

Hampshire Pension Fund

Audit results report for the year ended 31 March 2015

August 2015

Ernst & Young LLP



Private and confidential
Audit Committee
Hampshire County Council
The Castle
Winchester
Hampshire
SO23 8UJ

17 September 2015

Dear Sir

Audit results report

We are pleased to attach our audit results report for the Audit Committee. This report summarises our preliminary audit conclusion in relation to Hampshire Pension Fund's (the Fund's) financial position and results of operations for the year ended 31 March 2015. We will issue our final conclusion after the Audit Committee scheduled for 24 September 2015.

Our audit is designed to enable us to express an opinion on financial statements taken as a whole. This report contains our comments and observations related to the areas of audit emphasis, our views on the Fund's accounting policies and judgements and material internal control findings. These comments are provided to inform and assist those charged with governing the Fund.

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

We welcome the opportunity to discuss the contents of the report with you at the forthcoming Audit Committee meeting.

Yours faithfully



For and on behalf of Ernst & Young LLP
Baldeep Singh
Partner
Ernst & Young LLP
United Kingdom
Enc.

Contents

1. Executive Summary	2
2. Scope update	3
3. Significant findings from the financial statement audit	4
4. Control themes and observations	6
5. Status of our work	7
6. Fees update	8
7. Summary of audit differences	9
8. Independence confirmation: update	11
Appendix A Required communications with the Audit Committee	12
Appendix B Letter of representation	14

Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#). This document 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 Audit 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. Executive Summary

The Fund is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Fund reports publicly on the extent to which it complies with its own governance arrangements, including how it has monitored and evaluated the effectiveness of the governance arrangements in year, and on any planned changes in the coming period.

As auditors we are responsible for:

- ▶ expressing an opinion on:
 - ▶ the 2014/15 financial statements;
 - ▶ the consistency of the financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts; and
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings on the areas of audit emphasis and any significant deficiencies in internal control or views on the Fund's accounting policies and judgements.

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

Financial statements

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Fund's financial statements.

We did not identify any issues in respect of the significant and other financial statement risks identified in our audit plan. The main audit findings for these risks are set out in section 3 of this report.

Control themes and observations

We did not identify any control issues. However, in testing pensions in payment we identified one case where a pensioner's file was missing, as a result we could not assess if the pension being paid was correct. We extended our sample and did not identify any further cases of missing files.

Review of the Annual Report

We have yet to complete our review of the Annual Report.

Summary of audit differences

Our audit did not identify any misstatements in the Fund's Net Asset Statement or Fund Accounts presented for audit, there were a few errors to the Notes to the Pension Fund Accounts, which management have adjusted.

Other reporting matters

In presenting the draft financial statements for audit Management amended a number of the prior year comparative figures to reflect changes in guidance. Accounting standards outline that comparative figures should only be amended where there is a material error.

2. Scope update

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan issued on 15 May 2015, 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. Our Audit Plan provided you with an overview of our audit scope and approach for:

- ▶ expressing an opinion on:
 - ▶ the 2014/15 financial statements;
 - ▶ the consistency of the financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts; and .
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

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

3. Significant findings from the financial statement audit

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

Significant risk

Risk of management override of controls

Description and conclusion

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.

We:

- 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 []; and
- Evaluated the business rationale for any significant unusual transactions

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

Other financial statement risks

Changes to the pension administration system

Description and conclusion

There was a change in the year in the pension administration system in the year, from AXISe to UPM. There is a risk that benefits payable may be incorrectly calculated if member records were not correctly transferred.

We:

- Reviewed the work of internal audit to identify if there were any reported issues impacting on our audit of the financial statements
- Undertook an overall analytical review to identify if there were any significant changes in the pensions payroll
- Walked through benefit payables cases before and after the system change to update our process understanding
- Substantively tested a sample of benefits paid to assess if calculations were in line with scheme requirements and if member details recorded in UPM matched those recorded in AXISe

We did not identify any issues from our programme of work

Changes to the Local Government Pension Scheme

Description and conclusion

The 1st of April 2014 marked the start of a new pension scheme which all members of the LGPS automatically joined. Benefits accrued before 1 April 2014 were protected. Key changes impacting on our financial statements audit are:

- Benefits payable for service from 1 April 2014 will be calculated on a career average basis.
- There are an increased number of salary bands, which are used to determine the level of employee contributions with a maximum employee contribution rate of 12.5%

There is a risk that benefits payable or employee contributions may be incorrectly calculated if system

Changes to the Local Government Pension Scheme

parameters were not correctly updated.

We:

- Used membership data and known parameters to undertake a predictive analytical review for benefits payable and employee contributions and critically compared our predictions with the year-end figures.
- Walked through benefit payables and employee contribution cases to update our process understanding
- Substantively tested a sample of benefits paid to assess if calculations are in line with scheme requirements
- Substantively tested a sample of employee contributions to assess if calculations are in line with specified rates
- Substantively tested a sample of returns of employee contributions from scheduled bodies.

We did not identify any issues from our programme of work.

Employer contributions

Description and conclusion

The triennial actuarial valuation is used to set the employer contribution rates. Following the 2013 triennial valuation this is the first year that employer contribution rates will be based on the new rates. There is a risk that employer contribution may be incorrectly calculated if system parameters were not correctly updated.

We:

- Used membership data and known parameters to undertake a predictive analytical review for employer contributions and critically compared our predictions with year-end reported figures.
- Walked through employer contribution cases to update our process understanding
- Substantively tested a sample of employer contributions to assess if calculations were in line with specified rates
- Substantively test a sample of returns of employer contributions from scheduled bodies.

We did not identify any issues from our programme of work

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 control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

In testing pensions in payment we identified one case where a pension file was missing, neither an electronic or manual file could be located, therefore we could not assess if the pension being paid was correct. As a result of this case we extended our sample and did not identify any further instances of missing files.

The missing file relates to a former chief officer of a scheduled body whose details were recorded on a paper file. We have been informed that since 2004 the supporting information for pensioners is maintained electronically. When this system was introduced scanned copies were made of paper files and these were uploaded to the system. Management also informed us that at the time of transfer a number of paper files were identified as missing and in such cases checks were undertaken to ensure the details being transferred were correct. They also outlined that whilst the number of missing paper records is unknown every class of member, is contacted on an annual basis to ensure key data is kept up to date.

4.2 Status of previous year's recommendations

There were no recommendations raised in the previous year.

5. Status of our work

5.1 Financial statement audit

Our audit work for our opinion on the Fund's financial statements is substantially complete. The following items were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Audit Committee on 24 September 2015.	Management and Audit Committee
Annual report and accounts	<ul style="list-style-type: none"> ▶ Incorporation of EY review comments on disclosure notes ▶ Approval of accounts by Audit Committee ▶ Accounts re-certified by RFO ▶ Completion of audit procedures relating to the Annual Report 	Management, Audit Committee and EY

On the basis of our audit work to date, we anticipate issuing an unqualified auditor's report on 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 2014/15 accounts from members of the public

6. Fees update

A breakdown of our fee is shown below.

	Proposed final fee 2014/15 £	Planned fee 2014/15 £	Scale fee 2014/15 £
Total Audit Fee – Code work	31,743	31,743	31,743

Our actual fee is in line with the agreed fee.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee.

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 which are uncertain or open to interpretation.

We determined planning materiality to be £51.4 million (2014: £43.4 million), which is 1% of net assets reported in the accounts at £5.14 billion. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Fund.

We set our tolerable error for the audit at the upper end of the available range. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We set tolerable error at this level as a result of there not being a history of significant errors; in prior years any errors were less than 25% of tolerable error; errors have been corrected; no significant issues identified with the control environment and no significant changes to accounting staff or accounting requirements.

We agreed with the Audit Committee that we would report all audit differences in excess of £2.26 million (2014: £2.17 million). However, on receipt of the draft statement of accounts we increased our reporting threshold to £2.57 million and differences in excess this level are included in our summary of misstatements below.

7.1 Uncorrected misstatements

There are no uncorrected misstatements

7.2 Corrected misstatements

We highlight in particular the following misstatements identified during the course of our audit and which have been corrected by management.

- ▶ Note 16, classification of financial instruments, incorrectly classified statutory debtors and creditors as financial instruments. The code specifies that only contractual debtors and creditors should be classified as financial instruments. The correction reduces debtors and creditors classified as financial instruments by £42.2 million and £10.7 million respectively.

7.3 Other reporting matters

In presenting the draft financial statements for audit, Management amended a number of the prior year comparative figures to reflect changes in guidance. Accounting standards outline that comparative figures should only be amended where there is a material error.

- ▶ In prior years investment income (for pooled, pooled property and alternatives investments) were shown net of management expenses but due to changes in the guidance current year figures are now reported on a gross basis. Instead of restating prior year comparative figures Management have agreed to explain the basis for the change by way of narrative note.

- ▶ Note 17, in previous years the analysis of interest rate risks included pooled investments within the fixed interest securities carrying value. This year pooled fixed interest securities are excluded, as a result the carrying value at the 31 March 2014 does not agree to the reported amount in the 2013/14 financial statements, there is a £931 million difference. The underlying accounting standard (IFRS 7) is not prescriptive regarding this disclosure note, key factors to consider are: your assessment of where the interest rate risk arise; how you manage interest rate risks; and how interest rate sensitivity analysis is reported to the Pension Fund Panel. The rationale for the change in disclosure has been outlined in note 17.

8. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan report dated 15 May 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Standing Guidance: 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. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Audit Committee on 24 September 2015.

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
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the 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 are seeking ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process 	Audit results report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit results report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud we have identified or information we have obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud 	Received responses to our enquiries from: <ul style="list-style-type: none"> • Audit Committee Chairman • Director of Corporate Resources • Head of Internal Audit <p>The Head of Internal Audit informed us of two frauds that occurred in 2014/15. We considered the nature of these frauds and concluded that they did not have an impact on our planned audit strategy.</p>
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	There were no significant matters arising during the audit in connection with the Fund's related parties.
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all external confirmations relevant to our audit.

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ 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 ▶ 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 	<p>We have not identified any instances of non-compliance with law or regulations as a result of the work we have undertaken.</p> <p>We received responses to our enquiries from:</p> <ul style="list-style-type: none"> • Audit Committee Chairman • Director of Corporate Resources • Head of Internal Audit
<p>Independence</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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan and Audit Results Report</p>
<p>Going concern</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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>On the basis of work undertaken we have not identified any events or conditions that cast significant doubt on the Fund's ability to continue as a going concern.</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Audit Results Report</p>
<p>Fee reporting</p> <ul style="list-style-type: none"> ▶ 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). 	<p>Audit Plan and Audit Results Report</p>

Appendix B Letter of representation

To
Baldeep Singh
Partner
EY plc
Apex Plaza,
Forbury Road,
Reading RG1 1YE

Dear Baldeep

Hampshire Pension Fund financial statements audit 2014/15

This representation letter is provided in connection with your audit of the financial statements of Hampshire Pension Fund (“the Pension Fund”) for the year ended 31 March 2015. 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 2015, and of the amount and disposition at the end of the year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the period, in accordance with applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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 2014/15 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 2014/15, 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 2014/15 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. 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 no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Pension Fund's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Pension Fund.

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 Panel (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 09 July 2015.
 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, and have disclosed in Note 25 to the financial statements all guarantees that we have given to third parties.
4. There are no claims in connection with litigation that have been or are expected to be received.

F. Subsequent Events

1. Other than the events 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 all investments in derivative financial instruments have been made after due consideration by the Pension Fund Committee of the limitations in their use imposed by The Occupational Pension Schemes (Investment) Regulations 2005; namely that they contribute to a reduction in scheme risk, facilitate efficient portfolio management, and that any such investment has been made so as to avoid excessive risk exposure to a single counterparty and to other derivative operations. The Pension Fund's statement of investment principles has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions.
2. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the trustees at the scheme year end and the terms and conditions relating thereto.
3. The trustees have duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Pension Fund is holding, and these have been communicated to you.

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2013 and dated 31 March 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/her 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 cover the whole of the 2014/15 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

Director of Corporate Resources

I confirm that this letter has been discussed and agreed at the Audit Committee on 24 September 2015

Chairman of Audit Committee

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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