Item 8

Council

21 September 2017

Warwickshire Pension Fund Statement of Accounts & Annual Governance Report 2016/17

Recommendation from the Audit & Standards Committee

That Council approves the Pension Fund 2016/17 Statement of Accounts.

1. Statement of Accounts

1.1. Appendix A to this report presents the Statement of Accounts for 2016/17. (The accounts and related appendices have been circulated separately).

1.2. The Statement of Accounts for Warwickshire Pension Fund is comprised of the following:

- Statement of Responsibilities
- Fund Revenue Account
- Fund Net Assets Statement
- Statement of Accounting Policies
- Notes to the Financial Statements
- Actuarial Statement

2. Annual Governance Report

2.1. Our external auditors, Grant Thornton, are required to report to those charged with governance on issues arising from the audit of the financial statements of the Pension Fund before issuing their final opinion. Their report for 2016/17 is set out at Appendix B. This report is in addition to the usual Audit Management Letter which will be presented to this Committee later this year.

2.2. The Audit Director and Audit Manager will attend the meeting to present their report.

3. Letter of Representation

3.1. As part of the audit process the External Auditors require written confirmation about the fairness of various elements of the financial statements. This is known as the Letter of Representation. In the letter the Head of Finance and those charged with governance on audit matters declare that the financial statements and other presentations to the auditor are, to the best of their knowledge, sufficient, appropriate and without omission of material facts. The Audit and Standards Committee are asked to approve, subject to any changes which may be necessary to the final draft, the wording of the Letter of Representation for the Pension Fund at Appendix C.

3.2. The final version of the letters will be signed, by the Chair of the Council and the Head of Finance, when the accounts are approved by Council on 21 September 2017.

Background Papers

None

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Report Author	Vicki Forrester	vickiforrester@warwickshire.gov.uk
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The following Elected Members have been consulted on this report prior to its publication:

Audit and Standards Committee members:

John Bridgeman (Independent Chair), Bob Meacham, independent member

Councillors Parminder Singh Birdi, Mark Cargill, Andy Crump, Bill Gifford, John Holland, Jill Simpson-Vince

Warwickshire Pension Fund

Statement of Accounts

2016/17

Warwickshire County Council

WARWICKSHIRE pension fund

We would welcome any comments or suggestions you have about this publication. Please contact Chris Norton, Strategic Finance Manager, Resources Group, Warwickshire County Council.

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You can also leave your comments on our website at www.warwickshire.gov.uk

If this information is difficult to understand, we can provide it in another format, for example, in Braille, in large print, on audiotape, in another language or by talking with you.

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Independent Auditors’ Report

Statement of responsibilities for the statement of accounts

This section explains our responsibilities, in line with the Accounts and Audit Regulations 2015, for our financial affairs and how we ensure we carry out these responsibilities properly.

Responsibilities of the Pension Fund

We must do the following:

- Make sure that one of our officers is responsible for managing our financial affairs. In the Pension Fund, Warwickshire County Council's Head of Finance is responsible for doing this.
- Manage our affairs to use our resources efficiently and effectively and to protect our assets.
- Comply with IFRS financial reporting framework
- Approve the statement of accounts.

Responsibilities of the Head of Finance

As the Head of Finance, I am responsible for preparing our statement of accounts. These accounts must present a true and fair view of our financial position, including our income and spending for the year.

In preparing the Pension Fund accounts, I have:

- Selected suitable accounting policies and applied them consistently
- Made reasonable and prudent judgements and estimates
- Followed the Chartered Institute of Public Finance and Accountancy's/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

I have also:

- Kept proper accounting records which are up to date
- Taken steps to prevent and detect fraud, including preparing an audit risk management strategy.

John Betts
Head of Finance **Date: 21 September 2017**

I confirm that the accounts were considered and approved at a meeting of the Council on 21 September 2017.

Councillor Clive Rickhards
Chair of the Council **Date: 21 September 2017**

Warwickshire Pension Fund Account

2015/2016			2016/2017
£ m		Notes	£ m
	Dealings with members, employers and others directly involved in the fund		
(68.9)	Contributions	7	(71.8)
(6.7)	Transfers in from other schemes	8	(7.4)
(75.6)			(79.2)
67.9	Benefits payable	9	72.2
5.3	Payments to and on account of leavers	10	5.1
73.2			77.3
(2.4)	**Net (additions)/withdrawals from dealing with members**		**(1.9)**
8.2	Management expenses	11	9.1
5.8	**Net (additions)/withdrawals inc fund management expenses**		**7.2**
	Returns on investments		
(22.1)	Investment income	13	(26.8)
0.9	Taxes on income		0.1
(167.0)	Profit and losses on disposal of investments	23	(34.2)
155.4	Changes in the market value of investments	23	(265.0)
(32.8)	Net return on investments		**(325.9)**
(27.0)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(318.7)**
(1,638.1)	**Opening net assets of the scheme**		**(1,665.1)**
(1,665.1)	**Closing net assets of the scheme**		**(1,983.8)**

Net Assets Statement

2015/2016			2016/2017
£ m		Notes	£ m
1,645.2	Investment assets	15/16/17	1,948.0
13.5	Cash deposits	15/16/17	30.8
1,658.7	Total net investments		1,978.8
10.0	Current assets	29	8.7
-3.6	Current liabilities	30	-3.7
1,665.1	**Net assets of the fund available to fund benefits at the period end**		**1,983.8**

Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2017

Note 1: Description of fund

The Warwickshire Pension Fund (‘the fund’) is part of the Local Government Pension Scheme and is administered by Warwickshire County Council. The county council is the reporting entity for this pension fund.
The following description of the fund is a summary only. For more detail, reference should be made to the Warwickshire Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and
- Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefit pension scheme administered by Warwickshire County Council to provide pensions and other benefits for pensionable employees of Warwickshire County Council, the district and borough councils in the county of Warwickshire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Warwickshire Pension Fund Investment Sub-committee, which is a committee of Warwickshire County Council and is made up of five County Councillors. Two independent specialists provide advice and guidance to the sub-committee.

The Public Service Pensions Act 2013 included a requirement to establish a local Pension Board, with responsibility to assist the administering authority:

- To secure compliance with; the LGPS regulations; other legislation relating to the governance and administration of the LGPS, and; the requirements imposed by the Pension Regulator in relation to the LGPS and

- Perform an oversight role to ensure the effective and efficient governance and administration of the LGPS.

A local Pension Board has been in place since February 2015.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Warwickshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 160 employer organisations within Warwickshire Pension Fund including the county council itself, as detailed below.

Warwickshire Pension Fund	31 March 2016	31 March 2017
Number of employers with active members	160	160
Number of employees in scheme		
County Council	9,023	9,106
Other employers	7,479	7,619
Total	**16,502**	**16,725**
Number of pensioners		
County Council	6,747	6,195
Other employers	5,143	4,707
Total	**11,890**	**10,902**
Deferred pensioners		
County Council	10,106	10,441
Other employers	6,278	6,570
Total	**16,384**	**17,011**
Total	**44,776**	**44,638**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Contributions are also made by employers' which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2017.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x pension In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of $1/49^{th}$. Accrued pension is uprated annually in line with the Consumer Prices Index. The changes also brought in a 50/50 option allowing members the opportunity to contribute 50% for 50% of the benefit entitlement.

Contributions to the LGPS prior to 1 April 2014 were assessed on full-time equivalent pay and excluded non-contractual elements of pay such as overtime and bonus. However, contributions since 1 April 2014 are assessed on all pensionable pay received including non-contractual elements. In addition, the contribution bandings were extended with many of the higher paid seeing an increase in contributions.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They have been prepared on a going concern basis in accordance with IAS1.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. This is addressed by the actuary's triennial valuation.

Note 3: Summary of significant accounting policies

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the period to which they relate.

Employer deficit, augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 8 and 10). This is normally when the member liability is accepted or discharged.

c) Investment income

i) Interest Income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iii) Distributions from managed funds

Distributions from managed funds are recognised at the date of issue. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iv) Profit and losses on disposal of investments

Profit and losses on the disposal of investments are recognised as income and comprise all realised profits/losses during the year.

v) Movement in the market value of investments

Changes in the market value of investments are recognised as income and comprise all unrealised profits/losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. And amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require a breakdown of pension fund administration expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administrative expenses
All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team and associated accounting, management, accommodation and other overheads are apportioned and charged as expenses to the fund.

Oversight and governance costs
All oversight and governance expenses are accounted for on an accruals basis. All costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses
All investment management expenses are accounted for on an accruals basis.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Where these are deducted at source (as opposed to being charged via an invoice) the fee is identified and a journal posted to record the investment management fee and reduce the investment income.

g) Investment assets

Investment assets are included in the Net Assets Statement on a fair value basis as at the reporting date. An investment asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price on the final day of the accounting period.

ii) Fixed interest securities
Are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or to the management agreement.

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012.*

iv) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; if single priced, at the closing single price.
In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

j) Investment Liabilities

The fund recognises investment liabilities at fair value as at the reporting date. An investment liability is recognised on the date the fund becomes party to the liability and are summarised in Note 13. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.
As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 28).

l) Additional voluntary contributions

Warwickshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Equitable Life and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 31).

Note 4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the *International Private Equity and Venture Capital Valuation Guidelines 2012*. The value of unquoted private equities as at 31 March 2017 was £84.9m (31 March 2016: £68.3m). This includes investments in infrastructure.

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 27. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: - a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £288m - a 0. 5% increase in assumed earnings inflation would increase the value of liabilities by approximately £63m, and - a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%.
Private equity	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements (including infrastructure) are £84.9m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 2% around the net asset values on which the hedge fund of funds valuation is based. This equates to a tolerance of +/- £1.7m.
Hedge fund of funds	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund of funds value in the financial statements is £84.3m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 2% around the net asset values on which the hedge fund of funds valuation is based. This equates to a tolerance of +/- £1.7m.

Note 6: Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

There were no adjusting or non-adjusting events.

Note 7: Contributions receivable

By category

2015/2016		2016/2017
£ m		**£ m**
16.4	Employees' contributions	16.6
	Employer's contributions:	
42.0	Normal contributions	43.8
10.5	Deficit Recovery contributions	11.4
52.5	**Total employer's contributions**	**55.2**
68.9		**71.8**

By authority

2015/2016		2016/2017
£ m		**£ m**
34.0	Administering authority	37.1
30.8	Scheduled bodies	33.4
4.0	Admitted bodies	1.2
0.1	Bodies no longer contributing	0.1
68.9		**71.8**

Note 8: Transfers in from other pension funds

2015/2016		2016/2017
£ m		**£ m**
0.7	Group transfers	0.7
6.0	Individual transfers	6.7
6.7		**7.4**

Note 9: Benefits payable

By category

2015/2016		2016/2017
£ m		**£ m**
55.5	Pensions	57.1
10.6	Commutation and lump sum retirement benefits	13.7
1.8	Lump sum death benefits	1.4
67.9		**72.2**

By authority

2015/2016		2016/2017
£ m		**£ m**
37.7	Administering authority	40.1
26.5	Scheduled bodies	28.1
2.9	Admitted bodies	3.2
0.8	Bodies no longer contributing	0.8
67.9		**72.2**

Note 10: Payments to and on account of leavers

2015/2016		2016/2017
£ m		**£ m**
0.1	Refunds	0.3
1.0	Group transfers	0.0
4.2	Individual transfers	4.8
5.3		**5.1**

Note 11: Management expenses

2015/2016 (Restated)		2016/2017
£ m		**£ m**
1.2	Administration costs	1.4
6.7	Investment management expenses	7.4
0.3	Oversight and governance costs	0.3
8.2		**9.1**

This analysis of the costs of managing the Warwickshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (Note 16 and Note 25).

Note 12: Investment management expenses

2015/2016		2016/2017
£'000		**£'000**
6,028.3	Management fees	6,600.9
196.3	Performance related fees	310.2
92.0	Custody fees	90.8
345.4	Transaction costs	397.7
6,661.9		**7,399.6**

Note 13: Investment income

2015/2016 (Restated)		2016/2017
£ 000		**£ 000**
26.6	Index linked bonds	0.0
14,770.0	Equity dividends	16,642.7
7,224.7	Managed funds:	9,418.5
3,234.8	Property	3,726.63
175.8	Infrastructure	1,205.88
881.1	Hedge Funds	903.66
2,374.0	Alternative	2,790.62
559.1	Private Equity	791.67
54.9	Interest on cash deposits	720.7
23.0	Stock lending	47.0
22,099.2		**26,828.9**

The value of the restatement is £26,600 and has been included to assist clarity and adherence to the Code.

Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2016/17 was £24,000. The fee for 2015/16, including fee variation, was £25,000.

Note 15: Investments

2015/2016		2016/2017
£ m		£ m
	Investment Assets	
84.3	Index linked bonds	0.0
544.8	Equities	683.0
1,013.2	Managed funds:	1,307.2
48.2	Private Equity	66.2
186.3	Pooled Property	192.5
679.8	Pooled Investments, Unit Trusts & Other Managed Funds	945.6
19.9	Infrastructure	18.7
79.0	Hedge Funds	84.3
13.5	Cash deposits	30.8
15.5	Investment current assets	2.6
1,671.3	**Total Investment Assets**	**2,023.6**
	Investment Liabilities	
(12.6)	Investment current liabilities	(44.8)
	Total Investment Liabilities	
1,658.7	**Net Investment Assets**	**1,978.8**

The investment current liability is due to cash in transit between two of the fund's investment managers which took place over the year end date. This transaction was part of a re-balancing exercise to maintain target asset allocation.

Note 16: Reconciliation of movements in investments

	Market value 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2017
	£ m	**£ m**	**£ m**	**£ m**	**£ m**
Investment Assets					
Index linked bonds	84.3	0.0	-79.8	-4.4	0.0
Equities	544.8	99.0	-86.2	125.4	683.0
Managed funds:	1,013.2	92.4	-55.2	256.7	1307.2
Private Equity	48.2	12.9	-7.2	12.2	66.2
Pooled Property	186.3	12.5	-9.9	3.5	192.5
Pooled Investments, Unit Trusts & Other Managed Funds	679.8	51.7	-19.6	233.7	945.6
Infrastructure	19.9	15.2	-18.5	2.0	18.7
Hedge Funds	79.0	0.0	0.0	5.3	84.3
Other Investment Balances					
Cash deposits	13.5	107.9	-91.2	0.6	30.8
Net investment current assets	2.9	0.4	-45.7	0.2	-42.2
Net Investment Assets	**1,658.7**	**299.8**	**-358.1**	**378.5**	**1,978.8**

	Market value 1 April 2015	Purchases during the year	Sales during the year	Change in market value during the year	Increase in debtors or (creditors)	Market value 31 March 2016
	£ m	**£ m**	**£ m**	**£ m**	**£ m**	**£ m**
Investment Assets						
Index linked bonds	7.7	114.2	(40.4)	2.8	0.0	84.3
Equities	530.5	84.8	(69.5)	(1.1)	0.0	544.8
Managed funds:	1,066.7	494.8	(557.9)	9.6	0.0	1, 013.2
Private Equity	31.1	14.8	(6.2)	8.5	0.0	48.2
Pooled Property	165.0	11.7	(7.7)	17.4	0.0	186.3
Pooled Investments, Unit Trusts & Other Managed Funds	790.9	447.5	(542.9)	(15.8)	0.0	679.8
Infrastructure	0.0	20.8	(1.1)	0.3	0.0	19.9
Hedge Funds	79.7	0.0	0.0	(0.8)	0.0	79.0
Other Investment Balances						
Cash deposits	24.1	77.8	(86.5)	0.1	(2.0)	13.5
Net investment current assets	2.3	0.3	(1.7)	0.0	2.0	2.9
Net Investment Assets	**1,631.3**	**771.8**	**(756.0)**	**21.2**	**0.0**	**1,658.7**

Note 17: Analysis of investments

31 March 2016		31 March 2017
£ m		£ m
	Index linked bonds	
84.3	UK	0.0
0.0	Overseas	0.0
84.3		**0.0**
	Equities	
261.0	UK (Quoted)	309.7
283.8	Overseas (Quoted)	373.3
544.8		**683.0**
	Managed funds	
883.9	UK:	1,146.5
184.8	Pooled Property	191.4
679.8	Pooled Investments, Unit Trusts & Other Managed Funds	945.6
19.3	Infrastructure	9.6
129.3	Overseas:	160.7
79.0	Hedge Funds	84.3
48.2	Private Equity	66.2
1.5	Pooled Property	1.1
0.7	Infrastructure	9.1
1,013.2		**1,307.2**
	Cash deposits	
10.2	UK Sterling	25.6
3.3	Foreign currency	5.2
13.5		**30.8**
2.9	**Net investment current assets**	**(42.2)**
1,658.7	**Net Investment Assets**	**1,978.8**

Note 18: Investments analysed by fund manager

Market value 31 March 2016			Market value 31 March 2017	
£ m	%		£ m	%
264.6	16.0%	Columbia Threadneedle Investments (UK Equities)	306.8	15.5%
294.9	17.8%	MFS Investment Management (Global Equities)	388.1	19.6%
404.5	24.4%	Legal and General Investment Management (Index Tracker - Global Equities)	496.4	25.1%
283.2	17.1%	Legal and General Investment Management (Index Tracker - Fixed Income)	325.9	16.5%
100.1	6.0%	Columbia Threadneedle Investments (Property)	104.3	5.3%
88.1	5.3%	Schroder Investment Management (Property)	90.6	4.6%
79.0	4.8%	Blackstone Group International (Hedge Funds)	84.3	4.3%
48.3	2.9%	HarbourVest (Private Equity)	66.2	3.3%
74.0	4.5%	JP Morgan (Strategic Bond)	75.9	3.8%
19.3	1.2%	Standard Life Capital (Infrastructure)	9.6	0.5%
0.7	0.0%	Partners Group (Infrastructure)	9.1	0.5%
2.0	0.1%	BNY Mellon (Global Custodian)	21.6	1.1%
1,658.7	**100.0%**		**1,978.8**	**100.0%**

Note 19: Investments representing more than 5% net assets of the scheme

Security	Market value 31 March 2017	% of total fund as at 31 March 2017
	£ m	
L&G Investment Grade Corporate Bond	183.1	9.23%
L&G UK Equity Index	169.2	8.53%
L&G Europe (Exc UK) Equity Index	141.6	7.14%
L&G Fundamental Indexation	104.5	5.27%
Columbia ThreadneedleTPN Property A	104.3	5.26%
L&G Index linked Bonds	100.5	5.07%

Security	Market value 31 March 2016	% of total fund as at 31 March 2016
	£ m	
L&G Grade Corporate Bond All Stocks Index	171.2	10.3%
L&G UK Equity Index	132.4	8.0%
Columbia ThreadneedleTPN Property A	100.1	6.0%
L&G Europe (Exc UK) Equity Index Fund	100.1	6.0%
L&G All Stocks Index Linked Gilts	84.3	5.1%

Note 20: Stock lending

The fund's Statement of Investment Principles sets the parameters for the fund's stock-lending programme. At the year-end, the value of stock on loan was £18.2m (31 March 2016: £13.1m). The investments continue to be recognised in the fund's financial statements.

Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £19.3m (31 March 2016: £13.9m). Collateral is obtained at 102% for sterling denominated equities and 105% for all other currency denominations and consists of government debt.

Stock-lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

Note 21: Property holdings

The fund does not hold property directly. Property is held in the form of pooled funds.

Note 22: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

Fair value through profit and loss	Loans and receivables	Financial liabilities		Fair value through profit and loss	Loans and receivables	Financial liabilities
		31 March 2016				**31 March 2017**
£ m	**£ m**	**£ m**		**£ m**	**£ m**	**£ m**
			Investment Assets			
84.3			Index linked bonds	0.0		
544.8			Equities	683.0		
1,013.2			Managed funds:	1,307.2		
48.2			Private Equity	66.2		
186.3			Pooled Property	192.5		
679.8			Pooled Investments, Unit Trusts & Other Managed Funds	945.6		
19.9			Infrastructure	18.7		
79.0			Hedge Funds	84.3		
	13.5		Cash deposits		30.8	
	15.5		Investment current assets		2.6	
	9.0		Debtors		7.9	
	1.0		Cash balances		0.9	
1,642.3	**39.0**	**0.0**		**1,990.2**	**42.1**	**0.0**
			Liabilities			
		(12.6)	Investment current liabilities			(44.8)
		(3.6)	Creditors			(3.7)
0.0	**0.0**	**(16.2)**		**0.0**	**0.0**	**(48.5)**
1,642.3	**39.0**	**(16.2)**		**1,990.2**	**42.1**	**(48.5)**

Note 23: Net gains and losses on financial instruments

31 March 2016		31 March 2017
£ m		**£ m**
	Financial Assets	
167.0	Fair value through profit and loss	299.2
0.0	Loans and receivables	0.0
	Financial liabilities	
(155.4)	Fair value through profit and loss	0.0
0.0	Loans and receivables	0.0
11.6	**Total**	**299.2**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 24: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value, these inputs are observable. Products classified as level 2 include unquoted bonds and overseas unit trusts and property funds.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Warwickshire Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled investments – overseas unit trusts & property funds Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Hedge funds Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audtied and unaudited accounts.

Private equity Level 3	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audtied and unaudited accounts.
Infrastructure Level 3	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audtied and unaudited accounts.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
Valuation at 31 March 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Financial assets Financial assets at fair value through profit and loss	786.1	1,034.9	169.2	1,990.2
Financial liabilities Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	786.1	1,034.9	169.2	1,990.2

Valuation at 31 March 2016	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£ m	£ m	£ m	£ m
Financial assets Financial assets at fair value through profit and loss	620.4	874.7	147.2	1,642.3
Financial liabilities Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	620.4	874.7	147.2	1,642.3

Note 25 Reconciliation of fair value measurements within Level 3

	Market value 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Realised profit or loss (-) during the year	Market value 31 March 2017
	£ m	£ m	£ m	£ m	£ m	£ m
Fund of Hedge Funds	78.9	0.0	0.0	5.4	0.0	84.3
Private Equity	48.3	12.9	-7.2	9.3	2.9	66.2
Infrastructure	20.0	15.2	-18.5	1.3	0.7	18.7
	147.2	**28.1**	**-25.7**	**16.0**	**3.6**	**169.2**

Note 26: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund’s primary long-term risk in that the fund’s assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund’s forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Following analysis of historical data and expected investment return movement, the fund has determined that the following movements in market price risk were reasonably possible for the 2016/17 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	2016/17 Potential market movement
	%
UK Equities	13%
Overseas Equities	12%
Total Bonds, Index Linked & Pooled Managed Funds	8%
Cash	0%
Alternatives	10%
Property	5%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets and are based on observed historical volatility of the returns of the asset class.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2017	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Equities	881.9	114.6	996.5	767.2
Overseas Equities	347.8	41.7	389.5	306.1
Total Bonds, Index Linked & Pooled Managed Funds	325.5	26.0	351.6	299.5
Cash	-14.0	0.0	-14.0	-14.0
Alternatives	245.1	24.5	269.6	220.6
Property	192.5	9.6	202.1	182.8
Total	**1,978.8**	**216.6**	**2,195.4**	**1,762.3**

Asset Type	Value as at 31 March 2016	Potential market movement	Value on increase	Value on decrease
	£ m	**£ m**	**£ m**	**£ m**
UK Equities	679.1	124.9	804.0	554.1
Overseas Equities	262.6	38.3	300.9	224.2
Total Bonds, Index Linked & Pooled Managed Funds	295.2	23.6	318.8	271.5
Cash	14.3	0.0	14.3	14.3
Alternatives	221.2	22.1	243.3	199.1
Property	186.3	10.8	197.2	175.5
Total	**1,658.7**	**219.8**	**1,878.5**	**1,438.8**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is monitored as part of asset allocation decisions. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

Currency	2016/17 Potential market movement
	%
Czech Republic Koruna	11%
Danish Krone	11%
Euro	11%
Japanese Yen	18%
Mexican Peso	18%
Swedish Krona	11%
Swiss Franc	12%
Thai Baht	13%
US Dollar	13%
Hong Kong Dollar	13%

A strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows. This analysis assumes that all other variables, in particular interest rates, remain constant. The prior year comparator is shown below:

Currency	Value as at 31 March 2017	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.6	0.1	0.7	0.5
Danish Krone	3.1	0.3	3.4	2.8
Euro	104.0	11.4	115.5	92.6
Japanese Yen	4.5	0.8	5.4	3.7
Mexican Peso	1.3	0.2	1.5	1.1
Swedish Krona	8.1	0.9	9.0	7.2
Swiss Franc	34.6	4.1	38.7	30.4
Thai Baht	0.9	0.1	1.0	0.7
US Dollar	271.5	35.3	306.8	236.2
Hong Kong Dollar	0.8	0.1	0.9	0.7
Total	**429.4**	**53.4**	**482.8**	**375.9**

Currency	Value as at 31 March 2016	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.6	0.1	0.7	0.6
Danish Krone	2.7	0.2	2.9	2.5
Euro	73.7	5.7	79.4	68.0
Japanese Yen	2.4	0.2	2.6	2.1
Mexican Peso	1.1	0.1	1.2	1.0
Swedish Krona	5.0	0.5	5.5	4.5
Swiss Franc	24.5	2.9	27.5	21.6
Thai Baht	0.7	0.1	0.7	0.6
US Dollar	205.0	15.3	220.3	189.7
Hong Kong Dollar	0.6	0.0	0.7	0.6
Total	**316.4**	**25.1**	**341.5**	**291.3**

Credit risk

Credit risk represents the risk that the counterparty to a transaction will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund is exposed to credit risk through the stock lending programme. This is managed by the custodian who monitors the counterparty and collateral risk. The level of collateral for stock on loan is assessed daily to ensure it takes account of market movements. To mitigate risk, stock lending is restricted to 25% of the total market value of the stock held, in accordance with investment regulations.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments, particularly cash to meet pensioner payroll and other benefit costs, and also cash to meet investment commitments.

The Pension Fund has immediate access to its cash holdings and currently enjoys a long term positive cash flow. Cash flow surpluses are invested with fund managers.

The Pension Fund is authorised to borrow on a short term basis to fund cash flow deficits.

The actuary to the Pension Fund produces regular cash flow forecasts which are presented to the Investment Sub-Committee.

All financial liabilities as at 31 March 2017 are due within one year.

Note 27: Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and set contribution rates for the three years commencing 1 April 2017. The valuation that set contribution rates for the 2016/17 financial year took place as at 31 March 2013.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases an extended period can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level falls significantly short of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2013 actuarial valuation, the fund was assessed as 77% funded (82% at the March 2016 valuation). This corresponded to a deficit of £419m (2016 valuation: £358m).

Contribution increases were phased in over the three year period ending 31 March 2017. The common contribution rate (ie the rate which all employers in the fund pay) is as follows.

Valuation Date	31 March 2013
Total contribution rate	**% of Pay**
Future service rate (inc expenses)	19.5%
Past service adjustment (19 year spread)	9.6%
Total employer contribution rate	**29.2%**

Individual employer rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions are as follows:

Financial assumptions

Financial assumptions	Nominal	Real
	%	**%**
Post Retirement Discount Rate	4.6%	2.1%
Pre Retirement Discount Rate	4.6%	2.1%
Salary Increases	4.3%	1.8%
Price Inflation/Pension Increases	2.5%	-

Demographic assumptions

Assumed life expectancy from age 65 is as follows.

Demographic assumptions	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2013 Valuation – baseline	20.0	22.6	20.1	22.3
2013 Valuation - improvements	24.3	26.6	22.4	24.4

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 Option

It is assumed that 10% of active members (uniformly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

Note 28: Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 24). The following is the full Pension Fund Accounts Reporting Requirement provided by the fund actuary.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

31 March 2016		31 March 2017
£m		**£m**
1,236	Active members	1,205
384	Deferred pensioners	602
762	Pensioners	984
2,382	**Present value of promised retirement benefits**	**2,791**

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £393m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £33m.

Financial assumptions

Year ended (% p.a.)	31 March 17	31 March 16
	%	**%**
Pensions Increase rate	2.4%	2.2%
Salary Increase Rate	3.0%	4.2%
Discount Rate	2.6%	3.5%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 years	24.7 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.3 years	26.7 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	220
0.5% p.a. increase in the Salary Increase Rate	2%	63
0.5% p.a. decrease in the Real Discount Rate	10%	288

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Richard Warden FFA
4 May 2017
For and on behalf of Hymans Robertson LLP

Note 29: Current assets

31 March 2016		31 March 2017
£m		**£m**
	Debtors:	
1.2	Contributions due: Employees	1.3
3.1	Contributions due: Employers	3.2
4.0	Invoiced debtors	2.7
0.7	Sundry debtors	0.6
1.0	Cash balances	0.9
10.0	**Total**	**8.7**

Note 30: Current liabilities

31 March 2016		31 March 2017
£m		**£m**
	Liabilities:	
1.3	Owed to administering authority	0.9
1.6	Sundry Creditors	2.0
0.7	Benefits Payable	0.8
3.6	**Total**	**3.7**

Note 31: Additional Voluntary Contributions

31 March 2016		31 March 2017
£m		**£m**
2.7	Standard Life	2.6
0.3	Equitable Life	0.3
3.0	**Total**	**2.9**

AVC contributions of £0.3m were paid directly to Standard Life and £3000 was paid directly to Equitable Life during the year (2015/16: £0.3m to Standard Life and £3000 to Equitable Life).

Note 32: Related Party Transactions

Warwickshire County Council

The Warwickshire Pension Fund is administered by Warwickshire County Council. Consequently there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £766,000 (2015/16: £777,000) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund. Employee and employer contributions from the council amounted to £37.1m in 2016/17 (2015/16: £34.0 m).

Governance

There is one member of the pension fund investment sub-committee who is in receipt of pension benefits from the Warwickshire Pension Fund

Each member of the pension fund investment sub-committee is required to declare their interests at each meeting.

There are four members of the local pension board who are active members of the Warwickshire Pension Fund and one member who is eligible for a refund.

Key management personnel

Several employees of Warwickshire County Council hold key positions in the financial management of the Warwickshire Pension Fund, alongside responsibilities for Warwickshire County Council directly. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values, as an appropriate approximation for an IAS19 exercise) are set out below.

	2016/17	2015/16
	£	£
Head of Finance	705,730	645,558
Strategic Finance Manager	354,720	316,240
Pensions Manager	0	422,402
Treasury and Pension Fund Manager	173,926	153,395
Principal Accountant	42,342	34,261

Note 33: Authorisation for issue

These accounts have taken into account all known events up to 21 September 2017. On that date the accounts were authorised for issue by the Head of Finance.

John Betts

Head of Finance

Glossary

A

Actuarial valuation
A review of the assets and *liabilities* of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

Alternative investments
Investments other than the mainstream *asset classes* of *equities* and *bonds*. Alternatives include *hedge funds*, *private equity*, *infrastructure* and *commodities*. Property is also sometimes described as an alternative.

Asset allocation
The apportionment of a fund's assets between different *asset classes*.

B

Benchmark
A yardstick against which the investment policy or performance of a fund manager can be compared.

C

Currency risk
Investing in any securities not denominated in the investor's own base currency introduces currency risk due to the *volatility* of foreign exchange rates.

D

Defined benefit scheme
A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised. Compare with *defined contribution scheme*.

Diversification
The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce *risk*.

H

Hedge Funds
A hedge fund is a capital pool that has the ability to use *leverage* and to take both *long* and *short* positions with the aim of achieving an *absolute return*. A large variety of hedge fund strategies exists and the level of *risk* taken will vary. Investors looking for a diversified exposure to hedge funds will normally opt for a fund of hedge funds – a fund with underlying investments in several hedge funds covering different strategies and geographical areas.

I

IAS19
An accounting standard which requires organisation's to incorporate their pension funds into their balance sheets and specifically that all pension fund *liabilities* should be valued

using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the organisation's balance sheet.

P

Private equity
Funds put up by investors to finance new and growing businesses. Also known as venture capital

R

Risk
In its simplest sense, risk is the variability of *returns*. Investments with greater inherent *risk* must promise higher expected returns if investors are to invest in them. Risk management is an important aspect of portfolio management and involves the use of complex statistical models.

S

Statement of Investment Principles (SIP)
Trustees of pension funds are required under the Pensions Act 1995 to prepare and keep up to date this written statement of how their scheme's assets are invested. Essentially, it provides evidence that the trustees have thought through the suitability of their scheme's investment policy and how that policy is implemented.

Stocklending
The lending of a *security* by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by *collateral*. The demand to borrow *securities* comes mainly from *market makers* to cover *short positions* or take *arbitrage* opportunities.

T

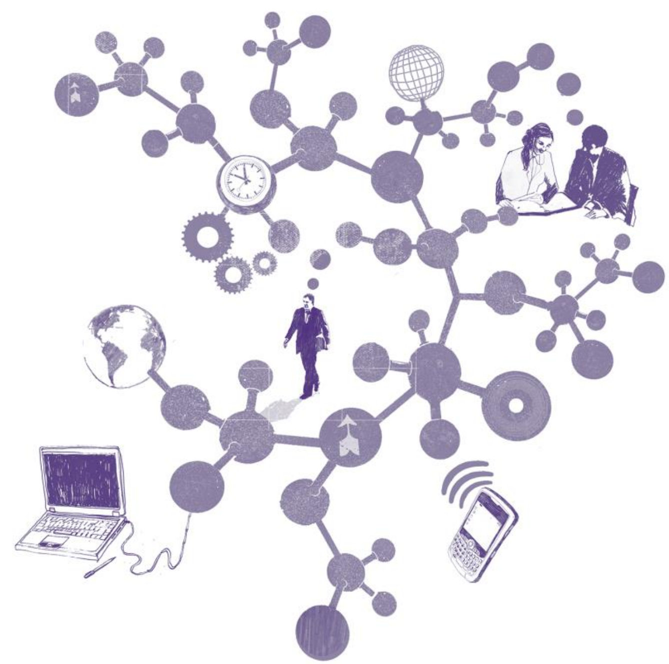
Transaction costs
Those costs associated with trading on a portfolio, notably *stamp duty* and *commissions*.

Grant Thornton

The Audit Findings for Warwickshire County Council Pension Fund

Year ended 31 March 2017

September 2017



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September 2017

Dear Members of the Audit and Standards Committee

Audit Findings for Warwickshire Pension Fund for the year ending 31 March 2017

This Audit Findings Report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Warwickshire Pension Fund, this is the Council but we have determined that the Audit and Standards Committee is the sub group with whom we would communicate), to oversee the financial reporting process, 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 officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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.

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 April 2017.

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

- receipt and review of bridging letters in respect of controls reports for some of the fund managers used,
- 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.

Key audit and financial reporting issues

Financial statements opinion

We received draft financial statements and accompanying working papers on 7 June 2016, in accordance with the agreed timetable.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have recommended a number of adjustment to improve the presentation of the financial statement and ensure greater alignment with the Code.

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

- We have no adjusted or unadjusted misstatements to report,
- The accounts and working papers were available in line with the agreed timetable and the quality of working papers remains consistent with that received in previous years.
- As outlined above we have recommended a number of changes to the draft accounts to ensure they align more closely with the example accounts produced by CIPFA.

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

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

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
Our work has not identified any control weaknesses which we wish to highlight for your attention. Our work on the IT control environment identified some areas for improvement which we have discussed with officers.

The way forward

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

Acknowledgement

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 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £16,651k (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and have revised our overall materiality in line with the increase in net assets to £19,838k (being 1% of net assets).

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 £992k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate 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	5% of the value of expenses
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made. We have set a materiality level of 10% of the largest disclosure to inform our audit approach and our reporting to the pension fund. We recognise that in compiling the disclosure, the pension fund will apply its own assessment of materiality (as required by IAS 24) and will also have regard to materiality from the perspective of the other party.	10% of the largest disclosure

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
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 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 body, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
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.	• review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • 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 controls and testing of journal entries has not identified any significant issues.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
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 updated our understanding of your process for valuing Level 3 investments through discussions with relevant personnel from the Pension Fund during the interim audit. • We have performed walkthrough tests of the controls identified in the process. • On a sample basis we have tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agree these to the fund manager reports at that date. In addition reconciling those values to the values at 31st march with reference to known movements in the intervening period. • Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained 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 management experts used.	Our audit work has not identified any issues in respect of level 3 investments. As noted the valuation of these investments are subject to a degree of judgement and estimation. Our testing compared the valuation of level 3 assets as reported by the custodian to the value as reported by the individual fund manager. This identified that the value reported by the fund managers was £5.9m more than that reported by the custodian. £5.3m of this related to investments held with Harbourvest. The differences have been investigated and are not material to the fund. The difference can be explained as a result in differing estimation techniques between the fund manager and the custodian and timing differences. In addition, we have reviewed the valuation of the investments reported by the custodian and compared this to the latest audited accounts where they are available. For Harbourvest we have noted that a review of the accounts suggests a valuation of £70.0m when compared to the custodian value of £66.2m, a difference of £3.8m. The direction of the valuation difference is consistent with the differences identified above For Blackstone, the audited accounts show £82.6m when compared to the custodian of £84.3m, a difference of £1.7m. These differences are 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.

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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	**Valuation is incorrect. (Valuation net)**	We have undertaken the following work in relation to this risk: • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that Level 2 investment valuations are correct • Reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanation for variances • Tested a sample of Level 2 investments to independent information from custodian/manager on units and on unit prices.	Our audit work has not identified any significant issues in relation to the risk identified.
Contributions	**Recorded contributions not correct. (Occurrence)**	We have undertaken the following work in relation to this risk: • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that recorded contributions are correct. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are 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: • Updated our documentation and undertaken a walkthrough of controls in place to ensure that benefits are computed appropriately • 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 to ensure that any unusual trends are satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member Data	**Member data not correct. (Rights and Obligations)**	We have undertaken the following work in relation to this risk: Updated our documentation and undertaken a walkthrough of the controls in place to ensure that member data is updated appropriately. We have focused our attention on those changes which would affect the actuary's calculations and therefore have an impact on the disclosures in the accounts, rather than test all changes to member data. Tested a sample of 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.

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there is sufficient evidence to confirm that the fund remains a going concern.

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.	● (Green)

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 and judgements continued

.

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Head of Finance as s151 officer has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Fund's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● (Green)
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	The Fund's accounting policies are appropriate and consistent with previous years. Our review of the accounting policies did identify an omission in respect of investment income. The Fund have added some narrative to the draft accounts to explain the accounting treatment.	● (Green)

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, 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**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
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**	• A standard letter of representation has been requested from the Fund, which is included in the Audit and Standards Committee papers.
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.
6.	**Disclosures**	• Our review of disclosures has identified a number of areas where these could be improved. We have highlighted these for officers and members, and where appropriate amendments to the draft financial statements have been made.
7.	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2017 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit and Standards Committee.

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.

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

Our audit included consideration of internal control 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.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	We reported last year that there has been no specific pension fund coverage by internal audit in the previous two years. We recommended that the Head of Finance, in conjunction with members should consider whether sufficient assurance is in place on key controls within the pension fund.	Internal audit have carried out two specific pension fund audits during 2016/17. One on pensions administration and the second one a review of pension fund investment management. Both audits were given substantial assurance.
2.	✓	Last year we identified areas of the accounts where experts had been used, where it was unclear the level of challenge in place by the Fund on the final information produced. We recommended that the Head of Finance should consider whether appropriate controls and process are in place to validate and challenge the information provided by experts when producing the financial statements.	Our testing undertaken has not identified any areas where the fund have not applied a level of challenge to the information provided by the experts.

Assessment

✓ Action completed

X Not yet addressed

Impact of uncorrected misstatements in the prior year

	Detail	Account balance	Reason for not adjusting
1	Last year we identified that investments with MFS had 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	Testing of the valuations of the investments held with MFS for the year ended 31 March 2017 confirmed that these have now been valued using bid price in line with the accounting policies. The valuation for 31 March 2016 remains at mid price, as this was not adjusted in the prior year on the grounds so of materiality
2	Within Note 19 – Financial instruments and fair value disclosures last year we identified a classification error of £1.3m between Level 1 and 2 investments. The total combined value of the investments was correct.	Note 19 – Financial instruments and fair value disclosures	As the classification error was below materiality, this was not amended last year. Testing of classification of balances for the year ended March 2017 has not identified any errors in classification and therefore no further action is required.
3	CIPFA guidance states that management fees which are netted off fund assets should be grossed up. Last year the Fund 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	Testing of management fees this year has confirmed that the Fund have now disclosed management fees in line with the CIPFA guidance. While not material, and unadjusted in the prior year accounts, the Fund have restated the expenses for 2015/16 so that they are also in line with the guidance and on a comparable basis with the current year.

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	Value £'000	Account balance	Impact on the financial statements
1	Presentation and disclosure	Various	Various	Our review of the accounts highlighted 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 officers and changes have been made to the draft accounts submitted for audit. Examples included the need to add an accounting policy in respect of investment income, an addition to the basis of preparation note to refer to the going concern assumption and the need to update the regulations referred to in note 31 on additional voluntary contributions. This is in addition to the need to tidy up formatting and some of the note references prior to publication.
2	Presentation and disclosure	£1.3m	Key management personnel	The fund have disclosed the financial relationship that key senior management personnel have with the fund. They have disclosed this expressed as a cash-equivalent transfer value as an approximation for the IAS19 actuarial valuation that is required as per the Code. Officers have confirmed that this approximation is unlikely to produce a material difference and will amend the narrative to explain why this approximation is considered appropriate. In future years, the Fund may wish to discuss this with their actuary to see that the appropriate valuations are provided as part of the IAS 19 annual exercise.
3	Disclosure	N/A	Assumptions made about the future and other major sources of estimation uncertainty	The notes as per the draft accounts makes reference to the tolerance used by the custodian in relation to hedge funds, but not for private equity funds. The fund have agreed to add some additional narrative for private equity funds to make the disclosures consistent.
4	Disclosure	N/A	Note 27 – Funding arrangements	The draft note makes references to the 2013 triennial valuation only. We have agreed some revisions to the wording with officers so that reference is also made to the outcome of the 2016 triennial valuation.

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	Value £'000	Account balance	Impact on the financial statements
5	Disclosure	£44.8m	Investment liabilities	The fund have shown an investment liability within note 15 of the accounts to account for the year end trade between MFS and L&G that was in progress at year end. The investment liability has been included within the reconciliation provided by the custodian and is required to ensure that the asset is not double counted at year end. On the face of the net asset statement the investment liabilities of £44.8m have therefore been included net of this sum within the investment assets balance. The fund are to provide an additional narrative disclosure to Note 15 in respect of this transaction.
6	Disclosure	N/A	Note 24 – Valuation of financial instruments carried at fair value	This is the first year of the new IFRS 13 disclosures. The draft accounts did not include sufficient detail in relation to the categorisation of assets held at fair value. The fund have agreed to add an additional table in line with the presentations suggested in the CIPFA example accounts to improve compliance. While the CIPFA example accounts presentations do not fully comply with the requirements of IFRS 13, in as far as including a value for each description of asset, we are satisfied that the revisions made provide sufficient information to a reader of the accounts to ensure they would not be misled in decision making and we will work with officers to ensure that full compliance with IFRS 13 is achieved in future years.
7	Disclosure	N/A	Note 28 – Actuarial present value of promised retirement benefits	The draft statement included within the accounts only included some of the actuarial assumptions used by the actuary rather than all of those provided to the pension fund as part of the signed statement. We have agreed with officers that all assumptions should be included in the final set of statements.
8	Misclassification	£79.7m	Note 16 – Reconciliation of movements in investments	A review of this note identified that £79.7m in relation to index linked bonds had been classified incorrectly as a change in market value during the year, when it was actually a sale. This has been amended for in the final set of statements.
9	Disclosure	N/A	Note 26 – Nature and extent of risks arising from financial instruments	This note includes various sensitivity analysis that the fund has obtained. The analysis makes reference to asset types that cannot be directly reconciled back to other headings used in the accounts, e.g. Alternatives. Given the proportion of level 3 investments held by the fund we are satisfied that this would not impact on the reader of the accounts and have agreed with the fund that this will be reviewed as part of the preparation of next years financial statements.

Section 3: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Pension fund audit	23,892	23,892
IAS 19 fee variation	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), and is consistent with that reported in the financial statements for the 2016/17. The disclosure in the financial statements in respect of 2015/16 includes the IAS 19 fee variation of £1k, however this has not been included for 2016/17 as the variation has not yet been agreed with PSAA.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund.

Fees for other services

Service	Fees £
Audit related services	**Nil**
Non-audit services	**Nil**

Section 4: Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.

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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Audit Opinion

B: Audit opinion

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

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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Warwickshire 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 2016/17.

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 Responsibilities for the statement of accounts, 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 2016/17 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 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements is prepared is consistent with the audited pension fund financial statements.

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

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

xx September 2017

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Grant Patterson
Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Date

Dear Grant

Warwickshire County Council Pension Fund
Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with your audit of the financial statements of Warwickshire County Council Pension Fund ('the Fund') for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2017, and of the amount and disposition at that date of its assets and liabilities in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code') and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2 We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

3 The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

4 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect error and fraud.

5 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6 We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most

appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

7 We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

8 Except as disclosed in the financial statements:
   a there are no unrecorded liabilities, actual or contingent
   b none of the assets of the Fund have been assigned, pledged or mortgaged
   c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

9 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

10 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

11 All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

12 We have considered the misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misclassifications and disclosure changes and are free of material misstatements, including omissions.

13 We have considered the impact of the unadjusted misstatements from the prior year and note that these would continue to have an impact on the comparator figures as stated in the financial statements. As agreed with those charged with governance last year these were not amended on the grounds of materiality.

14 The financial statements are free of material misstatements, including omissions.

15 We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

16 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

17 We have provided you with:
   a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   b additional information that you have requested from us for the purpose of your audit; and
   c unrestricted access to persons from whom you determined it necessary to obtain audit evidence.

18 We have communicated to you all deficiencies in internal control of which management is aware.

19 We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

20 All transactions have been recorded in the accounting records and are reflected in the financial statements.

21 We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Fund involving:
  a management;
  b employees who have significant roles in internal control; or
  c others where the fraud could have a material effect on the financial statements.

22 We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

23 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

24 There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

25 We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

26 We have disclosed to you the identity of all the Fund's related parties and all the related party relationships and transactions of which we are aware.

27 We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 6 September 2017.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of Warwickshire County Council as administering body of the Warwickshire Pension Fund

Additional representation may need to be obtained in other areas, and should be added to as necessary, for example:

- going concern, when events or conditions have been identified which may lead to the winding up of the fund;
- confirmation of propriety of transactions [for example: no transactions have been made which are not in the interests of the fund members or the fund during the fund year or subsequently];
- confirmation of particular disclosures [for example: if not permitted, confirmation that there has been no "self-investment" in a fund employer or stock-lending];
- lack of evidence – material representations where no other evidence available, such as absence claims in connection with litigation;
- confirmations of opinions concerning matters dealt with in the financial statements.
- accounting policies – confirming most appropriate, appropriately adopted and disclosed as required by the Code