



# **Essex Pension Fund Audit results report**

Year ended 31 Month 2018

9 July 2018

9 July 2018



Dear Audit, Governance and Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit, Governance and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Essex Pension Fund for 2017/18.

We have substantially completed our audit of Essex Pension Fund for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

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

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

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

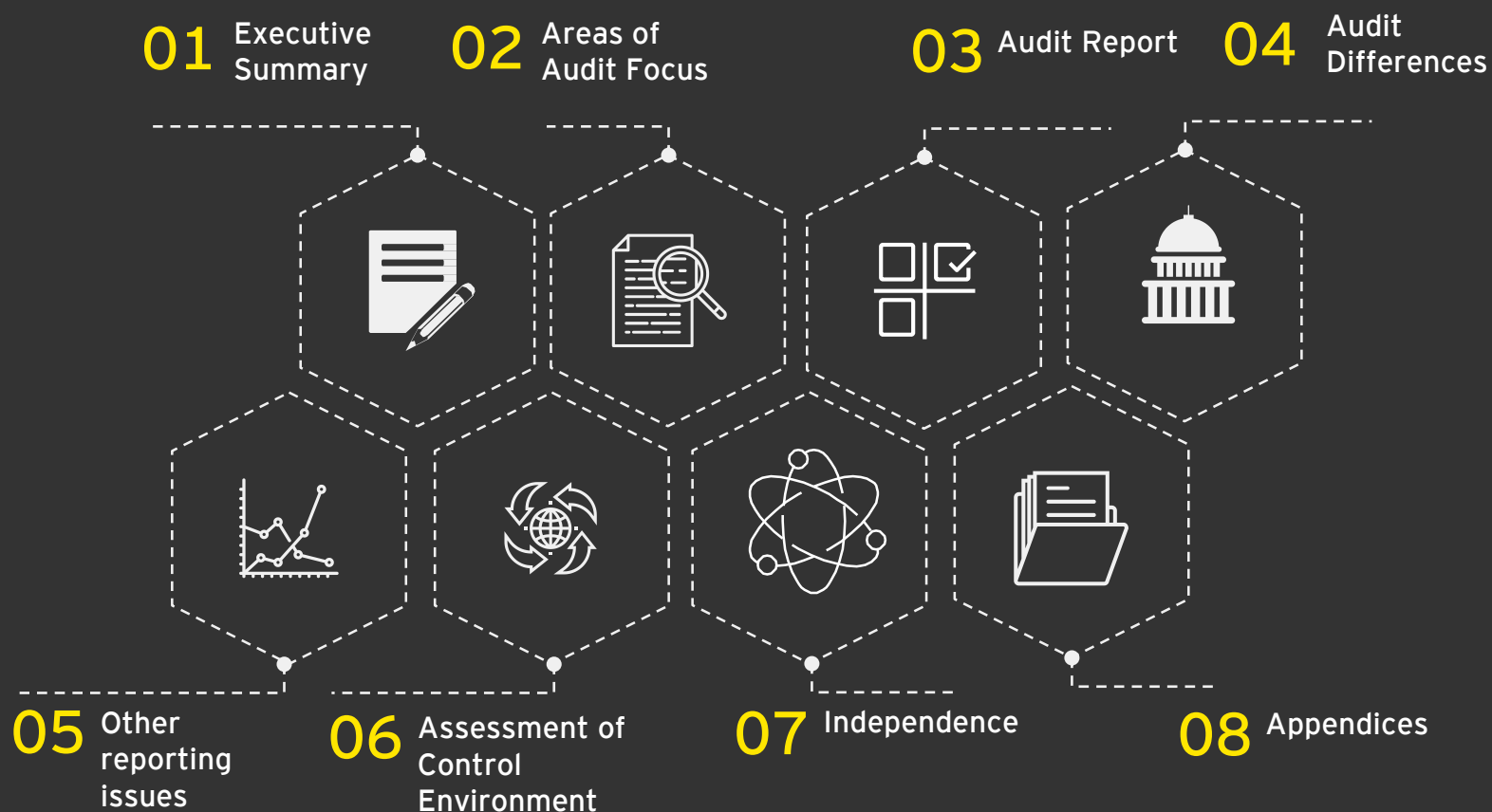
Yours faithfully

A handwritten signature in blue ink that reads "Kevin Suter". The signature is written in a cursive, slightly slanted style.

Kevin Suter

Associate Partner  
For and on behalf of Ernst & Young LLP  
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# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit, Governance and Standards Committee and management of Essex Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit, Governance and Standards Committee, and management of Essex Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit, Governance and Standards Committee and management of Essex Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Executive Summary

# Executive Summary

## Scope update

In our Audit Plan presented to the Audit, Governance and Standards Committee on 26 March 2018, we gave you an overview of how we intended to carry out our responsibilities as your auditor.

We have carried out our audit in accordance with this plan. There have been no changes in our planned audit strategy.

We planned our procedures using a materiality of £120 million. We reassessed this using the actual year-end figures, which have increased this amount to £130 million. The threshold for reporting audit differences has increased from £6 million to £6.5 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of Net Assets.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them.

They include:

Related Party Transactions - The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.

## Status of the audit

We have substantially completed our audit of Essex Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears in section 3.

However until the following work is complete, further amendments may arise. The outstanding items are:

- Review of the final version of the annual report;
- Receipt of cash and cash equivalent third party confirmations;
- Completion of subsequent events review;
- Completion of Final Review Procedures; and
- Receipt of the signed Management Representation letter.



## Executive Summary

### Audit differences

There are no unadjusted audit differences arising from our audit.

We identified a limited number of disclosure audit differences in the draft financial statements, which have been adjusted by management. Further details are provided in section 4.

### Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Essex Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue; and
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit, Governance and Standards Committee.

### Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.



## Executive Summary

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### Other reporting issues

We have reviewed the information presented in the Annual Report for consistency with the financial statements and our knowledge of the Fund.

We will perform a review of the information presented in the Annual report for consistency with the financial statements and our knowledge of the Fund. As reported in the Status of Work section on page 5, we are awaiting receipt of the annual report for our review.

### Independence

Please refer to Section 7 for our update on Independence. We have no independence issues to highlight.



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## Areas of Audit Focus



## Areas of Audit Focus

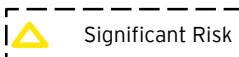
### Significant risk

#### Risk of management override

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.



##### What judgements are we focused on?

We have assessed that the risk of management override is most likely to affect year-end investment assets, specifically through journal postings.

Total net assets of the Fund available at 31 March 2018: £6.5 billion

##### What are our conclusions?

Our testing has not identified any material misstatements from year end investment assets.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

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

##### What did we do?

We performed the following audit procedures:

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewed accounting estimates for evidence of management bias;
- ▶ Evaluated the business rationale for significant unusual transactions; and
- ▶ Agreed all investment valuations to direct custodian and fund manager confirmations and investigated any differences.

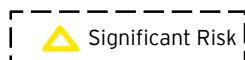
We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.



## Areas of Audit Focus

### Significant risk

#### Valuation of Complex Investments (Unquoted and Direct Property Investments)



#### What is the risk?

Judgements are taken when valuing those investments whose prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated. Such variations could have a material impact on the financial statements.

As these investments are more complex to value, we have identified the Fund's investments in property and unquoted pooled investment vehicles as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.

#### What judgements are we focused on?

We have assessed that there is a risk of material misstatement to the financial statement due to the complex valuation methods used for level 3 investments. This includes private equity, infrastructure and property.

Total level 3 assets of the Fund at 31 March 2018: £1.2 billion

#### What are our conclusions?

Our testing has not identified any material misstatements for level 3 year-end investment balances.

We have not identified any inappropriate valuation methodologies or judgements being applied.

We have not identified any issues with the competence of the management experts used.

#### What did we do?

We performed the following audit procedures:

- ▶ Reviewed the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- ▶ Assessed the competence of management experts; and
- ▶ Performed analytical procedures and checking the valuation output for reasonableness against our own expectations.



## Areas of Audit Focus



### Valuation methods applied

| Financial statement area  | Valuation method applied and related disclosures  | Impact of changes made to the valuation method applied  |
|---|---|---|
| Valuation of Complex Investments (Unquoted and Direct Property Investments) | The valuation methodology applied to these investments is reported in note 16.3 of the financial statements.                                | No changes have been made to the valuation methodology applied in 2017-18.<br><br>We note that there was a change in the valuer of direct property investments during the period, but no issues have been identified as a result of our audit procedures. |
| Actuarial present value of promised retirement benefits (IAS 26)            | The valuation methodology applied to IAS 26 in reported is note 15.3 of the financial statements. This figure is calculated by the Actuary. | No changes have been made to the valuation methodology applied in 2017-18.  |

We report valuation methods applied where there is a risk of material misstatement. We have not identified any issues with these valuation methodologies applied by the Pension Fund.

As per slide 10 we raised the valuation of complex investments for unquoted and direct property investments as a significant risk.



### Other matters

There are some 2018/19 regulatory developments including some technical changes which might impact the Pension Fund, these include:

- ▶ IFRS 9 Financial Instruments - classification and measurement of financial assets after initial recognition. The code requires implementation of the above disclosure from 1 April 2018. These changes are not considered to have a material effect on the Pension Fund accounts of 2017/18; and
- ▶ IFRS 15 Revenue from Contracts with Customers - the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. These changes are not considered to have a material effect on the Pension Fund accounts of 2017/18 due to the nature of its income.



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## Audit Report



# Audit Report

## Our opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSEX PENSION FUND

#### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Executive Director for Corporate and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Executive Director for Corporate and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the Essex County Council Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Executive Director for Corporate and Customer Services is responsible for the other information.



# Audit Report

## Our opinion on the financial statements

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Matters on which we report by exception

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## Responsibility of the Director for Corporate and Customer Services

As explained more fully in the Statement of the Director for Corporate and Customer Services Responsibilities set out on page 2, the Statement of the Director for Corporate and Customer Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.



# Audit Report

## Our opinion on the financial statements

In preparing the financial statements, the Director for Corporate and Customer Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the members of Essex Pension Fund, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Essex Pension Fund and Essex Pension Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.



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## Audit Differences



## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We have not identified any misstatements greater than our reporting threshold of £6.5 million which have required correction by management.

Our audit identified only a limited number of minor misstatements which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in both the Annual Statement of Accounts and Annual Report.

There are no adjusted differences that we need to bring to your attention.

There were no uncorrected misstatements.



## 05 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Essex Pension Fund Statement of Accounts with the audited financial statements

We have no matters to report in relation to the above.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the [Authority]'s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no matters to report.



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## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



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## Independence

## Independence

### Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 2 March 2018.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit, Governance and Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit, Governance and Standards Committee on 30 July 2018.

## Fee analysis

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

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements

|                                       | Final Fee<br>2017/18 | Planned Fee<br>2017/18 | Scale Fee<br>2017/18 | Final Fee<br>2016/17 |
|---------------------------------------|----------------------|------------------------|----------------------|----------------------|
|                                       | £'s                  | £'s                    | £'s                  | £'s                  |
| Total Audit Fee - Code work (Note 1). | 36,766               | 36,766                 | 31,266               | 36,766               |

#### Note 1:

As reported in our Audit Planning Board report dated 26 March 2018, we plan to charge an additional fee of £5,500 in 2017/18 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies.

This additional fee has been discussed with management and is subject to approval by the PSAA.

We will confirm our final fees following the completion of our work and report this within our Annual Audit Letter.



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## Appendices

## Appendix A

# Audit approach update

We summarise below our approach to the audit of the Net Assets Statement and any changes to this approach from the prior year audit.




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the Net Assets Statement include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

| Net Assets Statement category     | Audit Approach in current year  | Audit Approach in prior year  | Explanation for change |
|-----------------------------------|---|---|------------------------|
| Investment Assets and Liabilities | Substantively tested all relevant assertions                                | Substantively tested all relevant assertions                                | N/A                    |
| Long term assets                  | Immaterial - Substantively tested assertion for presentation and disclosure | Immaterial - Substantively tested assertion for presentation and disclosure | N/A                    |
| Current Assets (Debtors)          | Immaterial - Substantively tested assertion for presentation and disclosure | Immaterial - Substantively tested assertion for presentation and disclosure | N/A                    |
| Cash in hand                      | Substantively tested all relevant assertions                                | Substantively tested all relevant assertions                                | N/A                    |
| Current Liabilities (Creditors)   | Immaterial - Substantively tested assertion for presentation and disclosure | Immaterial - Substantively tested assertion for presentation and disclosure | N/A                    |

## Appendix B

### Summary of communications




| Date  | Nature  | Summary    |
|--|--|---|
| 26 March 2018  | Meeting/Report   | The Audit Manager met with the Audit, Governance and Standards Committee to discuss focus areas of the Audit, Governance and Standards Committee to discuss the Audit Plan and areas of focus for the audit. This included confirmation of independence.    |
| 22 June 2018   | Report   | The Audit Results Report, including confirmation of independence, was issued to the Audit, Governance and Standards Committee.  |
| 30 July 2018   | Meeting/Report   | The partner in charge of the Essex County Council engagement , accompanied by other senior members of the audit team, met with the Audit, Governance and Standards Committee and senior members of the management team to discuss the audit results report. |
|  |  |   |
|  |  |   |
|  |  |   |

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.




## Appendix C

# Required communications with the Audit, Governance and Standards Committee




There are certain communications that we must provide to the Audit, Governance and Standards Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

|   |   |  Our Reporting to you                             |
|---|---|--|
| Required communications   |  What is reported?   |  When and where                                   |
| Terms of engagement   | Confirmation by the Audit, Governance and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.  | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities  | Reminder of our responsibilities as set out in the engagement letter.   | Audit Plan - 26 March 2018   |
| Planning and audit approach   | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.   | Audit Plan - 26 March 2018   |
| Significant findings from the audit                                       | <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul> | Audit Results Report - 30 July 2018  |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>  | Audit Results Report - 30 July 2018  |
|   |   |  |

## Appendix C

|                          |  |  Our Reporting to you |
|--------------------------|--|--|
| Required communications  |  What is reported?  |  When and where       |
| Public Interest Entities | <p>For the audits of financial statements of public interest entities our written communications to the audit committee include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee</li> <li>▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The identification of any non-EY component teams used in the group audit</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul> | <p>Audit Plan - 26 March 2018</p> <p>and</p> <p>Audit Results Report - 30 July 2018</p>                  |




## Appendix C

|                         |   | Our Reporting to you   |
|-------------------------|---|--|
| Required communications |  What is reported?   |   When and where |
| Going concern           | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <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>   | Audit Results Report - 30 July 2018  |
| Misstatements           | <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>   | Audit Results Report - 30 July 2018  |
| Subsequent events       | <ul style="list-style-type: none"> <li>▶ Enquiry of the Audit, Governance and Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>  | Audit Results Report - 30 July 2018  |
| Fraud                   | <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit, Governance and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit, Governance and Standards Committee responsibility.</li> </ul> | We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.      |

## Appendix C

|                                       |   | Our Reporting to you   |
|---------------------------------------|---|--|
| Required communications               | What is reported?   | When and where   |
| Related parties                       | <p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>  | We have no matters to report.  |
| Independence                          | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> | Audit Results Report - 30 July 2018  |
| External confirmations                | <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>   | We have no matters to report.  |
| Consideration of laws and regulations | <ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Audit, Governance and Standards 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, Governance and Standards Committee may be aware of</li> </ul>               | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations. |

## Appendix C

|  |   |  Our Reporting to you |
|--|---|--|
| Required communications  |  What is reported?   |  When and where       |
| Written representations we are requesting from management and/or those charged with governance                           | <ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>  | Audit Results Report - 30 July 2018  |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>  | Audit Results Report - 30 July 2018  |
| Auditors report  | <ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>   | Audit Results Report - 30 July 2018  |
| Fee Reporting  | <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the Audit Plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul> | Audit Plan - 26 March 2018<br>and<br>Audit Results Report - 30 July 2018                                 |

# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]

30 July 2018

Kevin Suter  
Ernst & Young  
400 Capability Green  
Luton LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of Essex Pension Fund ("the Fund") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. 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.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - Involving financial improprieties
  - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
  - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
  - Involving management, or employees who have significant roles in internal control, or others
  - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

# Management representation letter – continued

## Management Rep Letter

### C. 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.
- 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 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 meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date 30 July 2018.

#### 5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

#### 6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

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

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

### D. 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.

#### 4. No other claims in connection with litigation have been or are expected to be received.

### E. Subsequent Events

#### 1. As described in Note 20 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.

### F. Other information

#### 1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and Annual Governance Statement within the Essex County Council Statement of Accounts 2017/18.

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

### G. Independence

#### 1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund 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.

### H. Derivative Financial Instruments

#### 1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

#### 2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

### I. Derivative Pooling investments, including the use of collective investment vehicles and shared services

#### 1. We confirm that the Fund has made no investment in pooling investments.

### J. Actuarial Valuation

#### 1. The latest report of the actuary Barnett Waddingham as at 31 March 2016 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.

# Management representation letter – continued

## Management Rep Letter

### K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the investments of the Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### L. Estimates – Valuation of Investments

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the valuation of investments appropriately reflect our intent and ability to carry out the planned investment activities on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### M. Investment Managers' Control Reports

1. Where the latest reports do not cover the whole of the 2017/18 audit period we confirm that we are not aware of any issues with the respective fund managers that indicate a reduction in control procedures.

*Yours faithfully,*

\_\_\_\_\_  
(Executive Director for Corporate and Customer Services Corporate and Customer Services)

\_\_\_\_\_  
(Chairman of the Audit, Governance and Standards Committee)

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ED None

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