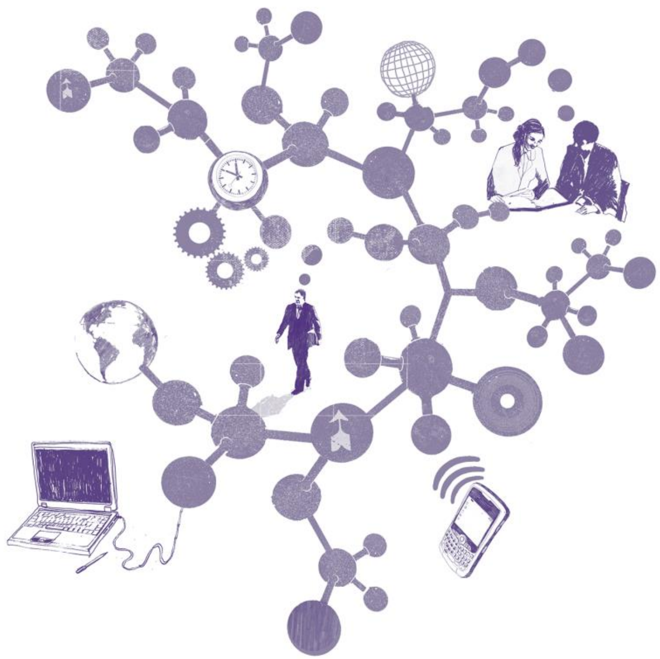
Grant Thornton

The Audit Findings for Warwickshire County Council Pension Fund

Year ended 31 March 2016

8 September 2016



Grant Patterson
Director
T 0121 232 5296
E grant.b.patterson@uk.gt.com

Helen Lillington
Manager
T 07880 456 111
E helen.m.lillington@uk.gt.com

Tess Barker
In-charge auditor
T 0121 232 5428
E tess.s.barker@uk.gt.com

Grant Thornton

Private and Confidential

Warwickshire County Council Pension Fund
Shire Hall
Warwick
CV34 4RL

Grant Thornton UK LLP
Colmore Plaza
Colmore Circus Queensway
Birmingham
B4 6AT
T +44 (0)121 212 4000
www.grant-thornton.co.uk

8 September 2016

Dear Members of the Audit and Standards Committee

Audit Findings for Warwickshire County Council Pension Fund for the year ending 31 March 2016

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 County Council Pension Fund, the Audit and Standards Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. 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

Grant Patterson
Engagement lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Warwickshire County Council Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

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

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 18 February 2016.

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

- review of the outstanding controls reports and bridging letters from the fund managers,
- review of the final version of the financial statements,
- obtaining and reviewing the management letter of representation,
- updating our post balance sheet events review, to the date of signing the opinion, and
- review of the Pension Fund Annual Report and issuing of a 'consistency with' opinion on the pension fund financial statements in the Pension Fund Annual Report under the NAO's AGN 07.

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

We anticipate providing a unqualified audit opinion in respect of the Pension Fund financial statements (see Appendix B).

Key audit and financial reporting issues

Financial statements opinion

Subject to satisfactory completion of the outstanding matters noted on the prior page, we anticipate providing an unqualified opinion in respect of the Fund's financial statements.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have:

a) identified one valuation error of £1.2m, one classification difference between Level 1 and Level 2 investments of £1.3m in a disclosure note and one misclassification of £1.6m in respect of returns on investments which Management are proposing not to amend on the basis that they do not materially impact a reader of the accounts. These are detailed further in the section of this report headed 'Unadjusted misstatements' on page 18. We are seeking the Audit & Standard's Committee's agreement not to adjust and confirmation of this within the Letter of Representation, and

b) recommended a number of adjustments to improve the presentation of the financial statements and ensure greater alignment with the Code.

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

- We have no material adjusted misstatements to report.
- Working papers continue to be of a high standard, with queries resolved promptly from both the finance staff and members of the pension administration team.
- Our testing of investments has identified some differences between values reported by the Fund, and values that are publically available, the differences are not material, and have been reported separately later in this report.
- The financial statements continue to be compliant with the CIPFA Code in all significant respects, however it has been a number of years now since the statements have been reviewed against the example accounts produced by CIPFA. In particular, the layout and ordering of the information provided could be improved to aid clarity for the reader of the accounts. We have discussed this with officers during the audit, and made some changes for the current year, and also suggested areas to consider in future years.

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

Controls

Roles and responsibilities

The Fund'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 Fund.

Findings

The only control weakness which we wish to bring to your attention is that this is the second consecutive year where no specific work has been undertaken on the activities of the Fund by Internal Audit. Further details are provided within section two of this report.

The way forward

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

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance and the Fund's finance team.

Acknowledgement

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

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £16,381k (being 1% of net assets at 31 March 2015). We have considered whether this measure and level remained appropriate during the course of the audit. Net assets at 31 March 2016 had increased to £1.665bn which would lead to a materiality of £16,651k (1% of net assets). We do not consider that the increase of £270k would impact upon our audit approach and have therefore made no changes to our overall materiality reported in our audit plan.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £818k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate, lower, materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Management Expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.	No separate materiality has been set, but these disclosures will be treated as a sensitive item and reviewed even if they are below our overall materiality level.
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k for the disclosures of key personnel in the related party note.

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.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Warwickshire County Council Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Warwickshire County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any material issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**We have undertaken the following work in relation to this risk:** • review of accounting estimates, judgements and decisions made by management, • testing of journal entries, and • review of unusual significant transactions.	Our audit work has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues. Our testing did identify three late journals that had been posted to amend an investment classification. These had not been formally approved in line with the Fund's normal procedures, however we have gained sufficient assurance that these journals were an appropriate year end adjustment.

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Level 3 Investments – Valuation is incorrect** Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	**We have undertaken the following work in relation to this risk:** • gained an understanding of the transactions via discussions with the pension fund team and reviewed supporting documentation. • carried out walkthrough tests of the controls identified in the cycle. • tested a sample of investments by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • reviewed the competence, expertise and objectivity of any management experts used.	Our audit work has not identified any significant issues in relation to the risk identified. However, we note that the fund manager confirmation from SL Capital is £0.9m higher than the value recorded by the custodian and therefore included in the accounts. The difference relates to unrealised gains not recorded by the custodian.
4.	**Disinvestment from assets managed by Blackrock Investment Management** The pension fund is in the process of moving all the assets it currently holds with Blackrock to Legal and General Investment Management (LGIM), as part of a pooling of passive mandates with other local government pension funds. LGIM already act as a fund manager for the pension fund and therefore we do not expect the transfer to be particularly complex, however the holding with Blackrock is significant (£284.4m at 31/3/15, or 17% of the fund's net assets) and we therefore consider it to be a significant non-routine transaction.	**We have undertaken the following work in relation to this risk:** • gained an understanding of the transaction including a review of supporting documentation. • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. • have reviewed the accounting entries in the financial statements to ensure that they are consistent with our understanding of the supporting documentation and with the requirements of the CIPFA Code of Practice.	Our audit work has not identified any significant issues in relation to the risk identified.

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)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • 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 risk identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • 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 risk identified. However, testing of Level 2 investments identified that two cash balances had been included in the analysis which shouldn't have been included. The value of the items is £3.8m and officers have agreed to amend for this.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • analysed contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • tested a sample of individual pensions in payment by reference to member files. • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Member Data	Member data not correct. (Rights and Obligations)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • sample tested changes to member data made during the year to source documentation.	Our audit work has not identified any significant issues in relation to the risk identified.

Significant matters discussed with management

Significant matter	Commentary
Reliance on the work of experts	The Fund places significant reliance on the work of both the custodian and the fund managers in producing the statement of accounts. During the course of the audit, we have challenged some of the initial assumptions used by the custodian, however we have seen limited evidence that the data provided has been challenged as part of the financial statements production process. In addition, our review of the control reports provided by fund managers has identified one control report that had been qualified by the auditors. We are satisfied that the control deficiencies are unlikely to lead to a material error in the financial statements but it is not clear how management had considered the potential impact of this qualification on the Fund and whether there was a matter to raise with those charged with governance. While we acknowledge that the Fund employs a range of experts to help them manage their investment portfolio, it is important that, where appropriate, assumptions used or areas of uncertainty are challenged and clearly understood by officers of the Fund when producing the financial statements. In addition, members need to be aware of the key areas of accounts that are influenced by experts and that the experts are suitably qualified and experienced in their field. This is an area that will become increasingly important as asset pooling develops, and governance structures become more complicated.
Fair Value of the debtor in respect of Nuneaton and Bedworth Leisure Trust	Following the winding-up of Nuneaton and Bedworth Leisure Trust in 2014/15 it was determined that a cessation payment of £2.7m was due to the Fund in respect of pension liabilities. This was shown as a current asset in 2014/15. No payments have been received in 2015/16 and the Council, as administering authority, is in on-going discussions with the Trust's guarantor. We have challenged management on whether the full debt is collectable and they remain of the view that it is. The sum is not material to our opinion but we have requested that the Fund includes a specific reference to the collectability of the £2.7m cessation payment in the management representation letter.

Accounting policies, estimates and 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 Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	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.	The policies are considered appropriate under the accounting framework in place.	● (Green)
Judgements and estimates	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. 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 choses to rely on the valuation provided by the fund manager.	• The policies are considered appropriate under the accounting framework in place. • Overall 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. • For Harbourvest, due to the timing differences in receiving up-to-date valuations from the fund manager compared to the date the financial statements need to be prepared the closing values reported for Harbourvest are estimated based upon the value of the investment as at December 2015. Updated valuations as at 31 March 2016 were available at the time of our audit and these have been reviewed to evaluate the reasonableness of the estimate or key assumptions used in the preparation of the estimate. We have noted that the estimate included in the financial statements is £1.7m less than that which would have been included if the final year end position had been known at the time the accounts were prepared. This is not material and below our expectation of tolerable error. We are therefore satisfied that the estimate is as a result of applying an appropriate estimation technique and no amendment is required to the accounts.	● (Green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators (Red) ● Accounting policy appropriate but scope for improved disclosure (Amber)
● Accounting policy appropriate and disclosures sufficient (Green)

Accounting policies, estimates and judgements continued

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 Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officers' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● (Green)
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.	● (Green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators (Red) ● Accounting policy appropriate but scope for improved disclosure (Amber)
● Accounting policy appropriate and disclosures sufficient (Green)

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• The draft note made no references to members of the pension board and whether they are active if that constitutes a related party interest. Officers have agreed to amend the note in the final version of the financial statements.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• In addition to the standard representations required, including the reasons for not adjusting for the matters identified on page 18, we have also requested that the Fund includes a specific representation in relation the collectability of the £2.7m cessation payment in respect of Nuneaton and Bedworth Leisure Trust.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund. This permission was granted and the requests were sent, all of these requests were returned with positive confirmation, with the exception of Partners Group, who hold a value of investments of £0.7m. Further procedures have been carried out in respect of this balance.
6.	**Disclosures**	• The financial statements continue to be compliant with the CIPFA Code in all significant respects, however it has been a number of years now since the statements have been reviewed against the example accounts produced by CIPFA. In particular, the layout and ordering of the information provided could be improved to aid clarity for the reader of the accounts. We have discussed this with officers during the audit, and made some changes for the current year, and also suggested areas to consider in future years.
7.	**Matters on which we report by exception**	• We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2016 and therefore this has not yet been produced. We are therefore unable to give a certificate of completion on the audit of the administering authority until this work has been completed.

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 Investment Income, Contributions, Benefits Payable, and Member Data as set out on page 9 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	● (Amber)	Our examination of the overall control environment includes a review of internal audit. While we have concluded that internal audit are independent and have the required skills, we note that the audit plan included no specific work on the pension fund for the current year. This was also reported last year. Our work in the sector demonstrates that most funds have some form of internal audit coverage, and that this has increased in recent years to take account of the introduction of LGPS 2014. Members will be aware that the landscape for public sector pensions is undergoing substantial change currently and it is important that appropriate assurance is gained in key areas. Last year was the first year that the pensions regulator had a remit in relation to public sector pension schemes, and to date they have undertaken limited work, however it is important to note that any review they undertake is likely to focus on member data and administration of the information held by the Fund.	The Head of Finance, in conjunction with members should consider whether sufficient assurance is in place on key controls within the pension fund. Further consideration is also needed on the most appropriate reporting mechanism for the work of internal audit in relation to the pension fund, either continuing through the Audit and Standards Committee, or via the local Pension Board.
2.	● **(Amber)**	Testing of Level 1 investments against public data identified some minor differences in unit prices between those that are publically available and those provided by the fund managers on their reports. We have projected the differences identified, which indicates a potential difference of £1.5m. The individual differences are trivial and we are satisfied that as the projection is significantly below our tolerable error that we have a reasonable basis for concluding on the population as a whole and do not consider that this indicates a material error in the valuation of Level 1 investments. However, as noted earlier it is important that, where appropriate, assumptions used by the Fund's experts are challenged and clearly understood by officers of the Fund when producing the financial statements.	The Head of Finance should consider whether appropriate controls and processes are in place to validate and challenge information provided by experts when producing the financial statements. In addition, members need to be aware of the key areas of accounts that are influenced by experts and that the experts are suitably qualified and experienced in their field.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment

● Significant deficiency – risk of significant misstatement (Red)
● Deficiency – risk of inconsequential misstatement (Amber)

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below.

	Detail	Account balance	Reason for not adjusting
1	We have identified that investments with MFS have been valued using mid price. The accounting policies clearly state that this should have been valued using bid price. If the holdings had been valued at bid price the value would have been £1.2m lower and therefore this has resulted in equities being overstated by £1.2m.	Equities £571.6m	The balance is not considered material to the reader of the accounts.
2	Within Note 19 – Financial instruments and fair value disclosures – we identified a classification error of £1.3m between Level 1 and 2 investments. The total combined value of the investments is correct.	Note 19 – Financial instruments and fair value disclosures	The disclosure difference is not considered material to the reader of the accounts.
3	CIPFA guidance states that management fees which are netted off fund assets should be grossed up. The Fund has recognised this by grossing up management fees which are not invoiced as an opposite entry to the return on investments so that the net impact on the Fund Account is nil. The CIPFA recommended treatment is to identify the value of units redeemed in lieu of fees and report this as a disposal, thus increasing the reported profit on disposal and/or change in the market value of investments, with no net impact on the Fund Account. The treatment by the Fund as a return on investments is therefore not in line with this guidance. The total value of such entries identified is £1.6m that have been misclassified.	Return on investments	Officers have not amended for this as it links to guidance and not a Code requirement but have agreed to add an additional disclosure explaining the treatment.

Misclassifications and 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	Our review of the financial statements highlighted some 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 adjustments were agreed with the Fund and changes have been made to the draft accounts submitted for audit. Examples include Note 1 making reference to outdated regulations, Note 2 referred to the wrong version of the Code and the Statement of Responsibilities referred to the wrong version of the Accounts and Audit Regulations. Additional disclosure was requested to take account of the changes to the governance arrangements and the introduction of the local Pension Board. 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.
2	Disclosure	Critical judgements and estimation uncertainty	The draft accounts state that the Fund makes no critical judgements, however given the nature of both private equity investments and the actuarial information this is not in line with our expectations. We have discussed this with officers and additional disclosures for the 2015/16 accounts have been agreed which more closely align with the CIPFA example accounts. Further improvements in this area are planned for 2016/17.
3	Disclosure	Note 19 – Financial instruments and fair value disclosures	The fair value notes that classify assets as Level 1, Level 2 or Level 3 incorrectly include loans and receivables and cash instruments. Officers have agreed to amend these disclosures. In addition, we would expect the disclosures on financial instruments to include a note on the Fund's exposure to hedge funds, again officers have agreed to add further disclosure in the revised accounts.
4	Disclosure	Events after the reporting date	There is currently no note for events after the reporting date. Given the recent uncertainties in financial markets as a result of Brexit we have asked management to consider where there are non-adjusting post balance sheet events that might need to be reported at the date the financial statements are authorised for publication.

Misclassifications and disclosure changes continued

	Adjustment type	Account balance	Impact on the financial statements
5	Misclassification	Management expenses	We had highlighted this note as a sensitive item as a result of the level of public interest in the cost of managing pension funds and the recent government agenda on pooling. Our review highlighted some misclassification of costs between categories, which have now been amended for.
6	Misclassification	Return on investments	One item tested related to grossed up management fees which are not invoiced, this being the opposite entry to the return on investments so that the net impact on the fund account is nil. CIPFA guidance does state that management fees which are netted off fund assets should be grossed up, however the recommended treatment is to identify the value of units redeemed in lieu of fees and report this as a disposal, thus increasing the reported profit on disposal and/or change in the market value of investments, with no net impact on the Fund Account. The treatment by the Fund as a return on investments is therefore not in line with this guidance. The total value of such entries identified is £1.6m that had been misclassified. Officers have not amended this but have agreed to add an additional disclosure explaining the treatment.
7	Disclosure	Note 14 Currency Risk	Noted an inconsistency in the number of decimal places used in the table in Note 14 of the draft accounts. This meant that the table was not coherent. Officers have agreed to amend this so that all figures are shown consistently.
8	Misclassification	Infrastructure and Private Equity investments	Our work identified that infrastructure investments, and one private equity holding, had been classified as equities based on information from the custodian. Following review of the SORP and discussions with the fund managers it was agreed that these should be classified as managed funds. Officers have agreed to amend the accounts to reflect this.

Section 3: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	23,892	23,892
Agreed fee variation – IAS 19	1,328	1,328
Total audit fees (excluding VAT)	**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 with the PSAA regime and is consistent with that requested in prior years.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for other services

Service	Fees £
Audit related services	**Nil**
Non-audit services	**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 Auditing Practices Board'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

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. 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 NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund 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 Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The format and content of the accounts should be reviewed against the CIPFA example accounts to identify any improvements that could be made in future years.	Medium	Agreed	For 2016/17 accounts, Vicki Forrester and Andrew Lovegrove
2	The Head of Finance, in conjunction with members should consider whether sufficient assurance is in place on key controls within the pension fund. Further consideration is also needed on the most appropriate reporting mechanism for the work of internal audit in relation to the Pension Funds, either continuing through the Audit and Standards Committee, or via the local Pension Board.	Medium	We will discuss further with the Chief Internal Auditor to ensure that where we rely on assurance of Council-wide systems, testing includes Pension Fund transactions, and that this is 'mapped' across pension fund activity so we can take a view on whether there are any further areas that need internal audit coverage.	March 2017, John Betts
3	The Head of Finance should consider whether appropriate controls and processes are in place to validate and challenge information provided by experts when producing the financial statements and that members are aware of the key areas of accounts that are influenced by experts and that the experts are suitably qualified and experienced in their field.	Medium	We will ensure that covering reports introducing the accounts to elected members clarify the areas where we use external experts.	March 2017, John Betts

Appendix B: Audit opinion

We anticipate we will provide the Fund with an unmodified audit report or amend as appropriate

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

We have audited the pension fund financial statements of Warwickshire County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 the Head of Finance's Responsibilities, the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which 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 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 in the Authority's Statement of Accounts 2015/16 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 financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Grant B Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

xx September 2016