



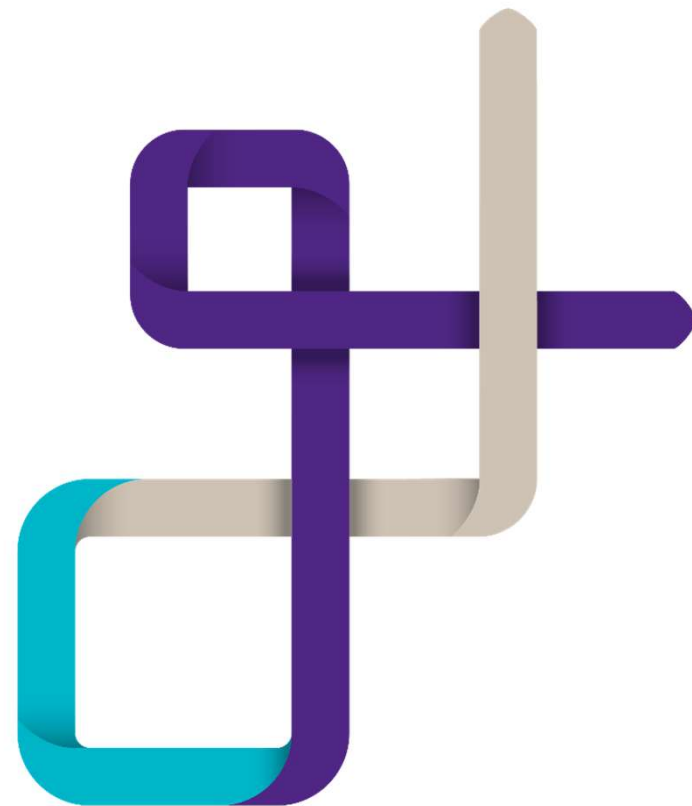
# External Audit Plan

*Year ending 31 March 2018*

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Warwickshire Pension Fund

29 March 2018



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Warwickshire Pension Fund ('the Fund') for those charged with governance. We will report any updates or changes to our risk assessments arising from our interim audit visits as part of our 'Interim Progress Report' if required.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Warwickshire Pension Fund. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for 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 and Standards Committee).

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based.

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## Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Level 3 investments valuation is incorrect

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

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## Materiality

We have determined planning materiality to be £19.838m (PY £16.651m), which equates to 1% of your net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £992k (PY £833k).

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## Audit logistics

Our interim visit will take place in February and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £23,892 (PY: £23,892) for the Fund. Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

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## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

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# Deep business understanding

## Changes to service delivery

### Pooling

Arrangements for the pooling of investments continue to develop. The MHCLG have reported on the progress of pools and noted the pace of development, including the launching of procurements for pool operators, appointing senior officers and preparing applications for FCA authorisation. This remains a challenging agenda, with arrangements required to be in place from 1 April 2018. These arrangements will have a significant impact on how investments are managed and monitored, with much of the operational responsibility moving to the pool operator. It remains key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

### Markets in Financial Instrument Directive (MiFID II)

January 2018 saw the implementation of MiFID II. Per the verbal update delivered to the December Investment Sub-Committee, the Fund is now classified as a professional investor by each of its fund managers, the one exception is JP Morgan, who have determined that the fund is protected under the UCITS rules. Going forward the Fund will need to be able to continue to demonstrate it meets the 'opt up' requirements to maintain its status.

### On-going Matters

- Indexation and equalisation of GMP in public service pensions schemes
- Reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the LGPS
- SAB work on options for academies within the LGPS and review of Tier 3 employer risks

## Changes to financial reporting requirements

### Accounts and Audit Regulations 2015 (the Regulations)

The Ministry of Housing, Communities and Local Government (MHCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed but it is now not anticipated until 2018/19 so they are unlikely to apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to bring forward the approval, audit and publication of their accounts by 31 July 2018. In the last 2 years the fund have made progress in preparing draft accounts to an earlier timetable and are well placed to meet the required deadlines in 2017/18.

### Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure.

## Key issues

### Financial

The fund value was £2,039.4m at 30 September 2017, an increase of 1.32% on the previous quarter.

Overall, the fund under-performed its overall benchmark by 0.31%

### General Data Protection Regulations (GDPR)

GDPR comes into effect in May 2018 and replaces the Data Protection Act 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.

### tPR 2016 Governance and Administration Survey

Published in May 2017 whilst showing improvements in governance tPR noted that its focus for 2017-18 would be scheme governance, record keeping, internal controls and member communication and that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers where scheme managers have not taken sufficient action to address issues or meet their duties.

## Our response

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

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# Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	Under ISA (UK) 240 there is a rebuttable 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 the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including Warwickshire County Council as the Administering Authority of Warwickshire Pension Fund, mean that all forms of fraud are seen as unacceptable</li></ul> Therefore we do not consider this to be a significant risk for Warwickshire Pension Fund.
<b>Management over-ride of controls</b>	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	We will: <ul style="list-style-type: none"><li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li><li>• document of the journal control environment, obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li><li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li></ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The valuation of Level 3 investments is incorrect</b>	<p>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.</p> <p>We have identified the valuation of Level 3 investments as the risk requiring special audit consideration.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments</li><li>• consideration of the competence, expertise, qualifications and objectivity of fund managers used as management experts used to value Level 3 investments at year end</li><li>• request year-end confirmations from fund managers and custodian of all holdings and valuations at the period end together with a statement of transactions (including purchases, sales and investment income if possible) during the period</li><li>• ensure confirmations from fund managers and custodian tie back to the accounts, and investigate any non-trivial variances</li><li>• review investment manager service auditor reports on operating effectiveness of internal controls</li><li>• for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2018 with reference to known movements in the intervening period.</li></ul>

# Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Contributions</b></p>	<p>Contributions from employers and employees' represents a significant percentage of the Fund's revenue.</p> <p>We identified occurrence and accuracy the risks requiring particular audit attention.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• evaluate the Fund's accounting policy for recognition of contributions for appropriateness;</li> <li>• gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls;</li> <li>• test a sample of contributions to source data to gain assurance over their accuracy and occurrence;</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.</li> <li>• test a sample of contributions to source data to gain assurance over their accuracy and occurrence;</li> </ul>
<p><b>Pension Benefits Payable</b></p>	<p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified completeness of pension expense as a risk requiring particular audit attention.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;</li> <li>• gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls;</li> <li>• test a sample of individual pensions in payment by reference to member files;</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.</li> <li>• test a sample of contributions to source data to gain assurance over their accuracy and occurrence;</li> </ul>

# Reasonably possible risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The valuation of Level 2 investments is incorrect</b>	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We have identified the valuation of Level 2 investments as the risk requiring special audit consideration.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• gain an understanding of the Fund's process for valuing level 2 investments and evaluate the design of the associated controls</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments</li><li>• consideration of the competence, expertise, qualifications and objectivity of management experts used to value Level 2 investments at year end</li><li>• request year-end confirmations from fund managers and custodian of all holdings and valuations at the period end together with a statement of transactions (including purchases, sales and investment income if possible) during the period.</li><li>• ensure confirmations from fund managers and custodian tie back to the accounts, and investigate any non-trivial variances.</li><li>• review investment manager service auditor reports on operating effectiveness of internal controls.</li><li>• For a sample of investments, test the valuation by obtaining independent information from custodian/manager on units and unit prices.</li></ul>



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# Other matters

## Other work

The Fund is administered by Warwickshire County Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements. Therefore as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We consider our other duties under the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

## Materiality for planning purposes

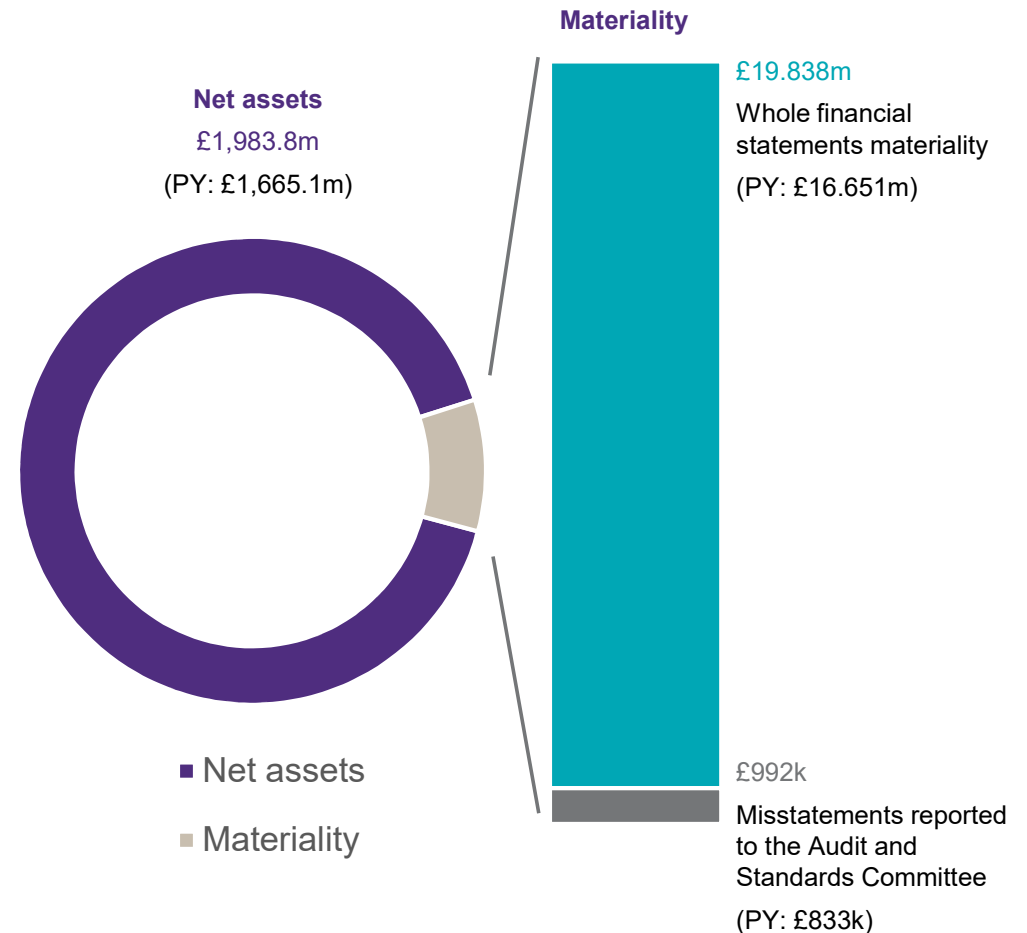
We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £19.838m (PY £16.651m), which equates to 1% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

## Matters we will report to the Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £992k (PY £833k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.



# Audit logistics, team & audit fees



## Grant Patterson, Engagement Lead

Grant's role will be to lead our relationship with you. She will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value.



## Andrew Reid, Audit Manager

Andrew's role will be to be a key contact with the Chief Finance Officer and the Audit and Standards Committee.



## Georgia Beirne, Audit Incharge

Georgia's role will be to be the day to day contact for finance staff. He will take responsibility for ensuring there is effective communication and understanding by the finance team of audit requirements.

## Audit fees

The planned audit fees are no less than £23,892 (PY: £23,892) for the financial statements audit. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

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# Early close

## Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

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# Independence & non-audit services

## **Auditor independence**

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund.

## **Non-audit services**

No non-audit services were identified

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# Appendices

**A. Revised ISAs**

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# Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

<b>Section of the auditor's report</b>	<b>Description of the requirements</b>
<b>Conclusions relating to going concern</b>	We will be required to conclude and report whether: <ul style="list-style-type: none"><li>• The directors use of the going concern basis of accounting is appropriate</li><li>• The directors have disclosed identified material uncertainties that may cast significant doubt about the Fund's ability to continue as a going concern.</li></ul>
<b>Other information</b>	We will be required to include a section on other information which includes: <ul style="list-style-type: none"><li>• Responsibilities of management and auditors regarding other information</li><li>• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation</li><li>• Reporting inconsistencies or misstatements where identified</li></ul>
<b>Additional responsibilities for directors and the auditor</b>	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
<b>Format of the report</b>	The opinion section appears first followed by the basis of opinion section.



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