

Agenda



AGENDA for a meeting of the FIRE PENSION BOARD to be held in the COMMITTEE ROOM A, County Hall, Hertford on TUESDAY, 28 FEBRUARY 2017 AT 10.00 AM

MEMBERS OF THE BOARD (4) - QUORUM (4)

Employer Representatives – R Thake, S Hedger
Member Representatives – D Scotchford, S Joiner

STANDING SUBSTITUTE MEMBERS

Employer Representative– J Smith
Member Representative – D Cooper

Meetings of the Board are open to the public (this includes the press) and attendance is welcomed. However, there may be occasions when the public are excluded from the meeting for particular items of business. Any such items would be taken at the end of the public part of the meeting and listed under “Part Two (‘closed’) agenda”.

Committee Room A is fitted with an audio system to assist those with hearing impairment. Anyone who wishes to use this should contact main (front) reception.

AGENDA

1. INTRODUCTION

2. APPOINTMENT OF CHAIRMAN OF THE BOARD

Members to formally appoint the Chairman of the Board.

3. APPOINTMENT OF VICE CHAIRMAN OF THE BOARD

Members to formally appoint the Vice Chairman of the Board.

4. TRAINING SESSION

Led by Claire Cook Hertfordshire County Council

5. MINUTES

To confirm the minutes of the meeting of the Board held on 20 July 2016 as a correct record.

6. FIREFIGHTER'S PENSION FUND STATEMENT OF ACCOUNTS 2015/16

Report of the Director of Resources

7. THE PENSIONS REGULATOR BENCHMARKING

Report of the Director of Resources

**8. LONDON PENSIONS FUND AUTHORITY
FIREFIGHTERS PENSIONS ADMINISTRATION REPORT**

Report of London Pensions Fund Authority

9. OTHER PART I BUSINESS

**SUCH PART I (PUBLIC) BUSINESS WHICH, IF THE CHAIRMAN AGREES,
IS OF SUFFICIENT URGENCY TO WARRANT CONSIDERATION.**

EXCLUSION OF PRESS AND PUBLIC

There are no items of Part II business on this agenda. If Part II business is notified the Chairman will move:-

"That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph.....of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

If you require further information about this agenda please contact Theresa Baker, Democratic Services, on telephone no (01992) 556545 or e-mail theresa.baker@hertfordshire.gov.uk

Agenda documents are also available on the internet at:
www.hertfordshire.gov.uk

DATE OF NEXT MEETING: 14 June 2017: 10 am Committee Room B

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

Minutes



To: All Members of the Fire
Pensions Scheme Board

Ask for: Nicola Cahill
Ext: 25554

FIRE PENSIONS BOARD 20 JULY 2016

ATTENDANCE

MEMBERS OF THE BOARD

R Thake, S Hedger, T Morey, N White

Upon consideration of the agenda for the Fire Pension Board meeting on 20 July 2016 as circulated, copy annexed, conclusions were reached and are recorded below:

No declarations of interest were made by any member of the Board in relation to the matters considered at this meeting.

PART I ('OPEN') BUSINESS

ACTION

1. MINUTES

Members agreed the minutes of the meeting held on 23 October 2015. Following on from action points raised at that meeting N White was appointed Vice Chairman of the Fire Pensions Board.

2. PENSIONS COMMITTEE AND FIRE PENSION BOARD DIVISION OF RESPONSIBILITIES AND FORWARD PLANNING OF WORK

2.1 The Fire Pensions Board considered a report which provided an update on the split of responsibilities between the Pensions Committee, which has the local responsibility for the administration of the Fire Scheme, and the Fire Pensions Board and confirmed the work of the Fire Pension Board along with a training policy for the Board.

2.2 The group's attention was drawn to Appendix A which outlined the training strategy, the purpose of which was to equip members with the necessary skills and knowledge to be competent in their role and to meet the need in relation to the fund's objectives. Members of the Board were advised that training issues would be addressed as they arose.

CONCLUSIONS

The Fire Board noted the division of responsibilities between the Pension Committee and Pension Boards and agreed the business and training plan for the next 12 months.

3. HERTFORDSHIRE FIREFIGHTERS PENSION SCHEME – PENSION REGULATOR REQUIREMENTS

- 3.1 Members considered a report which outlined the Pension Regulator Requirements and how they related to the Hertfordshire Fire Fighter Pensions Scheme.
- 3.2 The Board were advised that the Pension Regulator had provided a range of material to enable Pension Boards to discharge their duties in supporting the governance and administration of pension fund schemes.
- 3.3 It was noted that the Board was not a decision-making Board, but had the ability to review actions and decisions made by the Council regarding Fire Pensions.
- 3.4 The Board noted that the code of practice which outlined the standards of conduct and practice and how issues such as conflicts of interest, managing risk, record keeping, Member communications and managing contributions should be approached. Members welcomed the news that the code of practice provided by the Pensions Regulator was supported by an online tool kit.

Conclusion

- 3.5 The Board noted the report.

4. FIRE FIGHTER PENSIONS SCHEME – DISCRETION POLICIES

- 4.1 The Fire Pensions Board considered a report which presented the Firefighters Pension Scheme discretion policy. It was noted that the policy covered the Firefighters Pension Scheme 1993, the New Firefighters Pension Scheme 2006 and the Firefighters Pension Scheme 2015
- 4.2 The Board were advised that the County Council had an obligation to publish discretions for each pensions scheme. On 23 February Full Council agreed that all matters relating to the policy (for all three schemes) should be the responsibility of the Pensions Committee and confirmed that decisions under the policy be delegated to the Director of Resources. At that meeting the Chief Legal Officer was also authorised to make any necessary changes to the Constitution to reflect these arrangements.

- 4.3 The Board requested that regular updates be circulated to advise Members as to how discretions were being used and requested that an annual report be brought to the Board for its consideration.

Conclusion

- 4.4 The Board noted the contents of the Fire Pensions Scheme discretion policy.

5. FIREFIGHTERS PENSION SCHEMES COMMUNICATION POLICY

- 5.1 The Fire Pensions Board considered a report regarding the Firefighters Pension Communication Policy which had also been presented to the Pension Committee on 5 February 2015.
- 5.2 Members noted that members of the scheme (both active and deferred members) receive an Annual Benefit Statement, additionally information was available via the internet, information notes, a newsletter for active members and payslips.
- 5.3 The Board highlighted that the inclusion of information on payslips served as the best way to communicate with pension scheme members. Whilst materials may not be read at the time and discarded, payslips were filed electronically and so information would be readily available at any time.

Conclusion

- 5.6 The Pension Board noted the Communications Policy.

6. LONDON PENSIONS FUND AUTHORITY FIREFIGHTERS PENSION ADMINISTRATION REPORT

- 6.1 The Fire Pension Board considered a report which was provided by the London pensions fund Authority which provided a quarterly update on the delivery of the pensions fund administration services on; statistics and key performance indicators and an update on regulatory changes.
- 6.2 Members were pleased to note that the performance in relation to Service Level Agreements in the last two quarters had been over 99%.
- 6.3 Members heard that during quarter 4, one of the three deferred benefit cases had not been completed on time, translated to performance against the SLA at 67%. Members were pleased to note that the case had been completed within an agreed

rectification period.

6.4	In general discussion it was noted that the number of deferrals had increased. Members requested a breakdown of these statistics, to include those that remain in employment but had chosen to defer their membership.	Claire Cook
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6.5	Members requested that a Risk Report be brought for consideration by the Board at its next meeting.	Claire Cook
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CONCLUSIONS

6.6	The Fire Pensions Board considered a report which detailed the Firefighters Pension arrangements.	
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**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

APPENDIX A

Firefighters' Pension Fund Accounts

Fund account for year ended 31 March 2016

2014/15 £000		Note	2015/16 £000
	<u>Contributions receivable</u>		
	From employer:		
(3,086)	- contributions in relation to pensionable pay		(2,808)
(87)	- ill health early retirements		(87)
	From members:		
(2,216)	- Firefighters' contributions		(2,395)
(5,389)	Total - Contributions receivable	3	(5,290)
	<u>Transfers in</u>		
(19)	- from other authorities	4	(40)
(19)	Total - Transfers in		(40)
	<u>Benefits payable</u>		
9,119	- pensions		9,660
3,597	- commutations and lump sum retirement benefits		2,751
73	- lump sum death benefits		-
-	- other (GAD vs Milne)		1,107
12,789	Total - Benefits payable		13,518
	<u>Payments to and on account of leavers</u>		
-	- refunds of contributions		-
32	- transfers out to other authorities	4	172
32	Total - Payments to and on account of leavers		172
7,413	Deficit for the year before top-up grant receivable from central Government		8,360
(7,413)	Top-up grant payable by central Government	5	(8,360)
<u>-</u>			<u>-</u>

Net assets statement as at 31 March 2016

2014/15 £000		2015/16 £000
	Current assets	
3,479	Top-up grant receivable from central Government	3,074
<u>3,479</u>		<u>3,074</u>
	Current liabilities	
(3,479)	Amount owing to the General Fund	(3,074)
<u>(3,479)</u>		<u>(3,074)</u>
<u>-</u>	Net Assets	<u>-</u>

Owen Mapley
Director of Resources
Date: 23 September 2016

Summary of the Firefighters' Pension Fund Operations

The Firefighters' Pension Fund was established under the Firefighters' Pension Scheme (Amendment) Order 2006.

Until the end of March 2006 the Council was responsible for paying the pensions of its former fire-fighting employees on a 'pay-as-you-go' basis. This meant that employees' contributions were paid into the Council's accounts from which pensions awards were made and the Council received funding from central government as part of general Formula Grant to support payments of pensions.

From 1 April 2011, the Council has continued, through its scheme administrator, London Pensions Fund Authority (LPFA), to administer and discharge its responsibility for paying the pensions of retired officers, their survivors and others who are eligible for benefits under the new and existing pension schemes.

Regular firefighters employed before 6 April 2006 were eligible for membership of the 1992 Firefighters' Pension Scheme. When this scheme closed a new 2006 Firefighters' Pension Scheme was introduced for regular and retained firefighters employed since 6 April 2006. On 1st April 2015, a new 2015 Firefighters' Pension Scheme came into effect. The two previous Schemes (Firefighters' Pension Scheme 1992 and Firefighters' Pension Scheme 2006) continue in force for firefighters who were serving before that date and who are eligible to remain members of their earlier Scheme.

In 2015, the Modified Retained Pension Scheme was also introduced which gave retained firefighters employed between 1 July 2000 and 5 April 2006 inclusive the opportunity to pay historic contributions and buy back their service for this period. The Modified Retained scheme does not constitute a scheme on its own but rather a modified section of the 2006 scheme with different benefits.

The new financial arrangements are for the 1992, 2006 and 2015 Firefighters' Pension Schemes and have no impact on the terms and conditions of either scheme.

The Firefighters' Pension Fund is an unfunded defined benefits scheme meaning that there are no investment assets available to meet pension liabilities. Employee contributions and a new employer's contribution are paid into the pension fund from which pension payments are made. The fund is topped up by central Government grant if the contributions are insufficient to meet the cost of pension payments and any surplus in the fund is recouped by central Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The financing of pension payments was taken out of the Formula Grant from April 2006 which instead now takes into account the funding needed to support the cost of the employer contributions and lump sum payments in respect of ill-health early retirements.

Following a complaint brought by Mr W Milne, the Pensions Ombudsman determined in May 2015 that the scheme's commutation factors should have been reviewed before 2006, and the Government decided that additional payments would be made to scheme members whose pension commenced between 1 December 2001 and 21 August 2006 and who chose to commute pension for lump sum at retirement. In the case of Hertfordshire this related to 70 members and amounted to £1,107k. All liabilities were fully paid by March 2016 and a grant was received from the Government to fully fund these liabilities. No outstanding liabilities exist for Hertfordshire.

Accounting Policies

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom based on IFRS and summarise the transactions and net assets of the Firefighters' Pension Fund and do not take account of liabilities to pay pensions and other benefits after 31 March 2016.

Transfer values have been treated on a cash basis and all other amounts have been prepared on an accruals basis.

Contributions Receivable

Employer and Employee Contributions

Employees' and employer's contribution levels are set nationally by central government and are subject to triennial revaluation by the central Government Actuary's Department.

The purpose of the employee and employer contribution rates under the new arrangements is to meet the accruing pension liabilities of currently serving firefighters. This means the Council must meet the full cost of employing firefighters, including the cost of future pension liabilities, at the time of employing them.

Separate contribution rates, as a percentage of pensionable pay, apply to the 1992 Firefighters' Pension Scheme and the 2006 Firefighters' Pension Scheme, as shown below.

	Employer %	Employee %
1992 Firefighters' Pension Scheme		
Pensionable Pay Band		
Up to and including £15,150	21.7	11.0
More than £15,150 and up to and including £21,210	21.7	12.2
More than £21,210 and up to and including £30,300	21.7	14.2
More than £30,300 and up to and including £40,400	21.7	14.7
More than £40,400 and up to and including £50,500	21.7	15.2
More than £50,500 and up to and including £60,600	21.7	15.5
More than £60,600 and up to and including £101,000	21.7	16.0
More than £101,000 and up to and including £121,200	21.7	16.5
More than £121,200	21.7	17.0
2006 Firefighters' Pension Scheme		
Pensionable Pay Band		
Up to and including £15,150	11.9	8.5
More than £15,150 and up to and including £21,210	11.9	9.4
More than £21,210 and up to and including £30,300	11.9	10.4
More than £30,300 and up to and including £40,400	11.9	10.9
More than £40,400 and up to and including £50,500	11.9	11.2
More than £50,500 and up to and including £60,600	11.9	11.3
More than £60,600 and up to and including £101,000	11.9	11.7
More than £101,000 and up to and including £121,200	11.9	12.1
More than £121,200	11.9	12.5
2015 Firefighters' Pension Scheme		
Pensionable Pay Band		
Up to and including £27,000	14.3	10.0
More than £27,000 and up to and including £50,000	14.3	12.2
More than £50,000 and up to and including £142,500	14.3	13.5
More than £142,500	14.3	14.5

Contributions received by the Fund are analysed below.

	Employer		Employee	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
1992 Firefighters' Pension Scheme	2,632	1,432	1,799	983
2006 Firefighters' Pension Scheme	454	45	417	38
2015 Firefighters' Pension Scheme	-	1,331	-	1,122
Modified Retained – Service Buy Back	-	-	-	252
	3,086	2,808	2,216	2,395

III-Health Early Retirements

Early retirements due to ill-health could, with effect from 1 April 2006, have required the Council to make a lump sum payment into the pension fund of 4× average pensionable pay in respect of all higher tier ill-health retirements and 2× average pensionable pay in respect of all lower tier ill-health retirements, reintroducing some in-year financial volatility, as the number of firefighters who retire on grounds of ill-health will vary from year to year.

However, to deal with this volatility, authorities are required to spread the charges credited to the pension fund equally over a period of three years. The initial payment tranche being made at the time of retirement and subsequent tranches made, without the addition of interest, on 1 April each financial year.

Other approved early retirements have a real cost, which must be covered by employers. These costs will be actuarially calculated for each individual, using a table of factors, and the Council will be required to make a payment into the pension fund.

Contributions received by the Fund are analysed below.

	Employer	
	2015 £000	2016 £000
2006 Firefighters' Pension Scheme	87	87
	87	87

There were no additional III Health retirements during 2015/16. III health charges in both years therefore relate to £67k in higher tier and £20k in lower tier retirements.

Transfers to or from other schemes

Where a firefighter transfers to or from another Fire and Rescue Authority within England there is no need for a cash transfer. A firefighter who transfers out of the Firefighters' Pension Scheme to another pension scheme, or to the Firefighters' Pension Scheme in Scotland, Wales or Northern Ireland, is entitled to ask for a Cash Equivalent Transfer Value to be paid across, equivalent to the value of their pension rights on leaving the Firefighters' Pension Scheme.

This would be paid from the Firefighters' Pension Fund and similarly an inward Transfer Value should be paid into the fund.

Top-up Grant

Since 1 April 2006, where employer and employee contributions paid into the Firefighters' Pension Fund are not sufficient to meet pension payments for the year, the deficit has been met by a Central Government top-up grant paid by the Department for Communities and Local Government (Firefighters Pensions moved to the Home Office from 1st April 2016). Any surplus in the fund must be paid back to central Government as the party that brings the account back to a nil balance at the end of each year.

Liabilities after year end

The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after 31 March 2016, which are disclosed separately in Note 37 of the main Hertfordshire County Council accounts.

APPENDIX B

Hertfordshire County Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

6 September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (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 from 1 April 2015’ issued by 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 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. This report is intended solely for the use of the Members of the audited body. 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 National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit. It includes messages arising from our audit of the financial statements and the results of the work we have undertaken to assess the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We are completing our audit of the financial statements of Hertfordshire County Council for the year ended 2015/16. Subject to satisfactory completion of the outstanding items included in Appendix A we will issue an audit opinion in the form which appears in Appendix D.</p> <p>We have performed the procedures outlined in our audit plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that the Council has put in place proper arrangements to secure value for money in its use of resources.</p> <p>We have not yet completed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. We will provide an update on the WGA at the Audit Committee on 23 September.</p>
Audit differences	<p>There are no unadjusted audit differences.</p> <p>Our audit identified some audit differences as well as some required corrections to disclosures which we have highlighted to management and which have been amended in the revised accounts. We do not consider these to be sufficiently significant to include in this report.</p>
Scope and materiality	<p>In our audit plan presented at the 23 March 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £17.6 million. We have reassessed this based on the actual results for the financial year and have decreased this amount to £17.1 million. Our materiality is based on 1% of gross operating expenditure reported in the draft accounts of £1.6 billion adjusted to include other operating expenditure and financing and investment expenditure included in notes 9 and 10 in the accounts.</p> <p>The threshold for reporting audit differences which impact the financial statements has also decreased from £880,000 to £856,000.</p> <p>We also set separate materiality levels and reporting thresholds for the group accounts which consolidate the Council's accounts with those of Hertfordshire Catering Ltd and Herts for Learning Ltd, and the fire-fighters' pension fund based on the draft financial statements as follows:</p> <ul style="list-style-type: none"> • Group accounts: We determined materiality to be £17.2 million, which we set on the same basis as for the single entity accounts based on the gross cost of services expenditure reported in the group accounts of £1.6 billion. We set a reporting threshold of £858,000. • Fire-fighters' pension fund: We set materiality at £0.135 million based on 1% of benefits payable of £13.5 million. We set a reporting threshold of £6,800. <p>We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For</p>

these areas we developed an audit strategy specific to these areas, the areas identified and audit strategy applied include:

- Officers' remuneration disclosures including exit packages and termination benefits: We agreed the numbers of employees disclosed as earning over £50,000 to payroll records, reviewed the disclosure and tested a sample of exit packages to approvals and calculations of the amounts payable.
- Members' allowances: We agreed the amounts disclosed in the note to payroll records, reviewed the disclosure note and confirmed that the disclosure was complete.
- Related party transactions: We assessed the related parties disclosed for completeness and accuracy through use of audit team knowledge, review of the register of interests and declarations and obtained supporting information for the entries disclosed in the note.

We carried out our work in accordance with our audit plan. This included carrying out controls testing of accounts receivable, accounts payable, cash processing and payroll, placing reliance on the work of Internal Audit. We also carried out early substantive testing of social care income and expenditure, Hertfordshire Business Services income and expenditure and waste management expenditure.

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:

- Property asset valuation.
- Better Care Fund.
- Risk of fraud in revenue recognition.
- Risk of management override.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues and others identified during the audit.

Other reporting issues

We have one matter we wish to report relating to a debt of £6.4 million in respect of St Mary's school. This debt, due from the Diocese of St Albans has been outstanding for several years. We are seeking specific representations on its collectability.

Control observations

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.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris

Director
For and on behalf of Ernst & Young LLP

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2. Responsibilities and purpose of our work

The Council's responsibilities

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

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements of the Council, the Group and the fire-fighters' pension fund and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these in our audit plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Property asset valuation</p> <p>Valuation of property assets and capital expenditure are significant accounting estimates that have material impact on the financial statements.</p> <p>One area which may be susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p>	<ul style="list-style-type: none"> Assessed and placed reliance on property valuation specialists commissioned by the Council and the auditor. Assessed and used an independent valuer's market report to assess and challenge the assumptions and judgements used by the Council's external valuer in valuing the Council's property. Tested the accounting entries made for revaluations. Tested the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure. 	<p>We have completed our planned procedures and have placed reliance on the work of the specialists.</p> <p>We used an independent valuer's market report to assess the overall reasonableness of the revaluations undertaken in the year. We also considered an impairment review undertaken by the Council's valuers.</p> <p>Our testing of the processing of revaluation entries revealed some errors which have been corrected in the accounts. These did not impact on the Council's reported financial position.</p> <p>The introduction of IFRS 13 –Fair Value Measurement has required surplus assets to be revalued on a new basis of highest and best use. Those surplus assets which were revalued in the year were done on the correct basis. However the Council has around 115 assets with a value of £36 million which had been valued in prior years and not been reassessed in 2015/16. These assets were subsequently reviewed by the valuer who has confirmed that the value at which they are currently held is in line with fair value given their current planning status.</p> <p>We have completed our testing of additions to ensure that they have been properly capitalised and have identified no evidence of mis-classification.</p>

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Better Care Fund</p> <p>The Better Care Fund (BCF) is a major policy initiative between local authorities, CCGs and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. The intention is that partners use the BCF to jointly commission health and social care services at a local level.</p> <p>From 1 April 2015 BCF has been set up as a pooled budget between the Council and local Clinical Commissioning Groups (CCGs). The pool is managed by the Council and has total funding of £230 million in 2015/16. The Council has contributed £110 million.</p> <p>Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding and inconsistencies between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the BCF.</p>	<ul style="list-style-type: none"> • Examined relevant S75 agreements entered into by the Council. • Reviewed proposed accounting treatments for the Better Care Fund and the disclosures made under relevant accounting standards. As part of this, we considered what relevant activities are undertaken and whether participants have control, either jointly or solely, over the arrangement. • Performed testing to gain assurance that the Council has appropriately accounted for its share of the pool. 	<p>We have considered the accounting treatment proposed by the Council and agreed with the CCGs. This analysed all the projects and funding streams within the Better Care Fund to determine which were jointly controlled and therefore pooled and which were controlled by only one of the participants. We agreed with the conclusions drawn.</p> <p>Our testing to confirm that the Council has correctly accounted for the transactions is complete and we are satisfied with the treatment adopted.</p> <p>We also noted that disclosures made by the Council in the pooled budget note in the accounts are in line with those made by the CCGs who prepared their accounts earlier in the year.</p>
<p>Risk of management override</p> <p>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.</p>	<ul style="list-style-type: none"> • 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 any significant unusual transactions. 	<p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We obtained a full list of the journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify unusual journal types or amounts. We then tested a sample of journals that met our criteria to supporting documentation.</p> <p>We considered that the accounting estimates most susceptible to bias were</p> <ul style="list-style-type: none"> • Property valuations (see above) • Pensions entries based on figures supplied by the actuary • Private Finance Initiative schemes <p>Overall there was no indication of bias within the calculation of these accounting estimates.</p> <p>We have identified no transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<ul style="list-style-type: none"> • Reviewed and tested revenue and expenditure recognition policies • Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias • Developed a testing strategy to test material revenue and expenditure streams • Reviewed and tested revenue cut-off at the period end date 	<p>Our testing focussed on the Council's main expenditure streams and on ensuring that creditors and provisions were not understated, as this would also understate expenditure.</p> <p>We also carried out cut-off testing where we examined a sample of receipts and payments after year end to ensure that where the transactions related to 2015/16 that they were properly recorded in the accounts.</p> <p>Overall our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.</p>

We also identified the following audit risks during the planning phase of our audit, and reported these in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Group accounts</p> <p>The Council set up two companies in September 2013:</p> <ul style="list-style-type: none"> • Hertfordshire Catering Ltd, which is a wholly-owned subsidiary • Herts for Learning Ltd, of which 20% is owned by the Council and the remainder by schools. <p>The Council continues to assess these interests as quantitatively and qualitatively material to the group and therefore the Council will continue to consolidate the companies into the Council's group accounts as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).</p> <p>There is a risk that the group financial statements do not meet the requirements as defined by the Code.</p>	<p>We reviewed and tested whether the Council has:</p> <ul style="list-style-type: none"> ▶ Identified all potential group entities against accounting standards IFRS 10 and 11. ▶ Adopted and correctly applied accounting policies that comply with the requirements of the Code. ▶ Consolidated the companies' accounts appropriately into the group accounts. ▶ Made all appropriate disclosures in accordance with adopted accounting policies and requirements of the Code. <p>We are responsible for the direction, supervision and performance of the group audit. We therefore instructed the auditor of the companies as part of our audit procedures.</p>	<p>We reviewed the Council's assessment of its interests in companies and other entities which might require consolidation into group accounts. The Council has determined that only Hertfordshire Catering Ltd and Herts for Learning Ltd are sufficiently material to require consolidation. Other interests which do not require consolidation are disclosed in note 48.</p> <p>Earlier in the year we issued instructions to the auditor of these two companies and have maintained an appropriate relationship with them. They have reported to us on the results of their audits.</p> <p>The audit of both companies has been completed and we have received copies of the signed audited accounts. Post audit amendments to Hertfordshire Catering Ltd accounts to reflect the company's tax liability of £0.2 million will also be reflected in the group accounts.</p> <p>We have carried out testing of the consolidation of the Council's accounts with those of the companies and confirmed that appropriate disclosures have been made in the group accounts.</p>

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Highways expenditure</p> <p>Internal Audit issued a limited assurance opinion in 2014 on highways contract management, indicating that there were significant weaknesses in key controls. The report noted that weaknesses had been identified in areas of invoicing, reconciliations, budget monitoring and coding of expenditure. Progress has been made in these areas, but processes are still developing and are not yet embedded.</p> <p>We carried out specific work to address this risk in 2014/15 and noted that there was uncertainty about the final amount which would be paid to the contractor. A final settlement is negotiated with the contractor post year end.</p> <p>As a result there remains a risk that highways expenditure, both revenue and capital, may be misstated, as the final settlement position for 2015/16 will be estimated at year end.</p>	<ul style="list-style-type: none"> Reviewed and tested the reconciliation of payments made to claims submitted by the contractor to provide assurance across the full year's total expenditure. Reviewed an overall reconciliation of the amount processed as highways capital expenditure on infrastructure. Reviewed the estimates and assumptions made as part of closing the 2015/16 accounts about the final expenditure position which will be agreed with the contractor. Considered the outcome of the negotiations on 2014/15 expenditure and whether a final settlement has been agreed and reflected in the 2015/16 accounts. 	<p>We have reviewed the reconciliation of payments made during the year to claims submitted by the contractor and have tested nine months in detail. No issues were noted in this testing.</p> <p>Our testing of infrastructure additions identified no evidence that expenditure had been misclassified as capital. We have reviewed the overall reconciliation of highways capital expenditure with no issues identified.</p> <p>Last year we reported that the potential outcome for 2014/15 ranged from an over-accrual of £0.3 million if the Council's position was accepted to an under-accrual of £3 million if the deductions and performance caps proposed by the Council were not accepted by the contractor.</p> <p>During 2015/16 the Council has paid the contractor £3.1 million to settle 2014/15 and a further £0.7 million to settle 2013/14. This was in line with the amount accrued at the end of 2014/15.</p> <p>In respect of 2015/16 the Council has accounted for expenditure of £46.1 million which includes a year-end accrual of £4.5 million. Payments since year end have been analysed and indicate that the accrual is understated by £80,000. The contractor has confirmed that it has presented its full accounts for the year to the Council so there should be no further payments due.</p> <p>We are therefore satisfied that revenue and capital highways expenditure in the 2015/16 accounts is not materially misstated.</p> <p>Internal Audit has recently issued a report on the governance, performance and contract management of the highways contract. Internal Audit has now provided moderate assurance reflecting the improvements to contract arrangements which have been made since the original review in 2014 and noting that an annual plan has been agreed to improve them further.</p>

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Pensions Ombudsman case GAD v Milne</p> <p>In May 2015, the Pensions Ombudsman published a decision which affected fire-fighters who retired between 2001 and 2006. The Ombudsman found that Government Actuary Department (GAD) had not updated the commutation factors which were used to calculate lump sums due on retirement and that fire-fighters who retired in this period were disadvantaged as a result. As a result of this decision these retired fire-fighters were to be compensated.</p> <p>In 2014/15 this was disclosed as a post balance sheet event, but no amendments were made to the accounts.</p> <p>The Department for Communities and Local Government (DCLG) expects these payments to be calculated and paid to affected pensioners by April 2016 and has agreed to fund these payments. The exact method of funding and resulting accounting for these payments is not fully determined, in particular whether they will need to be accounted for via the fire-fighters' pension fund.</p> <p>Such payments would be expected to be material to the fire-fighters' pension fund.</p>	<ul style="list-style-type: none"> Reviewed the progress made in calculating and paying the compensation due. Tested a sample of compensation payments. Performed testing to gain assurance that the Council has appropriately accounted for these payments and the expected DCLG funding. 	<p>During 2015/16 the payments due to the affected pensioners have been calculated and paid. These total £1.1 million and have been charged as benefits payable to the fire-fighters' pension fund.</p> <p>Our testing of a sample of the payments confirms that these have been calculated correctly.</p> <p>The expenditure has been funded by the pension fund top up grant payable by DCLG.</p> <p>The Council has added additional disclosure within the fire-fighters' pension fund accounts to explain the payments made. We have considered the treatment within the accounting for the overall pensions liabilities within the Council's accounts and have confirmed that these have been accounted for appropriately.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We wish to report the following matter:

St Mary's school debtor

The Council has a debtor account with the Diocese of St Albans in respect of the former St Mary's school site for £7.4 million partially offset by a bad debt provision of £1 million. The debt has been incurred as the Council supported the Diocese in relocating the school to a different site. The debt is to be settled by the sale of the former school site, which is owned by the Diocese who would then use the proceeds to repay the Council.

This debt has been outstanding for several years and we have sought assurance in the letter of representation in prior years that the amount would be recoverable at or near the full value. During 2015/16 the site has been sold for £6.4 million and the proceeds are held by the Diocese's solicitor pending final negotiations between the buyer of the site, the Diocese and the Council on the final costs. Following agreement the Council expects to be paid the balance held by the solicitor. As in prior years we are seeking representations on the recovery of this debt.

Control themes and observations

It is the responsibility of the Council 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 Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of 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.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E. In addition to the standard representations, we have requested the following specific representations:

- The recoverability of a debtor of £6.4 million from the Diocese of St Albans in respect of St Mary's School.

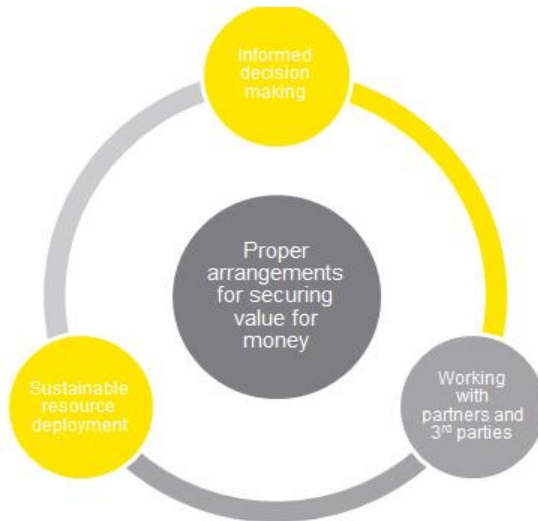
Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

There have been a number of technical issues with the documentation which local authorities are required to use to submit their returns. As a result of these issues the deadline for submission was extended into August. The Council has completed and submitted its return. The NAO has also extended the deadline for auditor completion and certification of the work to 21 October. We have not yet concluded work in this area.

We will provide a verbal update on WGA at the Audit Committee meeting. If we do not conclude our work on WGA prior to the opinion deadline we will be unable to issue our audit completion certificate. We can still issue our audit opinion. We will then need to complete some additional procedures after our completion and certification of the WGA return, prior to issuing the audit certificate.

4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

Overall conclusion

We identified a significant risk in relation to the arrangements for sustainable resource deployment because the Council has a significant gap between its spending plans and expected income in its medium term financial strategy.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements for sustainable resource deployment.

We therefore expect to conclude that the Council has put in place proper arrangements to secure value for money in its use of resources.

Significant risk

The table below presents the findings of our work in response to the risk area in our audit plan.

VFM risk identified within our audit plan

Financial pressures

The Council's finances continue to be under significant pressure in the medium term. When setting its 2015/16 budget in early 2015, the Council expected to make savings of £120 million per year by 2017/18. At the time the 2015/16 budget and Integrated Plan was finalised, £56.4 million of that amount was still to be found.

In December 2015 the provisional local government finance settlement was announced which included a significant reduction in government funding beyond that anticipated and already built into the Integrated Plan. Additional transitional grant has since been announced.

The Council is currently developing budget proposals to 2019/20. These show a gap of savings still to be found of £38.4 million in 2017/18 rising to £71.4 million in 2019/20.

The achievement of the Council's Integrated Plans to date has been good. However, the Council has to continue to deliver significant savings year on year in order to bridge the gap and balance its budget.

Key findings

We reviewed the Council's Integrated Plan covering 2016/17 to 2019/20 and budget setting for 2016/17. We have also assessed the level of reserves (both general fund and earmarked) that the Council has at 31 March 2016.

The Council has well established arrangements for undertaking its medium term financial planning which incorporate key assumptions and sensitivity review.

The Council has a proven track record of achieving its savings and delivering within its budget.

By the end of 2015/16 the Council had underspent its budget by £7.5 million. This was due to a number of factors such as underspending on a number of services, additional grant income and interest on balances and a release of reserves no longer required. The Council has historically underspent its budget, reflecting the level of savings delivered in the year. However the level of underspend is reducing compared to prior years (£27.7 million in 2014/15), reflecting the increasing financial challenges the Council faces.

The General Fund balance at £32.1 million is in line with the minimum prudent level of reserves which is based on 4% of the Council's net budget.

The level of non-schools earmarked reserves have decreased from £89.5 million in March 2015 to £76.3 million in March 2016, a decrease of £13.2 million. This is due primarily to the use of some specific reserves to fund projects in the year.

The 2016/17 budget included an overall increase in council tax of 1.99% together with the social care precept of 2%. The budget was balanced by savings identified of £32.6 million.

The final Integrated Plan shows that the Council needs to make savings of £125 million per year by 2020 and that £75.5 million of that amount remains to be found. The Council is developing its plans for tackling the savings requirement.

We are comfortable that the level of reserves held by the Council at 31 March 2016 covers the budget gap identified within the Integrated Plan to an appropriate level.

On the basis of the work we have undertaken we have concluded that the Council has appropriate arrangements in place for deploying resources in a sustainable manner.

Appendix A – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit Committee
Final accounts	<ul style="list-style-type: none"> Review of final accounts to ensure all expected changes have been made Approval of accounts by Audit Committee Accounts re-certified by RFO 	EY, management and Audit Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Areas of outstanding work	<p>The following are the major areas of work outstanding:</p> <ul style="list-style-type: none"> Receipt of confirmation letters for investments WGA 	EY
Audit closing procedures	Final audit closing procedures and review procedures	EY

Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 29 February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 23 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 29 February 2016.

Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	142,067	142,067	None

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements to date in respect of the 2015/16 financial year. In previous years we have carried out work on the teachers' pensions return. We have currently not been requested to carry out work on the 2015/16 return.

Appendix D – Draft audit report

Independent auditor's report to the members of Hertfordshire County Council

Opinion on the Authority and firefighters' pension fund financial statements

We have audited the financial statements and the firefighters' pension fund financial statements of Hertfordshire County Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Authority and Group Statements of Accounting Policies, the related notes 1 to 48 of the Authority financial statements and the related notes 1 to 4 of the Group financial statements,
- and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes.

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 2015/16.

This report is made solely to the members of Hertfordshire County Council, 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 12, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements and the firefighters 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially

inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Hertfordshire County Council and Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- 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.

Conclusion on Hertfordshire County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2015, as to whether Hertfordshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2015, we are satisfied that, in all significant respects, Hertfordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Hertfordshire County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

OR

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Appendix E – Management representation letter

To be prepared on the Council's letterhead and addressed to Ernst & Young

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Hertfordshire County Council ("the Group and Council") for the year ended 31 March 2016. The representations provided in this letter include the financial statements of the fire-fighters' pension fund which are included with the Council's consolidated financial statements.

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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of Hertfordshire County Council as of 31 March 2016 and of its financial performance and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our Group and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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 2015/16.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have 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 2015/16 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

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 consolidated and council financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the consolidated or council financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the consolidated or council financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.

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;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council and its committees (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: 23 September 2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council'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 year 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 consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

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 consolidated and council 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 42 to the consolidated and council financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than described in Note 6 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the values of the Group and Council's land and buildings and surplus assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council 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.

I. Estimates -Property Valuations

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate.
2. We confirm that the significant assumptions used in making the property valuations appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K. Going Concern

1. We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action and the feasibility of those plans.

2. There are no significant restrictions on our ability to distribute the retained profits of the group because of statutory, contractual, exchange control or other restrictions other than those indicated in the accounts.
3. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent, subsidiary undertakings and associated undertakings

L. Specific Representations

1. We believe that the debtor included in the financial statements with a net value of £6.4 million due from the Diocese of St Albans in respect of St Mary's school will be recoverable at or near full value by 31 March 2017 and so should be classified as a short term debtor at this value.

Yours sincerely

Director of Resources

I confirm that this letter has been discussed and agreed at the Audit Committee on 23 September 2016

Chair of Audit Committee

Appendix F – Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
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 ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Council's ability to continue as a going concern for the 12 months from the date of our 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 that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
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 	We have no matters we wish to report.

Required communication	Reference
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 	Audit Results Report
Consideration of laws and regulations <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 	We have not identified any material instances of non-compliance with laws and regulations.
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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 	Audit Plan and Audit Results Report
Significant deficiencies in internal controls identified during the audit	Audit Results Report
Group audits <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Plan Audit Results Report
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report Annual Audit Letter

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

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HERTFORDSHIRE COUNTY COUNCIL
FIRE PENSION BOARD
TUESDAY, 28 FEBRUARY 2017 10:00AM

Agenda Item No:

6

FIREFIGHTER'S PENSION FUND STATEMENT OF ACCOUNTS 2015/16

Report of the Director of Resources

Author of the report: Jolyon Adam, Finance Manager, Specialist Accounting
(Telephone: 01992 555078)

1. Purpose of the Report

- 1.1. To provide the Fire Board with the audited Firefighter's Pension Fund Statement of Accounts for 2015/16 ("the Accounts"). This is attached at Appendix A to the report.

2. Summary

- 2.1. The Firefighter's Pension Fund accounts are audited by Ernst & Young LLP as part of their audit of Hertfordshire County Council Statement of Accounts. The findings of the audit are published within the Audit Results Report (ARR) of the main Hertfordshire County Council audit. This is attached at Appendix B to the report.

3. Background

- 3.1. The Firefighter's Pension Fund is an unfunded defined benefits scheme meaning that there are no investment assets available to meet pension liabilities. Employee contributions and employer's contributions are paid into the pension fund from which pension payments are made. The fund is topped up by central Government grant if the contributions are insufficient to meet the cost of pension payments and any surplus in the fund is recouped by central Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

4. 15/16 Accounts & Audit Results

- 4.1. During 2015/16 contributions receivable and transfers in totalled £5,330k, whilst benefits paid and transfers out totalled £13,690k. The balance of £8,360k was topped up by Central Government grant.
- 4.2. The primary variance from 2014/15 was an increase in benefits payable of £1,107k as a result of a complaint from a member which was upheld by the Pensions Ombudsman in May 2015. This ruling resulted in additional payments being made to those whose pension commenced between 1 December 2001 and 21 August 2008, and who elected to commute pension for lump sum at retirement. All liabilities arising from this ruling were fully paid by March 2016, and additional grant was received to cover this. This event was also highlighted by the auditor in their ARR (Appendix B, p8).
- 4.3. During the audit process there was one audit query relating to the Firefighter's Pension Accounts, regarding an additional data request for a breakdown of contributions and pensionable pay by scheme category (1992, 2006 & 2015 Firefighter's Pension Schemes). Following the response to this request the query was closed and there were no further queries.

- 4.4. The Accounts were included within the County Council's Statement of Accounts which were signed off by the Audit Committee on 23 September 2016.
- 4.5. The Audit Results Report (ARR) issued an unqualified opinion on the Hertfordshire County Council and Firefighter's Pension Fund financial statements, with no recommendations made (Appendix B, p15).

5. Recommendations

- 5.1. That the Fire Pension Board note the accounts of the Firefighter's Pension Scheme 2015/16.

THE PENSIONS REGULATOR BENCHMARKING

Report of the Director of Resources

Author: Jolyon Adam, Finance Manager, Specialist Accounting
(Telephone: 01992 555078)

1. Purpose of the Report

- 1.1 To provide information about a benchmarking exercise carried out by The Pensions Regulator (TPR) in their survey of governance and administration of public service schemes; and
- 1.2 To recommend actions to further improve governance and administration of the Firefighter's Pension Fund.

2. Summary

- 2.1 A benchmarking exercise was carried out by TPR in September 2015 to baseline governance and administration standards for public service pension schemes.
- 2.2 TPR published the results of the survey in December 2015 and considers that these have largely been positive, although only 14 of 51 Fire & Rescue schemes responded to the 2015 benchmarking, a statistic that TPR is hoping to grow in future surveys.
- 2.3 Through this benchmarking exercise, officers have identified areas for development or improvement. An action plan is provided in section 5 providing details of work to further improve the performance of the Firefighter's Pension Fund. In addition a new policy has been developed in conjunction with Legal Services for "Reporting Breaches of the Law to The Pensions Regulator" applicable to both the Pension Fund and Firefighters' Pension Scheme. See section 5 and Appendix B.
- 2.4 TPR carried out a further round of benchmarking in December 2016 to gauge progress in improving performance of all public service pension schemes. Results of the 2016 benchmarking have not yet been published, but will be presented to the Board when available.

3. Recommendations

- 3.1 That the Fire Pension Board notes the content of this report and considers the actions to further improve governance and management of the Firefighter's Pension Fund.
- 3.2 That the Fire Pension Board review and approve the Policy for Reporting Breaches of the Law to The Pensions Regulator set out in appendix B.

4. Background

- 4.1 TPR have a role in driving statutory compliance and improving standards in the governance, administration and performance of Firefighter's Pension Schemes. TPR is the regulator of work-based pension schemes (including all public service pension schemes) and has legislative power to enforce compliance with regulations.
- 4.2 In September 2015, TPR carried out benchmarking to determine a baseline that will be used in the future to measure pension schemes' progress in improving compliance and standards.
- 4.3 The **TPR survey** covered all public service schemes including:
 - Central Schemes: Centrally administered unfunded schemes including the NHS, Teachers, Armed Forces and Civil Service
 - Local Government Pensions Scheme (LGPS)
 - Firefighters' Pension Scheme
 - Police Pension Scheme

This survey covered the key tools and processes that TPR considers to be benchmarks for good practice. These are set out in TPR's "Code of Practice: Governance and Administration of Public Service Pension Schemes" accessible from the TPR website <http://www.thepensionsregulator.gov.uk/doc-library/codes.aspx>

TPR intends that information collected through the survey will be used for regulatory purposes and to develop individual scheme risk profiles. As a result of this survey, TPR will focus attention on key areas of internal controls, record keeping and provision of accurate and high quality communications to scheme members.

TPR will carry out further surveys to check on progress and will implement an annual benchmarking exercise to continually assess the standards of public service schemes.

- 4.4 The Firefighter's Pension Fund scored well in these benchmarking exercises and further detail about the exercises and outcomes is provided in Appendix A. The following is a summary of areas for development that were identified through these exercises, some of which have been subsequently addressed:
 - Formal policies for Pension Board members to help acquire and retain knowledge. This area has been addressed in the development and

adoption of a training plan developed for Pension Board members. This plan will be reviewed given the recent changes in Board membership.

- Publication of policies for Record-Keeping and for Reporting Breaches of the Law. This area is partially addressed where a draft policy for Reporting Breaches of the Law is provided as Appendix B to the report for approval.
- Compliance with the statutory deadlines for issuing Annual Benefit Statements;
- Participation in benchmarking exercises to test value for money and improvement in the provision of information to scheme members and to provide quality assurance;
- assessments of data quality to ensure data held is accurate and meets the Pensions Regulator's quality

5. Development and Improvement Action Plan

5.1 The following plan sets out actions that are being undertaken to improve the performance of the Pension Fund and the Firefighters' Pension Scheme alongside target dates for completion.

5.2 Updates on progress against the actions will be provided in future quarterly Performance Reports to the Fire Pension Board.

Action	Target Date	Current Status
Policies		
Policy for Reporting Breaches of the Law	February 2017	A draft Policy is provided as Appendix B to this report. Following Member approval this will be published and effective from March 2017.
Policy for Record Keeping	May 2017	A formal policy will be developed as part of the Guaranteed Minimum Pension (GMP) Project to reconcile data with that held by HMRC. This to ensure any lessons learned are incorporated within the Policy.
Action	Target Date	Current Status
Annual Benefit Statements		
Annual Benefit Statements statutory deadline	August 2017	A project team has been established to oversee improvements to the processes for production and dispatch of Annual Benefit Statement to Scheme Members by the statutory deadline of 31 August. Progress is reported as part of the quarterly LPFA Administration Report.
Data Quality		
Data Quality	May 2017	Data is being improved as part of the Guaranteed Minimum Pensions Project which will continue until April 2017

Benchmarking		
Pensions Regulator Benchmarking	Spring 2017	Awaiting feedback from December 2016 Pensions Regulator benchmarking, to assess progress against the previous year's results.
Benchmarking administration efficiency and overall value for money fund management	September 2017	Carry out a benchmarking exercise in preparation for the retender of the pensions administration service contract which ceases in 2019.

APPENDIX A: TPR Survey and SAB Benchmarking Exercise

TPR Survey

This survey covered all public service schemes including:

- Central Schemes: Centrally administered unfunded schemes including the NHS, Teachers, Armed Forces and Civil Service
- Local Government Pensions Scheme (LGPS)
- Firefighters' Pension Scheme
- Police Pension Scheme

Participation in the TPR survey was voluntary with 48% of all public service schemes responding, covering approximately 85% of scheme members. Of this total, 52% of the 101 LGPS funds responded, the Hertfordshire Pension Fund being one of these funds.

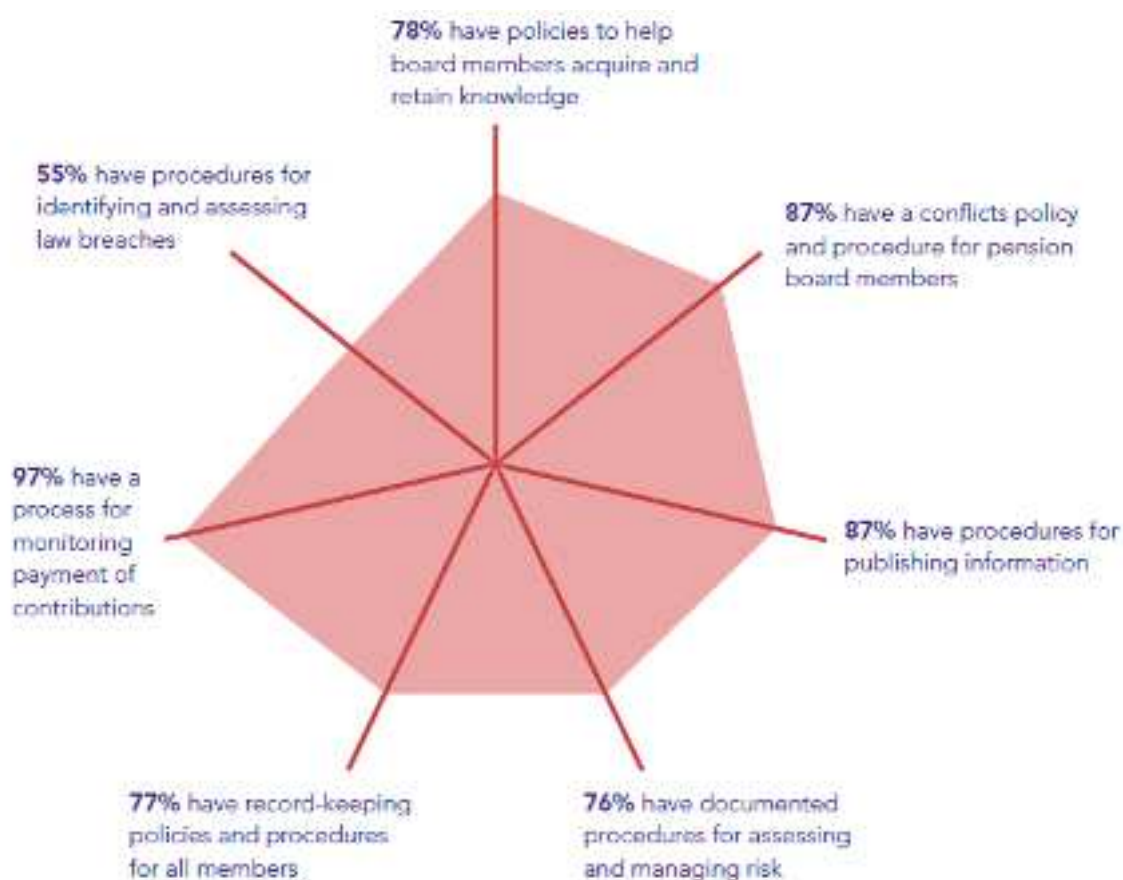
The following table shows the response rates across the four scheme groups.

Scheme Group	Total no. Schemes	Respondents	Response Rate
Central *	12	12	100%
LGPS	101	53	52%
Firefighters	51	14	37%
Police	45	22	49%
Total	209	101	48%

* Centrally administered unfunded schemes including the NHS, Teachers, Armed Forces and Civil Service

The following radar chart provides a summary of the results for all public service schemes which were published in December 2015 in "Public Service Governance and Administration Survey: Summary of Results and Commentary". This is accessible from the TPR website <http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2015.pdf>

**Excerpt from the Public Service Governance and Administration Survey:
Summary of Results and Commentary
The Pensions Regulator December 2015**



Overall, TPR consider that the results provide a good overview of stewardship of all public service pension schemes. On the whole, TPR consider that respondents to the survey reported high levels of awareness and understanding of governance and administration requirements set out in regulations and TPR Code of Practice.

Areas for Improvement

Section 5 to this report provides details of actions to be undertaken to address areas for development or improvement identified through TPR's Survey.

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INTRODUCTION

The Pensions Act 2004 (“the Act”) requires that certain people must report breaches of the law relating to the administration of pension schemes in writing to The Pensions Regulator (“the Regulator”). Practical guidance on this legal requirement is included in The Regulator’s Code of Practice (“the Code”) “Reporting breaches of the law”. The Code also sets out the duties that apply to those who are subject to the legal requirements to report breaches of the law and how these duties should be exercised.

Those subject to the duty to report breaches of the law are referred to in the Code as “reporters” and this term is used in this Policy. Reporters include those involved in the running of occupational pension schemes. Hertfordshire County Council as the Scheme Manager of the Local Government Pension Scheme (“the LGPS”) in Hertfordshire and the Firefighters’ Pension Schemes 1992, 2006 and 2015 is a reporter. These schemes are collectively defined as “the Pension Schemes” for the purposes of this Policy.

This document sets out the County Council’s Policy for Reporting Breaches of the Law to the Regulator (“the Policy”).

Aims

The County Council is committed to high quality standards in the management and governance of the Pension Schemes.

The aim of the Policy is to describe how the County Council meets its duty to report and will strive to achieve best practice through formal reporting breaches procedures. Additionally, the Policy aims to enable reporters to raise concerns and facilitates the objective consideration of those matters. The Policy will assist reporters of breaches to decide, within an appropriate timescale, whether to report a breach.

Scope

The Policy applies to all reporters in relation to the Pension Schemes, including:

- The County Council as Scheme Manager of the Pension Schemes;
- A Pension Board member;
- A Scheme employer (regardless of whether the breach relates to, or affects, members who are its employees or those of other employers);
- A professional adviser, including auditors, actuaries, investment advisers, Investment Fund Managers, the custodian, legal advisers and any other advisers who advise the Scheme Manager (or the Scheme Manager’s employees) in relation to the Pension Schemes;
- A person involved in the administration of the Pension Schemes, including employees of the London Pensions Fund Authority who provide the pensions administration service to the County Council, and County Council officers who are involved in the administration of the Pension Schemes;

Implementation

This Policy is effective from 1 July 2016. The Policy is kept under review and revised to keep abreast of legislative changes applicable to the Pension Schemes and changes to the Code.

Regulatory Basis

The following are links to the relevant legal provisions and Regulator's guidance relating to the duty to report breaches to the Regulator:

- The Pensions Act 2004 accessible from www.legislation.gov.uk/ukpga/2004/35/contents
- The Pensions Regulator's Code of Practice www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx

THE POLICY

When to consider reporting

Breaches can occur in relation to a wide variety of tasks normally associated with the administration of the Pension Schemes such as keeping records, internal controls, calculating benefits and, for funded schemes such as the LGPS, making investment or investment-related decisions.

Under the Act a reporter is required to give a written report to the Regulator as soon as reasonably practicable where the reporter has reasonable cause to believe that:

- a. a duty which is relevant to the administration of any of the Pension Schemes, and is imposed by or by virtue of a statutory provision or rule of law, has not been or is not being complied with; and
- b. the failure to comply is likely to be of material significance to the Regulator.

There are, therefore, two elements of the duty and both are subject to the test of “reasonable cause.”

The first is whether the reporter has reasonable cause to suspect a breach and the second is whether the reporter believes the breach is likely to be of material significance to the Regulator.

Judging whether there is “reasonable cause”

Having “reasonable cause” to believe that a breach has occurred does not mean that a breach must actually have occurred provided that the reporter reasonably believes it has. However, “reasonable cause” means more than having a suspicion that cannot be substantiated. To establish whether there is “reasonable cause”, the reporter should ensure that where a breach is suspected, then checks are carried out to establish whether or not there is evidence to support the suspected breach. However, the reporter is not required to gather evidence to the standard that would be required by the Regulator to take action. It is important that the reporter considers the impact of any delay in reporting a potential breach, which may exacerbate or increase the risk of the breach. It may be appropriate to report directly to the Regulator any breaches relating to theft, suspected fraud or other serious offences where discussions may impede investigations by the police or other regulatory authority, or alert those implicated leading to potential concealment of evidence.

Judging “material significance”

When deciding whether a breach is likely to be of “material significance” to the Regulator, the cause, effect, and reaction to the wider implications of the breach should be considered. The Regulator has provided a “Traffic Light” framework to assist in this decision and this is reproduced in Appendix 1.

Using the Traffic Light framework, each factor should be rated to determine the category that the breach falls into (red, amber or green).

A breach will not normally be materially significant if it has arisen from an isolated incident or where there has been prompt and effective action to investigate and correct the breach and its causes. However, it is important to consider wider aspects of the breach and they are likely to be of material significance under the following circumstances:

Cause

- Dishonesty
- Poor governance or administration
- Slow or inappropriate decision making practices
- Incomplete or inaccurate advice
- Acting (or failing to act) in deliberate contravention of the law

Effect of the breach

- A lack of adequate internal controls not having been established and operated
- Failure of the administration of any of the Pension Schemes to provide accurate information about benefits
- Failure to maintain appropriate records
- Pension Board members not having the appropriate degree of knowledge and/or understanding in order to fulfil their role
- Pension Board members having a conflict of interest
- Any other breaches that may result in poor governance of any of the Pension Schemes

Reaction to the breach

- Lack of prompt and effective action to remedy the breach and identify and resolve the cause
- Lack of action to carry out corrective action to a proper conclusion
- Failure to notify an affected scheme member(s) where appropriate

Decision to report

If, having used the Traffic Light framework to arrive at a decision about reporting a suspected breach, the reporter decides that a breach should be reported, this should be done as soon as reasonably practicable.

Reporting breaches to the Regulator: In the case of serious offences that require immediate investigation by the police or the Regulator, then the reporter should report these directly to the Regulator. Reports must be submitted in writing and can be sent by post or electronically by email or fax. Wherever possible, reporters should use the standard format available via the Pension Regulator's Exchange online service accessible from <https://login.thepensionsregulator.gov.uk/whatsavailable>

The County Council as Scheme Manager should be informed in any case where a reporter considers that there has been a breach, whether or not the reporter decides to report the breach to the Regulator.

A copy of any report of a suspected breach made to the Regulator should be sent to the Chief Finance Officer, the Head of Assurance Services and to the Chief Legal Officer.

The Regulator will acknowledge all reports within 5 working days of receipt and will be in contact in the event that clarifications or further information is required.

Reporting to the County Council's Pensions Committee

The quarterly Risk and Performance report presented to the Pension Committee will detail:

- All breaches, including those reported to the Regulator and those unreported;
- For each breach, details of the action taken and result of any action (where not confidential); and
- Any future action to mitigate or eliminate the risk of any future breaches of a similar nature.

APPENDIX 1 THE PENSION REGULATOR'S TRAFFIC LIGHT FRAMEWORK

The Pensions Regulator Public Service toolkit Example breaches of the law and the traffic light framework

Introduction

Certain people involved with the governance and administration of a public service pension scheme must report certain breaches of the law to The Pensions Regulator. These people include scheme managers, members of pension boards, employers, professional advisers and anyone involved in administration of the scheme or advising managers. You should use the traffic light framework when you decide whether to report to us. This is defined as follows:

- Red breaches must be reported.
- Amber breaches are less clear cut: you should use your judgement to decide whether it needs to be reported.
- Green breaches do not need to be reported.

All breaches should be recorded by the scheme even if the decision is not to report. When using the traffic light framework you should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. As each breach of law will have a unique set of circumstances, there may be elements which apply from one or more of the red, amber and green sections. You should use your own judgement to determine which overall reporting traffic light the breach falls into. By carrying out this thought process, you can obtain a greater understanding of whether or not a breach of the law is likely to be of material significance and needs to be reported. You should not take these examples as a substitute for using your own judgement based on the principles set out in the draft public service code of practice as supported by relevant pensions legislation. They are not exhaustive and are illustrative only.

Knowledge and understanding required by pension board members

Example scenario: The scheme manager has breached a legal requirement because pension board members failed to help secure compliance with scheme rules and pensions law.

Potential Investigation Outcomes				
Rating	Cause	Effect	Reaction	Wider Implications
Red	Pension board members have failed to take steps to acquire and retain the appropriate degree of knowledge and understanding about the scheme's administration policies	A pension board member does not have knowledge and understanding of the scheme's administration policy about conflicts of interest. The pension board member fails to disclose a potential conflict, which results in the member acting improperly	Pension board members do not accept responsibility for their failure to have the appropriate knowledge and understanding or demonstrate negative/noncompliant entrenched behaviours The scheme manager does not take appropriate action to address the failing in relation to conflicts	It is highly likely that the scheme will be in breach of other legal requirements. The pension board do not have an appropriate level of knowledge and understanding and in turn are in breach of their legal requirement. Therefore, they are not fulfilling their role to assist the scheme manager and the scheme is not being properly governed
Amber	Pension board members have gaps in their knowledge and understanding about some areas of the scheme's administration policies and have not assisted the scheme manager in securing compliance with internal dispute resolution requirements	Some members who have raised issues have not had their complaints treated in accordance with the scheme's internal dispute resolution procedure (IDRP) and the law	The scheme manager has failed to adhere precisely to the detail of the legislation where the breach is unlikely to result in an error or misunderstanding or affect member benefits	It is possible that the scheme will be in breach of other legal requirements. It is possible that the pension board will not be properly fulfilling their role in assisting the scheme manager
Green	Pension board members have isolated gaps in their knowledge and understanding	The scheme manager has failed to adhere precisely to the detail of the legislation where the breach is unlikely to result in an error or misunderstanding or affect member benefits	Pension board members take action to review and improve their knowledge and understanding to enable them to properly exercise their functions and they are making quick progress to address gaps in their knowledge and understanding. They assist the scheme manager to take prompt and effective action to remedy the breach	It is unlikely that the scheme will be in breach of other legal requirements. It is unlikely that the pension board is not fulfilling their role in assisting the scheme manager

Scheme Record Keeping

Example scenario: An evaluation of member data has identified incomplete and inaccurate records.

Potential Investigation Outcomes				
Rating	Cause	Effect	Reaction	Wider Implications
Red	Inadequate internal processes that fail to help employers provide timely and accurate data, indicating a systemic problem	All members affected (benefits incorrect/not paid in accordance with the scheme rules, incorrect transactions processed and poor quality information provided in benefit statements)	Action has not been taken to identify and tackle the cause of the breach to minimise the risk of recurrence nor to notify members	It is highly likely that there are wider scheme issues caused by inadequate processes and that the scheme will be in breach of other legal requirements
Amber	A failure by some – but not all – participating employers to act in accordance with scheme procedures indicating variable standards of implementing those procedures	A small number of members affected	Action has been taken to identify the cause of the breach, but progress to tackle it is slow and there is a risk of recurrence	It is possible that there are wider scheme issues and that the scheme may be in breach of other legal requirements
Green	A failure by one participating employer to act in accordance with scheme procedures indicating an isolated incident	No members affected at present	Action has been taken to identify and tackle the cause of the breach and minimise the risk of recurrence	It is unlikely that there are wider scheme issues or that the scheme manager will be in breach of other legal requirements

Providing information to members

Example scenario: An active member of a defined benefit (DB) public service scheme has reported that their annual benefit statement, which was required to be issued within 17 months of the scheme regulations coming into force, has not been issued. It is now two months overdue. As a consequence, the member has been unable to check:

- that personal data is complete and accurate;
- correct contributions have been credited;
- what their pension may be at retirement.

Potential Investigation Outcomes				
Rating	Cause	Effect	Reaction	Wider Implications
Red	Inadequate internal processes for issuing annual benefit statements, indicating a systemic problem	All members may have been affected	Action has not been taken to correct the breach and/or identify and tackle its cause to minimise the risk of recurrence and identify other members who may have been affected	It is highly likely that the scheme will be in breach of other legal requirements
Amber	An administrative oversight, indicating variable implementation of internal processes	A small number of members may have been affected	Action has been taken to correct the breach, but not to identify its cause and identify other members who may have been affected	It is possible that the scheme will be in breach of other legal requirements
Green	An isolated incident caused by a one off system error	Only one member appears to have been affected	Action has been taken to correct the breach, identify and tackle its cause to minimise the risk of recurrence and contact the affected member	It is unlikely that the scheme will be in breach of other legal requirements

Internal controls

Example scenario: A DB public service scheme has outsourced all aspects of scheme administration to a third party, including receiving contributions from employers and making payments to the scheme. Some contributions due to the scheme on behalf of employers and members are outstanding.

Potential Investigation Outcomes				
Rating	Cause	Effect	Reaction	Wider Implications
Red	The administrator is failing to monitor that contributions are paid to them in time for them to make the payment to the scheme in accordance with regulations and within legislative timeframes and is therefore not taking action.	The scheme is not receiving the employer contributions on or before the due date nor employee contributions within the prescribed period.	The administrator has not taken steps to establish and operate adequate and effective internal controls and the scheme manager does not accept responsibility for ensuring that the failure is addressed.	It is highly likely that the administrator is not following agreed service level standards and scheme procedures in other areas. The scheme manager is likely to be in breach of other legal requirements such as the requirement to have adequate internal controls.
Amber	The administrator has established internal controls to identify late payments of contributions but these are not being operated effectively by all staff at the administrator	The scheme is receiving some but not all of the employer contributions on or before the due date and employee contributions within the prescribed period	The scheme manager has accepted responsibility for ensuring that the failure is addressed, but the progress of the administrator in training their staff is slow.	It is possible that the administrator is not following some of the agreed service level standards and scheme procedures in other areas. It is possible that the scheme manager is in breach of other legal requirements.
Green	Legitimate late payments have been agreed by the scheme with a particular employer due to exceptional circumstances	The employer is paying the administrator the outstanding payments within the agreed timescale	The scheme has discussed the issue with the employer and is satisfied that the employer is taking appropriate action to ensure future payments are paid on time	It is unlikely that the employer is failing to adhere to other scheme processes which would cause the scheme manager to be in breach of legal requirements

LONDON PENSIONS FUND AUTHORITY FIREFIGHTERS PENSIONS ADMINISTRATION REPORT

Author: Mike Allen – Director of Pensions (LPFA)

Agenda Item No:

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Purpose of the report

This report is provided by the London Pensions Fund Authority (LPFA) giving an update on the delivery of the pensions fund administration services in the following sections.

Section 1: Statistics and key performance indicators

Section 2: An update on regulatory changes, including the latest news on the potential scheme changes

Recommendations

This is the first report submitted to Fire Pension Board providing detail on the Firefighters Pension arrangements. Comments are welcome as to additional information or content that should be included in future reports.

SECTION 1 STATISTICS AND KEY PERFORMANCE INDICATORS

1.1 Pensions Fund Statistics

Scheme Membership:

Membership of the Firefighter Pension Arrangements over the past year are summarised below:

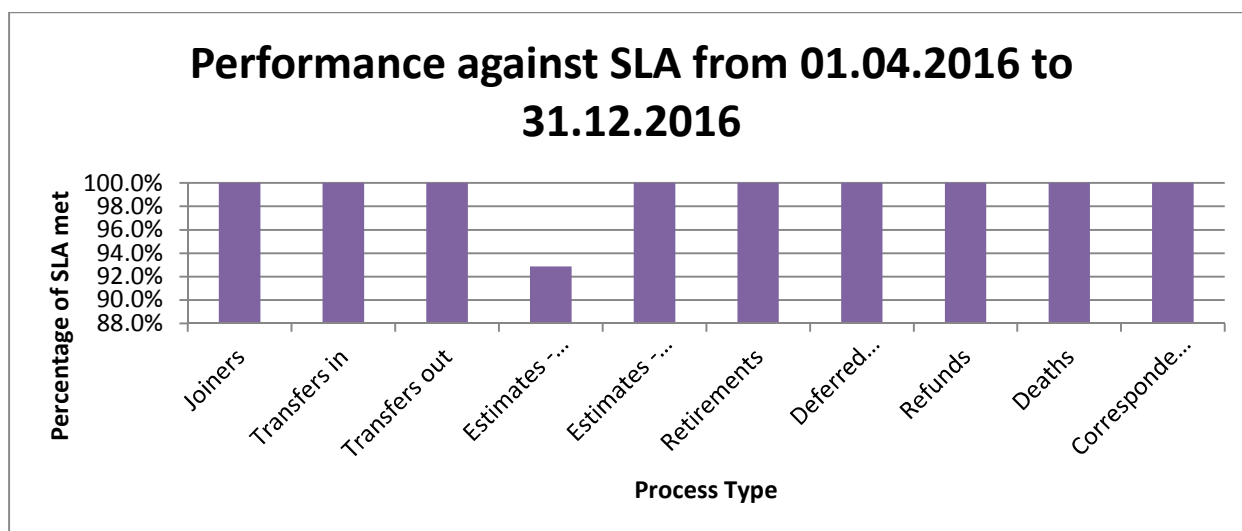
	Q4 2015/16	Q1 2016/17	Q2 2016/17	Q3 2016/17
Active Members	613	614	617	605
Deferred Members	203	209	220	229
Pensioners/Dependants	632	639	639	643

1.2 Performance Indicators

Performance of the Pension Fund is measured against key performance indicators that measure compliance, efficiency and effectiveness of the service. See Section 1.3.

1.3 Performance for the LPFA Pensions Administration Service

Service Level Agreement and Volumes: The following graphs provide a quarterly review of key areas and performance achieved, with performance overall during the period of over 97% compliance against Service Level Agreement (SLA).



4 member estimates were not completed within SLA but were completed within the agreed rectification period of 24 hours.

Key Processes Completed	01.01.2016 to 31.03.2016	01.04.2016 to 30.06.2016	01.07.2016 to 30.09.2016	01.10.2016 to 31.12.2016
Admissions	3	3	4	0
Transfers in	2	2	2	0
Transfers out	3	2	1	1
Estimates - member	25	26	9	21
Estimates - employer	0	1	0	0
Retirements	4	1	1	1
Deferred benefits	3	4	3	2
Refunds	0	2	3	0
Deaths	2	4	1	0
Correspondence	16	46	49	29
Total Key Processes Completed	58	91	73	54

LPFA Service Complaints

- None

Fire Authority Complaints

- None

IDRP's

- One Internal Dispute Resolution Procedure (IDRP) has been received regarding admittance to the Retained Modified Fire Fighters Pension Scheme. This is currently being reviewed in line with processes and an update will be provided to the next meeting of the Board.

SECTION 2 FIREFIGHTERS PENSION SCHEME REGULATIONS AND SCHEME CHANGES

Contribution Holiday for members of the 1992 Firefighters Pension scheme

The Department for Communities and Local Government has agreed to settle a case brought jointly with the Fire Brigade Union (FBU) and to provide a contributions holiday to those regular firefighters who joined the service before the age of 20 and served for over 30 years before reaching the minimum retirement age of 50. Such firefighters who serve after their 50th birthday will need to resume the payment of contributions. We will amend the 1992 Firefighters' Pension Scheme to give effect to these changes, applied retrospectively to 1 December 2006.

All current active Firefighters have been identified and a spreadsheet has been provided to enable FRA's to calculate the refund each member will receive. The next steps are as follows:

- Submit interim spreadsheet to Home Office - **complete**
- Using LGA prepared letter and mandate write to members - **complete**
- Once replies are received amend spreadsheet if additional income has been declared – **in progress**
- Arrange payment by 31/03/2017

Legal challenge over pension protection arrangements.

The Fire Brigade Union (FBU) has mounted a legal challenge in relation to 'protection' arrangements for firefighters who were in the 1992 Firefighters' Pension Scheme (FPS), which they argue are unfair to Scheme members on age, sex and race discrimination. These measures were introduced by government to allow pension scheme members time to adjust to the new arrangements introduced from April 2015.

The FBU were successful in the initial hearing that the case should be heard; however on 15 February the Central London Employment Tribunal rejected age discrimination claims on the grounds that Under Section 13 of the UK Equality Act 2010 age discrimination can be justified if it is applied in a proportionate manner to achieve legitimate aim.

The FBU and its legal advisors are due to meet on 23 February to decide whether they will appeal.

Active Annual Benefit Statements

Following the Local Pensions Partnership's (LPP's) attendance at the Fire Communications Groups we are aware that Clair Alcock is going to recommend that Annual Allowance figures are included within the 2017 Annual Benefit Statements. LPP, amongst several other authorities, have recommended that the current approach used remains in place where we write to individual members clearly affected by Annual Allowance limits. We will however include a line in the statement text to advise members with significant additional taxable income to seek guidance. We will work with the FRA to communicate on this matter.

State Pension Age

The Local Government Association (LGA) has produced a leaflet on 'topping up your state pension'. This leaflet is targeted to Local Government Pension Scheme members but may be relevant for those firefighters who retire before reaching State Pension Age and do not intend to work again and may be advised to top up their state pension. LPP will work to build information regarding this into retirement details provided to members to ensure that they are informed.

Pension case verdict in the news!

Denise Brewster, who was refused payments from her former partner's pension, has won her battle to extend benefits automatically to those who are unmarried, in a case which could benefit large numbers of public sector workers. Her victory at the Supreme Court marks a significant extension of the rights of unmarried cohabitants after five justices ruled the refusal to pay her the pension was unlawful. Her partner had worked for 15 years at Translink, which runs Northern Ireland's public transport services, and had paid into Northern Ireland's local government pension scheme. Shlomit Glaser, a solicitor specialising in family law at the London firm Glaser Jones said: It has wide implications for public sector schemes. The Supreme Court emphasised that no convincing economic or social reasons had been put forward for the policy of excluding a cohabitee, solely because a form had not been filled in.

There is no nomination available for the 1992 firefighters pensions scheme (FFPS) unlike the 2015 FFPS where firefighters can nominate and the authority could still pay without a nomination. It is too early to tell what the wider implications will be and we will continue to monitor.

Amendment Regulations

The Fire Amendment Regulations were expected before Christmas but have not yet been released.

SECTION 3 – ADDITIONAL PROJECTS

GMP Reconciliation

April 2016, contracting out status for all UK defined Benefit schemes will end. From January 2019, HMRC will no longer provide relevant information to Schemes and statements will be issued to individuals based on the final position recorded at the end of 2018. Before this happens all schemes will need to reconcile their Guaranteed Minimum Pension (GMP) data against that held by HMRC to ensure that correct liabilities are recorded and to avoid pensions being over/under paid or being faced with the burden of paying a GMP for members who are no longer in their Scheme. Work is underway between Hertfordshire County Council and London Pensions Fund Authority (LPFA) to ensure all relevant data is up to date and reconciled within the appropriate timescales.

The second phase of the Herts Fire GMP reconciliation is complete. All queries were uploaded to HMRC in July 2016. Pension Benefit revisions were passed to payroll in October for action in the November 2016 payroll run and all members were written to.

Of these revisions:

- 9 members received a reduction to their annual pension
- 1 member received an increase to their annual pension
- The impact on the pensions payroll is a reduction of £1,905 per annum
- The total overpayment calculated amounted to £16,169

Responses to the queries raised were received on 21 October 2016 and will be reviewed before planning the next phase.

It is anticipated that the data for active members will be available shortly and will follow the same process as deferred and pensioner members.