

# **Isle of Wight Pension Fund**

Audit results report for the year ended 31 March 2014

Ernst & Young LLP

September 2014



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Audit Committee  
Isle of Wight Council  
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8 September 2014

Dear Members

## **Audit results report**

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to Isle of Wight Pension Fund's financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion after the Audit Committee scheduled for 25 September 2014.

The audit is designed to express an opinion on the 2013/14 financial statements, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Audit Committee and the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting scheduled on 25 September 2014.

Yours faithfully  
For and on behalf of Ernst & Young LLP

Baldeep Singh  
Partner  
Ernst & Young LLP  
United Kingdom  
Enc.

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In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and audited bodies’ (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission’s website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Results Report is prepared in the context of the Statement of responsibilities. 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.

# 1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing its Statement of Accounts.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

## Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Fund's financial statements. Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

### Significant risks:

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#### Risk of Management Override: Audit findings and conclusions

- ▶ We found no evidence of management override from our work programme.
- 

### Other financial statement risks:

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#### Transition from Schroder equities to Baillie Gifford diversified growth fund: Audit findings and conclusions

- ▶ Processes and controls for the transition were designed and implemented effectively to mitigate risk of material error.
  - ▶ The accounting for the transition has been properly reflected in the financial statements.
- 

## Control themes and observations

Our audit identified the following control issues that we are bringing to your attention.

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### Challenges for the coming year

- ▶ Heywoods are withdrawing support for the Axise pensions administration system from December 2014. The Council is procuring a new pensions administration system, and will need to ensure the change process is managed for the continuity of service to its pensioners.
  - ▶ The Council is procuring a new asset custodian. The Council must ensure that transition controls are in place so that the records maintained by the custodian are all accurately transferred.
- 

## Summary of audit differences

Our audit identified a few misstatements in the accounts presented for audit, and only in the nature of some reclassifications in the disclosure notes to the financial statements.

## 2. Scope update

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued on 13 June 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

We carried out our work in accordance with our Audit Plan.

There was no other work specified by the Audit Commission.

### 3. Significant findings from the financial statement audit

In this section of our report, we outlined the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

Our main findings in relation to the areas of risk included in our Audit Plan are:

#### Significant risk – Risk of Management Override

Description	Findings & conclusion
<p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud. This is because of its ability to manipulate accounting records (directly or indirectly) and to prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>We planned, and carried out:</p> <ul style="list-style-type: none"> <li>▶ Testing of the appropriateness of journal entries in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ review of accounting estimates for evidence of management bias; and</li> <li>▶ evaluation of the business rationale for significant unusual transactions.</li> </ul>	<ul style="list-style-type: none"> <li>▶ There are no indications of management override identified through our work.</li> </ul>

#### Other financial statement risk - Transition from Schroder equities to Baillie Gifford diversified growth fund

Description	Findings & conclusion
<p>The Fund's investment holdings have changed from 12/13, with approximately 15% of the value of the Fund moving from an equities portfolio managed by Schroder Investment Management to a diversified growth fund managed by Baillie Gifford. This presents a risk of misstatement in relation to the change in market value of investments and the reconciliation of movement in investments disclosure note.</p> <p>We planned, and carried out:</p> <ul style="list-style-type: none"> <li>▶ Procedures to understand the process to transition to the new investment vehicle</li> <li>▶ risk assessment procedures in relation to the processes and controls in place at Baillie Gifford; and</li> <li>▶ testing of the amounts transitioned are reported completely and accurately, and reviewed the change in market value disclosure to supporting information</li> </ul>	<ul style="list-style-type: none"> <li>▶ We understood and evaluated the transition process and controls, concluding the controls were appropriately designed and implemented.</li> <li>▶ We substantively tested the change in market valuation disclosure, concluding it was materially accurate.</li> </ul>

## 4. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

### 4.1 Current year observations

There are no issues to report to you from our audit work.

### 4.2 Status of previous year's recommendations

There were no issues raised in the previous year.

### 4.3 Challenges for the coming year

Description	Impact
Heywoods are withdrawing support from the Axise pensions administration system from December 2014.	The Council is procuring a new pensions administration system, and will need to ensure the change process is managed for the continuity of service to its pensioners.
The Council is procuring a new asset custodian.	The Council must ensure that transition controls are in place so that the records maintained by the custodian are all accurately transferred.

## 5. Status of our work

### 5.1 Financial statement audit

Our audit work in respect of our opinion on the Authority's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	▶ To be discussed at the Audit Committee on 25 September 2014.	Management and Audit Committee
Annual report	<ul style="list-style-type: none"> <li>▶ Incorporation of EY review comments and finalisation by management</li> <li>▶ Approval of accounts by Audit Committee</li> </ul>	Management, Audit Committee and EY

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Fund's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

### 5.2 Objections

We have received no objections to the 2013/14 accounts from members of the public.

## 6. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013/14 £	Planned fee 2014/14 £	Scale fee 2013/14 £
<b>Total Audit Fee – Code work</b>	<b>21,085</b>	<b>21,085</b>	<b>21,085</b>

Our actual fee is in line with the agreed fee.

There is no non-audit work in respect of the pension fund.

## 7. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual 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.

There were no errors of significance identified during the course of our audit work that we would be required to bring to your attention.

There are no uncorrected misstatements.

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2014.

## 8. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 13 June 2014. We complied with the Auditing Practice's Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 25 September 2014.

## Appendix A Required communications with the Audit Committee

There are certain communications that we must provide to the audit committee. These are detailed here:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <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
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit results report
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Enquiry made to Committee chair and assurances received dated 31 March 2014
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	No issues to report
<b>External confirmations</b> <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>	No issues to report

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	No issues to report
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and update in section 8 of this report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No issues to report
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	Audit Results Report
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	Audit Plan and Audit results report

## Appendix B Letter of representation

[To be prepared on the entity's letterhead]

[Date]

Baldeep Singh  
Ernst & Young  
Apex Plaza  
Forbury Road  
Reading  
RG1 1YE

This representation letter is provided in connection with your audit of the financial statements of name of pension fund ("the Pension Fund") for the year ended 31 March 2013/14. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013/14, and of the amount and disposition at the end of the year of its assets and liabilities, in accordance with applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We understand that the purpose of your audit of the Pension Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with Accounts and Audit (England) Regulations 2011 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.
2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.
3. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above show a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with Accounts and Audit (England) Regulations 2011 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. We believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with Accounts and Audit (England) Regulations 2011 and CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2013/14 that are free from material misstatement, whether due to fraud or error.

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Pension Fund (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the Pension Fund involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

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

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
3. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
4. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Pension Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Pension Fund rules.

3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the Pension Fund Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date [*list date*].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund's related parties and all related parties and related party transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Pension Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Pension Fund members or the Pension Fund during the Scheme year or subsequently.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

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

1. Other than the change in the Local Government Pension Scheme regulations from 1 April 2014 described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

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

1. We have not commissioned advisory reports except for give details which may affect the conduct of your work in relation to the Pension Fund's financial statements and schedule of contributions/payment schedule.

#### **H. Independence**

1. We confirm that no trustee of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

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

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

**J. Actuarial valuation**

1. The latest report of the actuary Hymans Robertsons as at 31 March 2014 and dated 7 May 2014 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

**K. Accounting Estimates**

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

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

1. The latest reports available do not all cover the whole of the 2013/14 audit year. We can confirm that we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

*Yours Faithfully,*

\_\_\_\_\_  
Head of Financial Management

I confirm that this letter has been discussed and agreed at the Audit Committee on 25 September 2014

\_\_\_\_\_  
Chairman of Audit Committee

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