively impacted upon by UBS prior to the divestment from them in the first half of the year. Morgan Stanley had only one quarter of 2014/15 where they produced a favourable contribution to the overall performance of the Fund and this was offset by strong performance by Baillie Gifford's global equity mandate over the year. Surplus cash of £4m was invested into the UBS Property Mandate over the year as opportunities arose to invest in the desired investment funds.

The performance of the Fund in all of the Asset classes with the exception of global equities exceeded the 3 year benchmark return. Divestment from bonds/fixed income mandate by transitioning UBS to M&G and the global equity mandate from UBS to Harris Associates were completed in November and December 2014.

**Net assets statement**

| £m | 2015 | 2014 |
|---|---|---|
| Fixed interest – public sector | - | 15.3 |
| Equities | 216.5 | 186.6 |
| **Managed funds**: | | |
| Property | 28.7 | 21.3 |
| Global equities | 76.2 | 65.0 |
| UK equities | 65.3 | 61.2 |
| Bonds | 18.4 | 37.2 |
| Diversified fixed income | 39.9 | - |
| Alternatives | 93.8 | 84.0 |
| Open ended investment contracts | 1.7 | 1.4 |
| Derivatives – forward foreign exchange | (2.5) | (0.1) |
| Cash deposits | 6.5 | 11.7 |
| Other investment balances | 0.7 | 1.0 |
| **Current assets and liabilities** | | |
| Cash balances | 1.1 | 2.3 |
| Contributions due form employers | 0.1 | 0.1 |
| Current assets | 0.1 | 0.3 |
| Current liabilities | (1.4) | (1.2) |
| **Total net assets** | **545.1** | **486.1** |

# Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

# Audit conclusions

**We have issued an unqualified audit opinion.**

**The financial statements, including the governance statement, were made available on a timely basis and were accompanied by high quality working papers.**

## Audit conclusions

Our audit work is complete. Following approval of the financial statements by the Pension Fund Committee we have issued an unqualified opinion on the truth and fairness of the state of the Pension Fund's affairs as at 31 March 2015. There are no matters identified on which we are required to report by exception. There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content, as reported in appendix one.

In gathering the evidence for our opinion we have:

- performed controls testing and substantive procedures to ensure that key risks to the financial statements have been covered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the financial statements through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended Pension Fund Committee to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

## Financial statements preparation

- High quality working papers and full draft financial statements were provided on the statutory deadline of 30 June 2015. This included the management commentary and governance statement. The latter had already been considered, along with supporting evidence, and approved by the Pension Fund Committee at the Joint meeting of the Pension Fund Committee and Pension Board, and then by the Audit & Risk Committee.
- In advance of our audit fieldwork, we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. The standard of documentation was good.
- The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014, replacing regulations which had applied since 1985. The regulations contain provisions for the unaudited annual financial statements as submitted to the auditor to be considered by the audit and risk committee no later than 31 August 2015, and the audited financial statements to be presented to the audit and risk committee for consideration and approval prior to auditor signature before 30 September 2015.

# Significant risks and audit focus areas

**The significant areas of risk identified in our audit strategy were in respect of:**

- **management override of controls; and**

**and other focus areas of:**

- **fraud risk from income recognition.**

**We report on the audit focus area of valuation of investment assets and other current assets.**

We summarise below the risks of material misstatement as reported within the audit strategy document along with additional risks identified during the course of the audit. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the audit and risk committee may better understand the process by which we arrived at our audit opinion.

We have no changes to the risk or our approach to addressing the assumed ISA risks of fraud in management override of controls or revenue recognition fraud risk.

| Focus area | Our response | Audit findings |
|---|---|---|
| **Valuation of investment assets**<br><br>The investment assets reported in the net assets statements, managed by the fund managers were valued at their market price as at 31 March 2015. The Pension Fund's investment assets, managed by the fund managers were misstated in the financial statements by error.<br><br>■ A misstatement undervaluing the investment assets by £0.1m(net) was identified during the audit. This increased investments assets at 31 March from £544.3m in the draft financial statements to £544.4m.<br><br>■ Management actioned the misstatement mentioned in appendix two by adjusting for this proposed audit adjustment. | To gain assurance over the valuation of the year end investments, we obtained third party confirmations over 100% of the year end valuation of investments from the fund managers directly and compared it to the valuation on draft financial statements.<br><br>We tested all the investments and performed pricing audit procedures over listed investments of the Fund. The year end bid values were assessed using our internal research tools to determine the reasonableness of the year end fund manager's valuation. | We found differences between the direct confirmations from the fund managers and reported values on the draft financial statements. A schedule of the differences was presented to the management as a proposed audit adjustment as set out in appendix two. |
| **Other current assets**<br><br>A misstatement overstating the other current assets by £0.26m was identified during the audit. This decreased other current assets at 31 March 2015 from £0.31m in the draft financial statements to £0.05m. Management actioned the misstatement mentioned in appendix two by adjusting for this proposed audit adjustment. | We identified the audit misstatement whilst reconciling the financial statements to the trial balance for year ended 31 March 2015. | An adjustment was proposed to decrease other current assets as set out in appendix two. |

# Accounting policies

**There have been no substantive changes to the financial reporting framework as set out in the *Code of practice on Local Authority Accounting in the United Kingdom 2014-15***

**There have been no significant changes to accounting policies in 2014-15.**

**Accounting framework and application of accounting policies**

| Area | Summary observations | Audit findings |
|---|---|---|
| Code of practice on Local Authority Accounting in the United Kingdom 2014-15 ("the Code") | The 2014-15 financial statements have been prepared in accordance with the Code which is based upon International Financial Reporting Standards ("IFRS"). The 2014-15 Code has a number of amendments from the 2013-14 version. Management have reflected these changes to the reporting requirements in the financial statements, where appropriate. The amendments include:<br>■ adoption of the new group accounting standards IAS 26;<br>■ amendments in respect of the restated opening balance sheet; and<br>■ changes to the requirements for accounting for combinations of bodies and transfer of functions. | We considered whether the impact of adoption of the new accounting would have a material effect on the Fund's financial statements. No material matters were noted. |
| Going concern | Management considers it appropriate to adopt a going concern basis for the preparation of these financial statements. The net assets statement shows that at 31 March 2015 the Fund has net assets of £545.1m compared to a net assets of £486.1m in 2013-14. | Given the nature of funding position of the Fund of a surplus of 101%, we are satisfied that it is appropriate for the financial statements to be prepared on the basis adopted. |
| Management commentary | The financial statements form part of the annual report for the year ended 31 March 2015. We reviewed the content of the management commentary against the disclosure requirements and are content with the proposed reports. The overall quality of the management commentary was good with clear presentation throughout. We provided management with some relatively minor suggestions relating to how the reports could be enhanced and where additional information disclosures should be made. | We are required to consider information related to the membership of the Fund included as part of the Management commentary.<br>We are satisfied that the information contained within the Management commentary is consistent with the financial statements. |

# Governance and narrative reporting

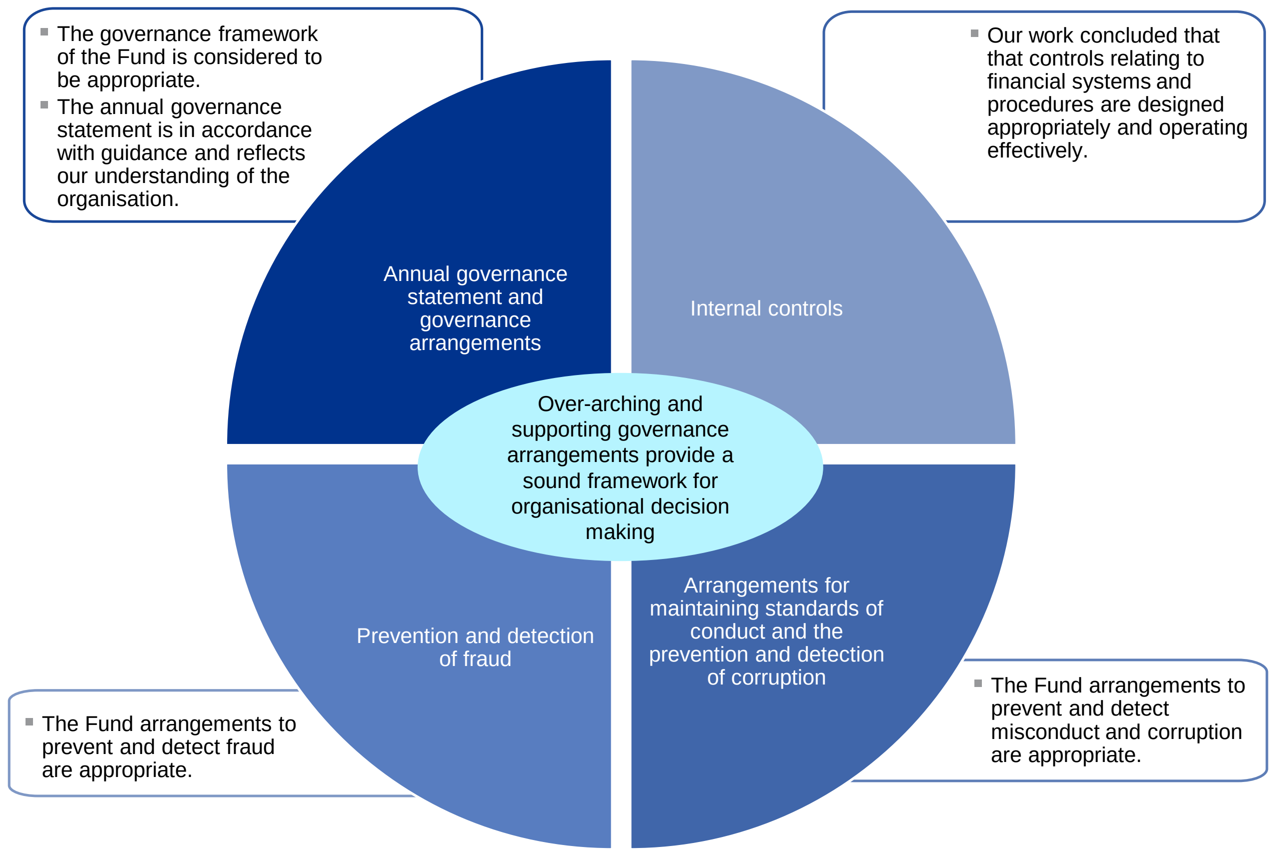
Our overall perspective on narrative reporting, including the management commentary, annual governance statement, governance compliance statement and risk management statement.

Controls findings from our audit.

# Corporate governance arrangements

**We considered the Fund corporate governance arrangements against a number of key areas which we consider to make up an effective governance framework.**

**Our audit findings against each key area are provided opposite.**



# Corporate governance arrangements (continued)

**Over-arching and supporting corporate governance arrangements have been amended under the new governance regulations to provide a more enhanced sound framework for organisational decision-making.**

## Annual governance statement

The Fund includes an annual governance statement within its annual accounts. The following elements have been included.


The governance compliance statement for the Fund was approved by the Pension Fund Committee on 30 June 2015 and is consistent with our understanding of the governance arrangements. The statement should be subject to an annual review by the Pension Fund Committee and action taken to enhance any areas which only report partial or non-compliance where appropriate.

The overall quality of the management commentary was good with clear presentation throughout. We provided management with some relatively minor suggestions relating to how the reports could be enhanced and where additional information disclosures should be made to meet the requirements of the Local authority Accounts (Scotland) regulations 2014.

## Governance arrangements

The Fund has a Pension Fund Committee to ensure sound governance arrangements. The Scottish Government published new governance regulations for the Pension Fund in February 2015 which required the set up and operation of local pension boards by 1 April 2015 and introduced a national scheme advisory board to advise Scottish ministers and individual pension schemes. The new governance arrangements extended to pension administration and, in response to this, a Pension Board was created to assist the Council (as administering authority) which comprises four scheme employer representatives and four trade union representatives. The Investment and Performance Sub-Committee has also been established under the Pension Fund Committee and its remit is set out in the Scheme of Administration to monitor investment performance. The membership of the Sub-Committee is comprised of the seven elected members from the Pension Fund Committee and two (non-voting) members from the Pension Board.

We have updated our understanding of the governance framework and documented this though our overall assessment of the Fund's risk and control environment. We consider the governance framework to be appropriate for the Fund and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

# Corporate governance arrangements (continued)

**Our work concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively.**

**The Fund has procedures in place for the prevention and detection of fraud and corruption.**

## Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Our testing of the design and operation of higher level controls designed for pension administration and investments management noted no exceptions.

The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work. KPMG's identification of weaknesses, where applicable, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

As part of our work, we undertook a review of the latest internal control reports issued by the Fund's investment managers. The exceptions reported by the independent auditors of the investment managers were reviewed and we planned our audit approach taking into account the assurance gained through these reports.

Exceptions reported recognised internal control deficiencies had no direct impact on the Pension Fund audit, giving comfort over the evidence provided by the investment managers. Additional testing was performed to corroborate the information received from the investment managers with the custodian reports that were independently received by us.

## Prevention and detection of fraud

No material fraud or other irregularities were identified during the year. The arrangements include policies and codes of conduct for staff and board members, supported by a fraud prevention policy and response plan.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The Fund has arrangements including policies and codes of conduct for staff and board members, supported by a whistleblowing policy. Board members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance, material or otherwise to their work at the Fund.

Our testing confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

We consider that the Fund has appropriate arrangements to prevent and detect fraud.

We consider that the Fund has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

# Appendices

# Mandatory communications

**There were two adjustments to the core financial statement and there are no unadjusted audit differences.**

| Area | Key content | Reference |
|---|---|---|
| **Adjusted audit differences**<br><br>Adjustments made as a result of our audit | There were two audit adjustments required to the draft financial statements which impacted on the net assets for the year.<br><br>A small number of minor numerical and presentational adjustments were required to some of the financial statement notes. | Appendix two |
| **Unadjusted audit differences**<br><br>Audit differences identified that we do not consider material to our audit opinion | We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial.<br><br>There are no unadjusted audit differences. | - |
| **Confirmation of Independence**<br><br>Letter issued to the Audit and Risk Committee | We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Partner and audit staff. | Appendix three |
| **Schedule of Fees**<br><br>Fees charged by KPMG for non-audit services | There were non-audit fees related to taxation work for the year. | Appendix three |
| **Draft management representation letter**<br><br>Proposed draft of letter to be issued by audit team to KPMG | There are no changes to the standard representations required for our audit from last year. | - |
| **Materiality**<br><br>The materiality applied to audit testing. | We assessed materiality based on our knowledge and understanding of the Pension Fund's risk profile and financial statements balances. Materiality was determined at £0.580 m; approximately 2% of total investment income, contribution receivable and transfers in, and is broadly consistent with the materiality identified in our audit strategy.<br><br>We designed our audit procedures to detect errors at a lower level of precision, i.e. £0.435 m.<br><br>We report identified errors greater than £29,000 to the Pension Fund Committee. | |

# Adjusted Audit differences

**Under auditing standards we are required to bring to the attention of the Fund trustees any misstatements, including omissions or other errors in presentation or disclosure (other than those that are clearly trifling) identified during the course of our normal audit work for which no adjustment has been made in the financial statements. If we have identified any material misstatements which have been corrected by management we should also bring these to your attention in order to assist you in fulfilling your governance responsibilities, which include reviewing the effectiveness of the system of internal control.**

| Area | Summary observations | Audit findings |
|---|---|---|
| Investment Assets | Undervaluation of investment assets. | A misstatement undervaluing the investment assets by £0.13m(net) was identified and corrected during the audit. This increased investments assets at 31 March 2015 from £544.3m in the draft financial statements to £544.4m initially stated for 2014-15.<br>The draft financial statements valuation of year end investment assets for the Fund noted below, were incorrectly shown at the mid/offer price rather than the bid price. |
| Other Current Assets | Other Current Assets were not changed from signed 2013-14 financial statements to 2014-15 draft financial statements. | The 2014-15 draft financial statements were populated with 2013-14 signed financial statements' Other Current Assets. An adjustment was proposed to update this value correctly for the draft financial statements for 2014-15. |

| Summary of audit differences | | | |
|---|---|---|---|
| **£'000** | **Financial Statement Caption** | **Dr** | **Cr** |
| **Adjusted differences** | | | |
| **Investment assets** | | | |
| Dr Investment Assets | Net Assets | £0.127m | |
| Cr Profit and Loss on disposal of Investments/Change in Market Value of Investments | Fund Account | | £0.127m |
| **Other Current Assets** | | | |
| Dr Profit and Loss on disposal of Investments/Change in Market Value of Investments | Fund Account | £0.257m | |
| Cr Other Current Assets | Net Assets | | £0.257m |

# Auditor independence

**Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with the Pension Fund.**

**We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.**

## Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit taxation services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Pension Fund and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

## General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the board of directors.

## Confirmation of audit independence

We confirm that as of 30 September 2015, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partner and audit staff is not impaired.

This letter is intended solely for the information of the audit committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

cutting through complexity