

The Audit Findings for Warwickshire Pension Fund

Year ended 31 March 2015

9 September 2015

John Gregory

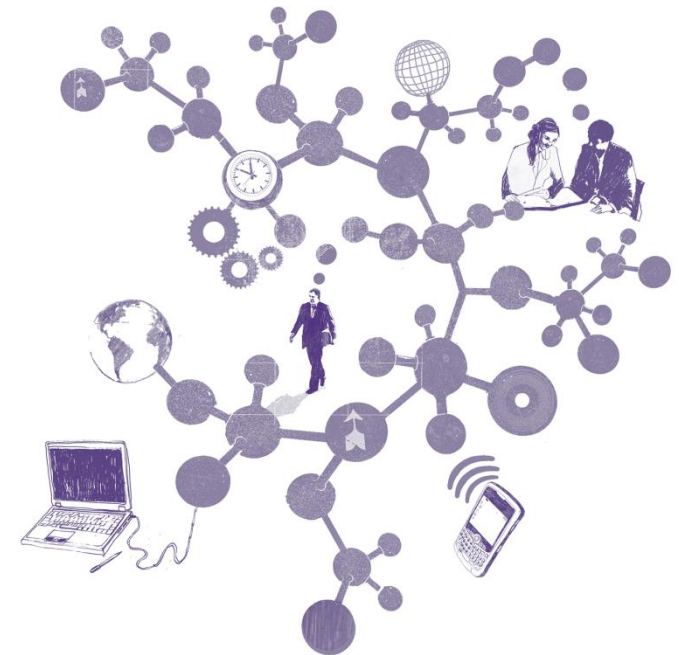
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9 September 2015

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Audit Findings for Warwickshire Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Warwickshire Pension Fund, the Audit and Standards Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

John Gregory, Director.

Chartered Accountants

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Warwickshire Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 23 March 2015.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- obtaining and reviewing the final management letter of representation,
- updating our post balance sheet events review, to the date of signing the opinion,

- review of the Pension Fund annual report, and
- completion of the assurance controls work required by admitted bodies in relation to IAS 19.

We cannot formally conclude the audit and issue an audit certificate until we have completed our review of the Pension Fund Annual Report. We have agreed with officers that this will be provided to the audit team for the first week in September. We will then complete the necessary audit work so that a separate audit statement on the pension fund annual report can be issued with our audit certificate.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- Working papers have continued to improve and are generally of a high standard,
- The draft accounts were presented for audit in accordance with the agreed timetable and contained minimal errors. This demonstrates a continued improvement in quality from prior years,
- We have noted a number of matters in relation to investments. None of these are material, and are reported separately in section 2 of this report, and
- A variety of minor errors have been identified during our substantive testing of member data. These are explained further in section 2 of this report.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have agreed with officers some minor adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council as the administering authority.

Findings

Our audit work has not identified any control weaknesses which we wish to highlight for your attention.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of Finance and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Standards Committee on 23rd March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix A.

We have yet to receive a copy of the Fund's Annual Report. We will confirm the wording of our proposed opinion on the financial statements in the Annual Report on completion of our review of the Annual Report.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management, • testing of journal entries, and • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p>Level 3 Investments – Valuation is incorrect.</p> <p>A level 3 investment is one where at least one input that could have a significant effect on the value of the investment is not based on observable market data. The most common example of which are investments in private equity, which are valued using various estimation techniques.</p>	<ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle, • reviewed the control reports from all fund managers with level 3 investments, • tested level 3 investments by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports, • reviewed the qualifications of fund managers as experts to value level 3 investments, • reviewed the nature of estimated values and the level of assurance that management has over level 3 investments. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, and we have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. 	Our audit work has not identified any significant issues in relation to the risks identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, and we have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. 	<p>Our audit work has not identified any significant issues in relation to the risks identified. However, testing of level 2 investments identified that a cash balance had been included in the analysis which should have been included as level 1. The value of the item was £2.6m and officers have agreed to amend for this.</p> <p>Review of the investments made during the year have demonstrated instances of non compliance with the Statement of Investment Principles. Officers are aware of this and are taking steps to bring the investments in line with the agreed principles. The departures will be included in the Annual Report. In addition, it was also noted that the Statement of Investment Principles has not been updated since April 2013. Again, officers are aware of the need to update the statement, and plans are in place for this to be completed in September.</p>

Audit findings against other risks continued



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct. (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested key controls over the contributions made to the fund, • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence, and • Performed an analytical review on contributions to ensure that any unexpected trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.
Benefit payments	Benefits improperly calculated/claims liability understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested key controls for member to be enrolled on the scheme, • Tested a sample of individual pensions in payment by reference to member files, and • Rationalised pension paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Member Data</p>	<p>Member data not correct. (Rights and obligations)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested key controls over changes to the pension fund data set, and • Tested a sample of changes to member data made during the year to source documentation. 	<p>Sample testing of the changes to member data found;</p> <ul style="list-style-type: none"> • In 1 out of 25 new joiners to the pension fund the Altair system had not been updated to include all of the required details for the starter. Auto-enrolment is now in place for the fund and therefore we do not consider the time lag in processing the information onto Altair indicative of material misstatement for the fund. • In 3 out of 25 members leaving active membership, the Altair system had not been updated to progress their status beyond 'undecided leaver', due to a backlog. From discussions with the actuary we are satisfied that this would not have a material effect on their calculations. • In 6 out of 25 changes of circumstance, there was a lack of supporting documentation to support the amendment on the Altair system. From discussions with the actuary we are satisfied these do not indicate a material misstatement for the fund. <p>While the issues above do not indicate a material misstatement for the fund in the current year, it does suggest that further work is needed on member data to ensure that it provides a robust platform for the calculation of career average payments in future years. In addition, member data is a key area for the Pension Regulator, whose remit now includes LGPS.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>There are two key policies in relation to revenue recognition: that for contribution income and that for investment income. Normal contributions are accounted for in the payroll month to which they relate. Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.</p>	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. 	
<p>Estimates and judgements</p>	<p>Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code.</p> <p>The fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager.</p>	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. Sufficient assurance has been provided by either the experts used for valuing the fund, or we have been able to agree valuations to third party evidence. Testing of level 1 investments against public data identified some minor differences in unit prices between that publically available and that provided by the fund managers on their reports. We have extrapolated the differences identified, which indicates a potential difference of £2m. We do not consider that this indicates a material error in the valuation of level 1 investments. In addition the closing values reported for Harbourvest are based on the value as at December 2014 due to timing differences in receiving up to date valuations from the fund manager. This has resulted in a potential difference of £3.6m when compared to the March 2015 report. The difference is such that the current estimate included in the accounts is less than that which would have been included if the final year end position had not been estimated. This is not material and is as a result of applying an appropriate estimation technique and therefore no amendment is required to the accounts. 	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from all of the investment managers and the custodian of the fund. Positive confirmation was received from all parties, and as a result no further procedures were considered necessary.
7.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for level 3 investment valuation, investment income, investment values, contributions, benefits payable and member data as set out on page 9 above.

There are no matters that we wish to bring to your attention.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<ul style="list-style-type: none"> As part of our responsibilities as the auditor of the pension fund we are required to provide a level of assurance to the auditors of a number of admitted bodies, should they request it. The assurances include comments around the controls in place for member data. Last year we reported errors found in updating member data. 	<p>We have continued to find errors in updating of the member data and our findings are reported on page 12 above.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The audit committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Impact on accounts	Reason for not adjusting
1 A review of the triangulation of fund manager, custodian and pension fund reporting identified that investments in MFS were being valued at mid price and not bid price as set out in the accounting policies.	Investment values are overstated by £968k	The difference is not considered material to the reader of the accounts.
Overall impact	£968k	

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Account balance	Impact on the financial statements
1 Presentation and disclosure	Various	<p>Our review of the accounts highlighted some minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with the Fund and changes have been made to the draft accounts submitted for audit.</p> <p>Examples include including a reference to the introduction of the Career Average Revalued Earnings (CARE) under operations and membership, to update the note referring to the delay in the introduction of IFRS 13, and to include a note that explains the material transfer out of the fund. We also highlighted some notes where comparative information in respect of the prior year needed to be added. This is in addition to the need to tidy up formatting and some punctuation prior to publication.</p>
2 Presentation and disclosure	Cash balance	The £1m cash balance has been shown as a liability on the net assets statement, however testing has demonstrated that this is an asset. The amount has been correctly reflected in the trial balance and this is a presentational error.
3 Disclosure	Assumptions about the future	The note presented for audit did not include any references to assumptions made about the future. We have agreed with officers some additions to the current note, which improve the clarity of the disclosure.
4 Presentation and disclosure	Administrative expenses	The draft accounts presented for audit were not in line with the changes to disclosure of administrative expenses required by the Code. We have agreed an amended note with officers.

Section 3: Fees, non-audit services and independence

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Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Pension fund scale fee	23,892	23,892
Agreed fee variation	1,328	1,328
Total audit fees	25,220	25,220

The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies within the Audit Commission regime and is consistent with that requested in prior years.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate we will provide the Council with an unmodified audit report on the Pension Fund

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARWICKSHIRE COUNTY COUNCIL

We have audited the pension fund financial statements of Warwickshire County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Pension 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 2014/15.

This report is made solely to the members of Warwickshire County Council in accordance with Part II of the Audit Commission Act 1998, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010 and for no other purpose. 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 Head of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the pension fund 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information and the annual report to identify material inconsistencies with the audited pension fund 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 the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
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Date:



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