

Hampshire Pension Fund

Audit results report for the year ended 31 March 2013

17 September 2013

Ernst & Young LLP



Private and confidential

Audit Committee
Hampshire County Council
The Castle
Winchester
Hampshire
SO23 8UJ

17 September 2013

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 Hampshire Pension Fund's (the Fund's) financial position and results of operations for 2012/13. We will issue our final conclusion after the Committee meeting scheduled for 26 September 2013.

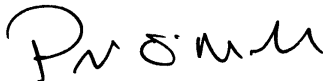
Our audit is designed to enable us to express an opinion on financial statements taken as a whole. This report contains our comments and observations related to the areas of audit emphasis, our views on the Fund's accounting policies and judgements and material internal control findings. These comments 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 the Fund. 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 on 26 September 2013.

Yours faithfully



Peter O'Neill
Partner
For and on behalf of Ernst & Young LLP

Contents

1. Overview of the financial statement audit	2
2. Scope update	3
3. Significant findings from the financial statement audit	4
4. Control themes and observations.....	5
5. Status of our work	6
6. Fees update.....	7
7. Summary of audit differences	8
8. Independence confirmation: update	9
Appendix A Required communications with the Regulation, Audit and Accounts Committee	10
Appendix B Letter of representation.....	12

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 Chief Executive 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 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. Overview of the financial statement audit

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:

- ▶ Forming an opinion on the financial statements; and
- ▶ 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 Planning Report, we anticipate issuing an unqualified opinion on the Fund's financial statements.

Review of the Annual Report

We have no findings to bring to your attention.

Control themes and observations

Our audit did not identify any control issues.

Summary of audit differences

Our audit did not identify any misstatements in the accounts presented for audit. The disclosure errors identified were corrected.

2. Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit Planning Report issued on 10 June 2013 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.

At the planning stage we identified one potential significant risk relating to the phased migration of the payment of pension benefits from SAP to the Axis system. On review we concluded there was no risk of material misstatement and as such there was no significant risk requiring further audit procedures.

3. Significant findings from the financial statement audit

Our audit did not identify any significant misstatements in the financial statements presented for audit. The following disclosure amendments were made to the financial statements presented for audit.

Description and conclusion

Our audit identified the following disclosure amendments to the statements presented for audit:

- ▶ **Note 1b Membership:**
There were changes to the membership numbers as figures were not originally compiled using a membership report dated 31 March 2013.

 - ▶ **Note 3 – Summary of significant accounting policies:**
This note did not include the pension fund's policy on VAT accounting, the note has been amended.

 - ▶ **Note 5. Assumptions made about the future and other major sources of estimation and uncertainties:**
This note was prepared in accordance with CIPFA guidance however the wording implied there may be material differences as a result of assumptions and estimates. Such an implication is inconsistent with an unqualified opinion, the note has been amended.
-

Review of the Annual Report

We have no issues to bring to your attention, our review of the annual report concluded that, subject to the amendments outlined above, they are consistent with the financial statements.

4. Control themes and observations

As part of our work, we obtained sufficient understanding of internal control to plan our audit and determine the nature, timing and extent of testing. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you any significant deficiencies. There are no matters to report.

Publication on electronic media

The Council is responsible for the accurate presentation of the financial statements, audit report thereon and other reports submitted in relation to the audit and for establishing security and controls over them in order to ensure the continued integrity of the information presented. The examination of the controls over electronic presentation of audited financial information and reports by the auditor on the Council's web-site is beyond the scope of the audit of the financial statements.

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 presented at Audit Committee on 26 September 2013	Audit Committee

On the basis of our work performed 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 might arise.

6. Fees update

Our agreed fee is shown below and is in line with the amount agreed.

	Proposed final fee 2012/13 £	Planned fee 2012/13 £	Scale fee 2012/13 £
Total Audit Fee – Code work	31,743	31,743	31,743

No non-audit work was undertaken.

7. Summary of audit differences

We identified no amounts - individually or in aggregate - material to the presentation and disclosures of the financial statements for the year ended 31 March 2013.

8. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report 10 June 2013. We complied with 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 us. 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 Regulation, Audit and Accounts Committee on 27 September 2013.

Appendix A Required communications with the Regulation, Audit and Accounts Committee

We must provide certain communications to the Committee. These are:

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 Planning Report
Significant findings from the audit	Audit Results Report
<ul style="list-style-type: none"> ▶ Our view about any significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations we are seeking ▶ Expected modifications to the audit report ▶ Other matters, if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	
Misstatements	Audit Results Report
<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements relating to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected significant misstatements 	
Fraud	Audit Results Report
<ul style="list-style-type: none"> ▶ Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Fund ▶ Any fraud we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	
Related parties	Audit Results Report
Significant matters arising during the audit in connection with the Fund'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 Fund 	
External confirmations	Audit Results Report
<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 	

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Regulation, Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>Audit Results Report</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on Ernst & Young'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 Planning 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>Audit Results Report</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 and any non-audit work. 	<p>Audit Planning Report and Audit Results Report</p>

Appendix B Letter of representation

To
Peter O'Neill
Partner
EY plc
Apex Plaza,
Forbury Road,
Reading RG1 1YE

Dear Peter

Hampshire Pension Fund financial statements audit 2012/13

This representation letter is provided in connection with your audit of the financial statements of Hampshire Pension Fund ("the Fund") for the year ended 31 March 2013. 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 Fund during the year ended 31 March 2013, 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 2012/13.

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 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 2012/13 and for keeping records in respect of contributions received in respect of active members of the Fund and for making accurate representations to you.
2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the 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 Fund in accordance with Accounts and Audit (England) Regulations 2011 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, 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 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 2012/13 that are free from material misstatement, whether due to fraud or error.

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 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 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 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 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 Panel held through the year including the most recent meeting on 12 July 2013.
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 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 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 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. 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

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

H. Independence

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 Fund.

I. Derivative Financial Instruments

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.

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.

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, [please state name, period it relates to and its date] 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 2012/13 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 26 September 2013

Chairman of Audit Committee

Ernst & Young LLP

Assurance | Tax | Transaction | Advisory

www.ey.com/uk

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited

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

© Ernst & Young LLP 2013. Published in the UK.
All rights reserved.