

Pension Fund Investment Sub-Committee

17 November 2014

Agenda

The Pension Fund Investment Sub-Committee will meet in **CR2, Shire Hall, Warwick** on **17 November 2014** at **10a.m.**

1. General

(1) Apologies

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests.

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with (Standing Order 42).
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the new Code of Conduct. These should be declared at the commencement of the meeting.

(3) Minutes of the previous meeting and matters arising

2. Equity Manager Performance

3. Annual Governance Report

4. Investment Performance

EXEMPT ITEMS

5. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

'That members of the public be excluded from the meeting for the item mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972'.

6. **(EXEMPT) Minutes of the meeting held on 8 September 2014.**
7. **(EXEMPT) Private Equity Update**
8. **(EXEMPT) Investment Strategy**
9. **(EXEMPT) Fundamental Index Tracking**
10. **(EXEMPT) Nuneaton and Bedworth Leisure Trust**
11. **Any other items**
Which the Chair decides are urgent.

JIM GRAHAM
Chief Executive
Shire Hall
Warwick

Membership of the Pension Fund Investment Sub-Committee

Councillors John Appleton (Chair), Sara Doughty, Bill Gifford, John Horner (Vice Chair), and Brian Moss

For general enquiries please contact Sally Baxter:
Tel: 01926 412323
Email: sallybaxter@warwickshire.gov.uk

Minutes of the Pension Fund Investment Sub-Committee meeting held on 8 September 2014

Present:

Members

Councillors Bill Gifford, Brian Moss, John Appleton (Chair), John Horner (Vice Chair) and Sara Doughty.

Officers

Sally Baxter, Democratic Services Officer
Neil Buxton, Pensions Services Manager
Mathew Dawson, Treasury and Pension Fund Manager
Aneeta Dhoot, Senior Finance Officer
John Galbraith, Senior Solicitor, Pension Fund Services
Andrew Lovegrove, Head of Corporate Financial Services
Sukhdev Singh, Senior Finance Officer.

Invitees

Paul Potter, Investment Advisor, Hymans Robertson

1. General

(1) Apologies

John Betts and Peter Jones.

(2) Disclosures

None.

(3) Minutes of the previous meeting

The minutes of the meeting held on 10 February 2013 were agreed as a true record subject to the following factual corrections:

Item 3 – Peter Jones is the Independent Advisor not Paul Jones as recorded in the minutes.

Item 3, paragraph 3.5 – Fundamental indices invested on the basis of present expectations not future as recorded in the minutes.

2. Local Pension Board

2.1 Andrew Lovegrove, Head of Corporate Financial Services referred the committee to the report and Appendix A which contained the draft Terms of Reference for the Warwickshire Pension Board (LPB). The document was in its draft form for the sub-committee to consider and any issues raised would be addressed by the final version.

2.2 Clarification was sought with regard to scheme membership on the board and whether non- members could be appointed to represent members of the board.

Following discussion, caution was expressed and the sub-committee advised that measures be taken to ensure that an employer, potentially upon appointment to represent a scheme member, was not given an advantage over other employers which could lead to unequal weighting in favour of an employer.

- 2.3 Further consideration as to the remit of Audit and Standards Committee would need to be given to ensure that the committee and the Local Pension Board had clear defined roles and that work was not being duplicated.
- 2.4 In response to questions, officers clarified that the term of membership was the responsibility of the administering authority which was Warwickshire County Council and, the term was likely to be three years. With regard to the appointment of Chairman, the sub-committee requested further information in particular, what was the process for application, did the board appoint their own chairman or ratify the decision.
- 2.5 Mathew Dawson, Treasury and Pension Fund Manager, drew the sub-committees attention to the requirement that members of the LPB have the skills and knowledge to undertake their role. John Galbraith, Senior Solicitor, commented that the position would require advertising.
- 2.6 At the last meeting in July, the option to form a regional LPB was discussed however, in order for an application to be successful, the authority would need to demonstrate how the LPB would operate and why the regional option was favoured. This would be problematic and perhaps a regional body would not operate effectively in practice.
- 2.7 The relationship between the LPB and the administering authority was discussed. It was stated that the role of Scheme Manager would be undertaken by an officer of the administering authority (WCC) and advisers to the LPB would include the Fund's administration manager (Neil Buxton, Mathew Dawson and /or Andrew Lovegrove) section 151 Officer and the Fund's legal advisor.
- 2.8 The sub-committee requested what was being put in place to ensure that the LPB had the necessary knowledge to carry out their role. A training programme was being designed with Threadneedle to train the LPB. The Pensions Regulator would also come into effect in April 2015.
- 2.9 Officers clarified that the LPB would monitor the administration of the Fund in particular, the process for making decisions and the Pension Fund Investment Sub-Committee would continue to manage the investment of the Fund. The Staff and Pensions Committee will receive the comments and minutes of this meeting, when considering the draft terms of reference.

2.5 Resolved

That the Pension Fund Investment Sub-Committee discussed the Terms of Reference for the new Local Pension Board and ask the Strategic Director for Resources to prepare a draft for consideration by the Staff and Pensions Committee.

3. Warwickshire County Council Civil Enforcement Officers - NSL

- 3.1 Neil Buxton, Pensions Services Manager, provided an overview of the application from NSL to be admitted to the Pension Fund. Warwickshire County Council had awarded the Civil Parking contract to NSL and they would operate the service from

November 2014. Finance and Accountancy (CIPFA) would mean that a consultation with appropriate persons would be undertaken.

3.2 Due to a number of circumstances, it was difficult to ascertain the exact number of members of the Local Government Pension Scheme (LGPS) that would be affected by the contract but the figure contained in the report had reduced from 54 to between 20 and 30 members.

3.3 Following questioning from the sub-committee, it was noted that the Bond determined by the Actuary, would reduce to reflect the reduction of members.

3.4 Resolved

That the Pension Fund Investment Sub- Committee approves the admission of NSL as an employer to the Warwickshire Pension Fund in respect of the Warwickshire County Council Civil Parking Contract.

4. Barings Dynamic Asset Allocation Fund

4.1 Following the resignation of the Head of the Global Multi-Asset Group at Dynamic Asset Allocation Fund (DAFF), Hymans Robertson issued a 'sell immediately' notice in relation to the Funds holding in DAFF. In addition, two further resignations of experienced team members were also reported. This resulted in the Fund initiating the process to sell having due regard to the prescribed process.

4.2 The price of the units at the time of sale was better than the price at the point of purchase. The costs incurred for the sale would be reflected in the final amount of the asset. It was noted that the value of the units would be affected by the numbers of other investors that decided to sell.

4.3 Paul Potter, Hymans Robertson, explained the risk of staying within the DAFF and the effect it could have on the Fund. Mathew Dawson provided information regarding the cash that was being held due to the sale of the units and asked the sub-committee to decide the allocation of the cash. He advised that it be invested in a short - term constant cash return which wouldn't restrict access to the cash therefore it could be invested quickly if required.

4.4 Following consideration of other options and discussion, the sub-committee agreed that the cash be held as advised.

4.5 Resolved

That the Pension Fund Investment Sub Committee:

- 1) Formally ratifies the decision to sell the funds holding in the Barings Dynamic Asset Allocation Fund (DAFF) and;
- 2) That the cash be held in a short-term constant cash return account until the market has settled to consider investment in the longer term.

5. Exempt Items – Reports containing Confidential or Exempt Information

5.1 The Pension Fund Investment Sub-Committee passed the following resolution:

That members of the public be excluded from the meeting for the item mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

6. (Exempt) Fundamental Index Tracking and Passive Management

6.1 The Pension Fund Investment Sub-Committee considered and discussed the report, as recorded in the exempt minutes.

7. Any other items

i) Item 2.6 – A briefing note would be distributed to the sub-committee in relation to the proposed Local Pension Board.

The Sub Committee rose at 3.20pm

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Chair

Pension Fund Investment Sub Committee

17 November 2014

Equity Managers

Recommendation

- (1) That the sub-committee note the findings in 2.1 and 2.2

1 Introduction

- 1.1 At the sub-committee meeting dated 10 February 2014 there was a presentation from Inalytics who provided an example quantitative analysis of an equity manager to demonstrate their capability in assessing manager skill in a series of different performance measures.
- 1.2 Inalytics have subsequently studied both MFS (global equities) and Threadneedle (UK equities) in terms of skill over a six year period and will be presenting their findings at this meeting.
- 1.3 With the current DCLG consultation questioning active management and the value it adds to LGPS funds, it is helpful to look beyond the relative benchmark and look at different measures over a longer time horizon.

2. Findings

- 2.1 The skill report of MFS can be found in **Appendix A**. The skill report of Threadneedle can be found in **Appendix B**.

Background Papers

None for this covering report.

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 davidcarter@warwickshire.gov.uk

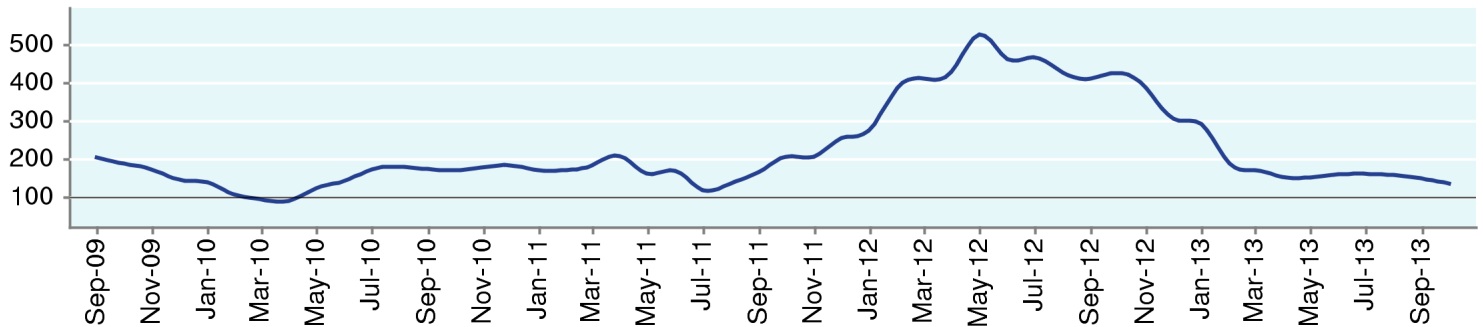
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Warwickshire

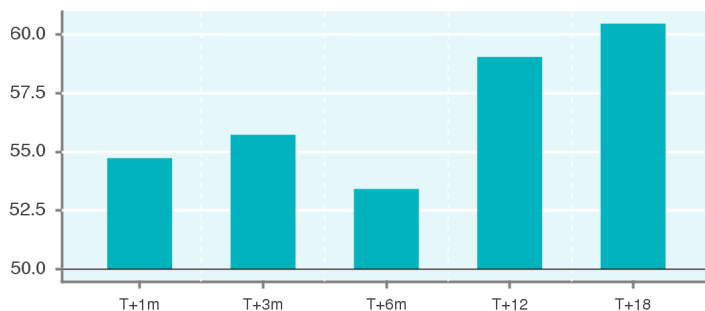
MFS - September 2014

1 - Skill at Finding Winners



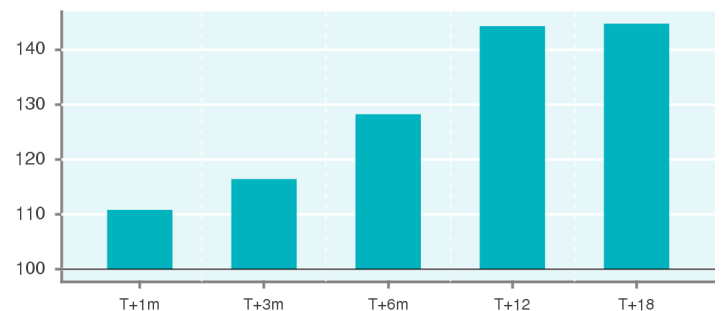
This shows the ability to find winners when buying stocks. Values above 100 indicate skill, based on the Hit Rate and Returns Ratio below.

2 - Hit Rate (%)



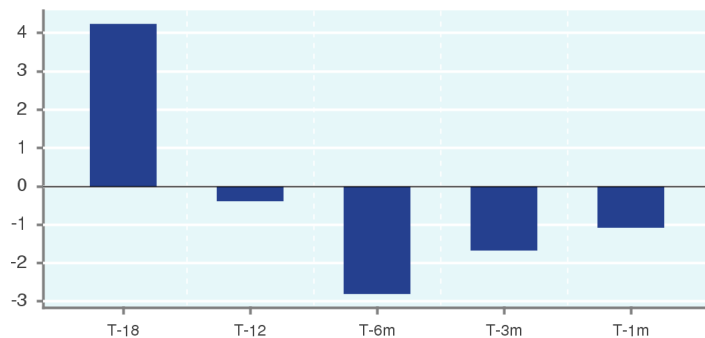
This shows the percentage of the Manager's buying decisions that outperformed. Values above 50% are good as more than half the decisions proved to be correct.

3 - Returns Ratio



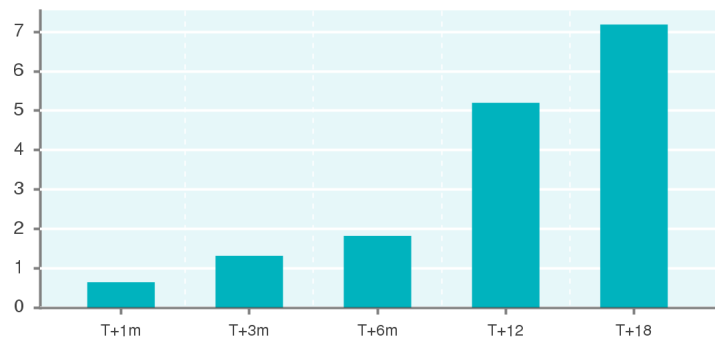
This shows whether the outperformance of the Manager's good decisions are greater than the underperformance of the losers. Values above 100 are good as the winners more than offset the losers.

4 - Average Return Prior to Trade (%)



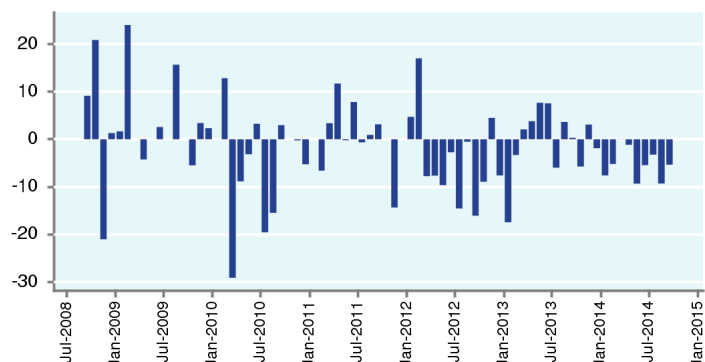
This chart shows whether the Manager's style is momentum or contrarian. Positive values indicate that stocks were prior winners and if negative, prior losers.

5 - Average Return Post Trade (%)



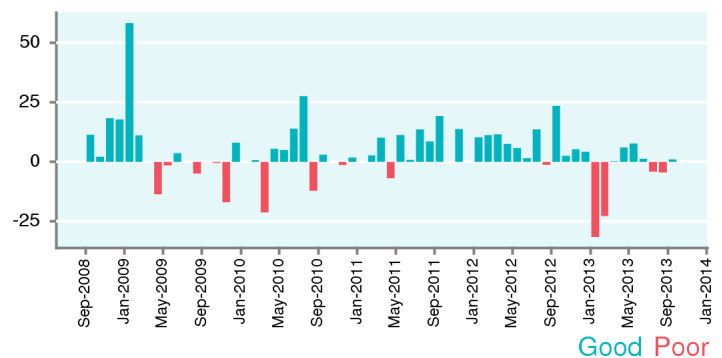
This chart shows whether the Manager has been successful at finding winners. This is indicated by positive values if the stocks outperformed the benchmark after purchase.

6 - Timing History (-12m)



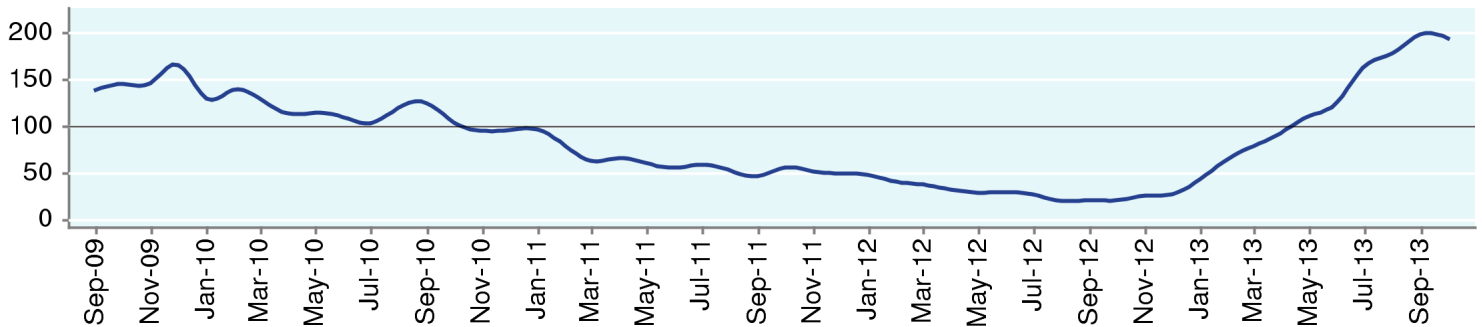
This chart drills down from Chart 4 to identify persistency in style.

7 - Timing History (+12m)



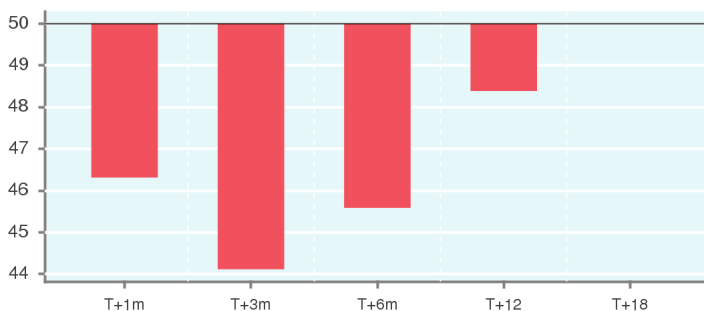
This chart drills down from Chart 5 to identify persistency in the ability to find winners.

1 - Skill at Knowing When to Sell



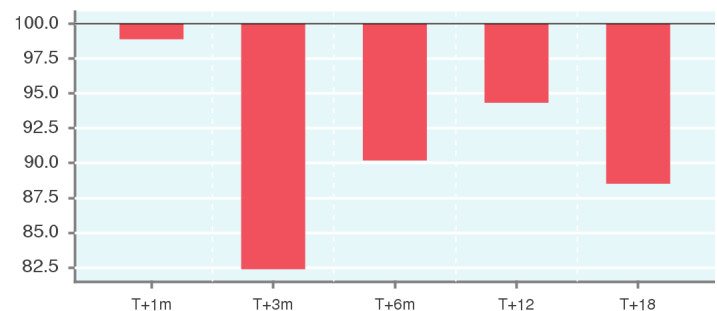
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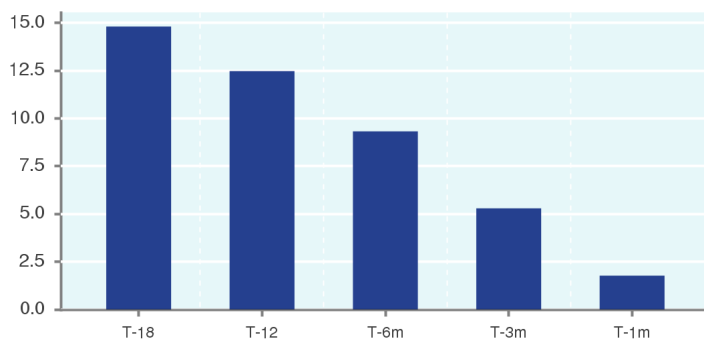
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3 - Returns Ratio



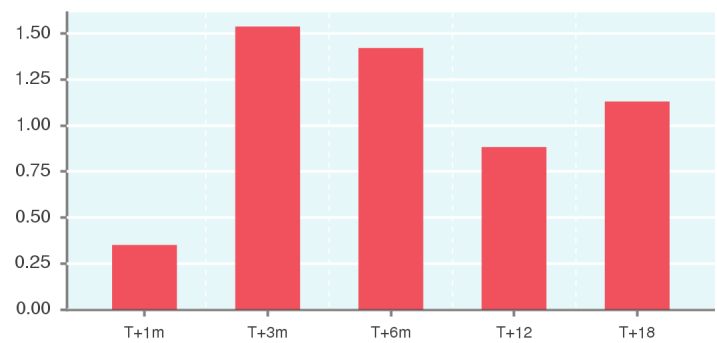
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4 - Average Return Prior to Trade (%)



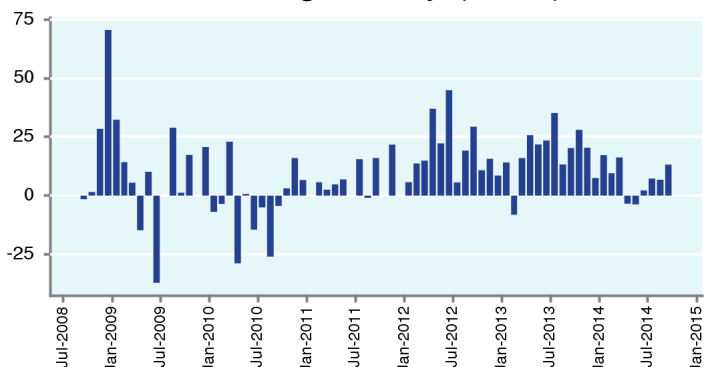
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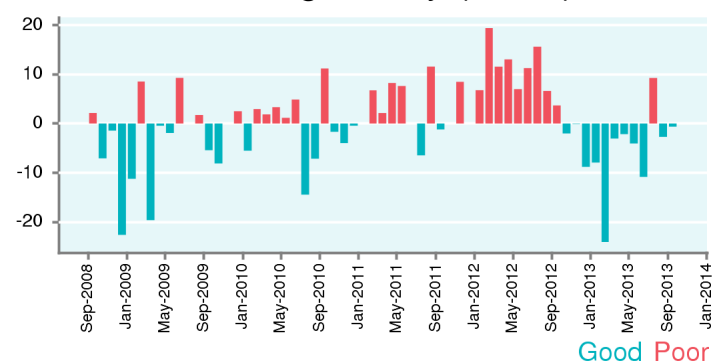
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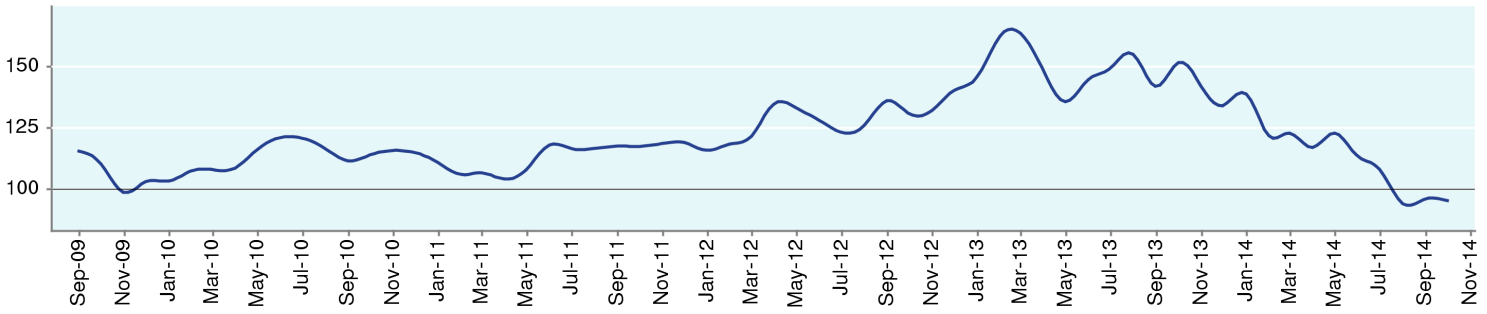
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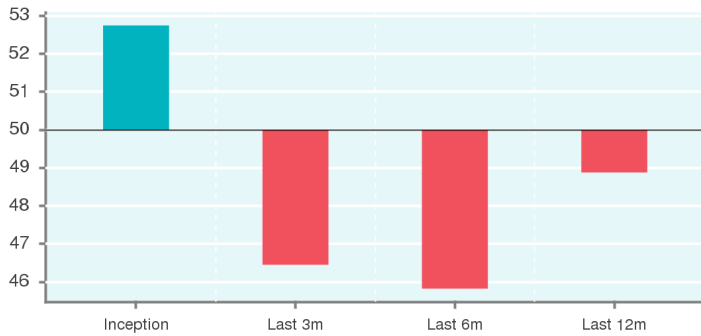
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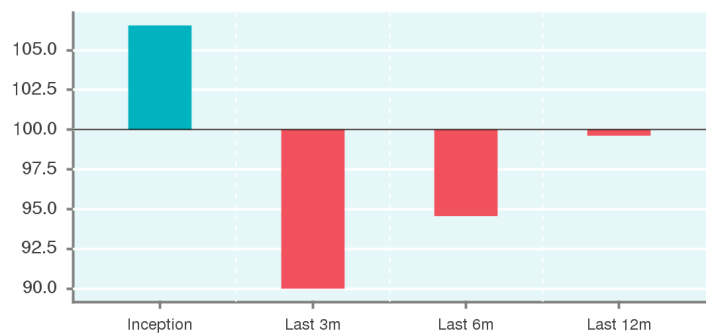
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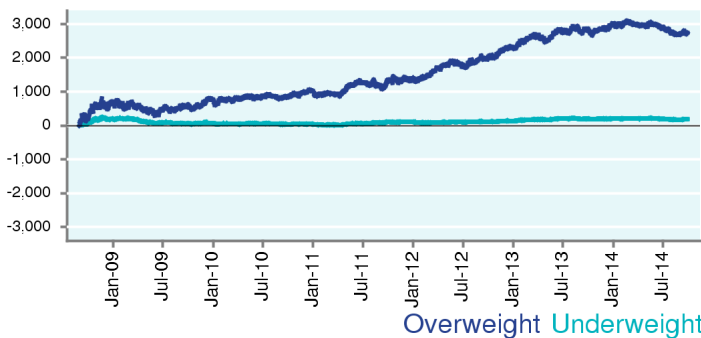
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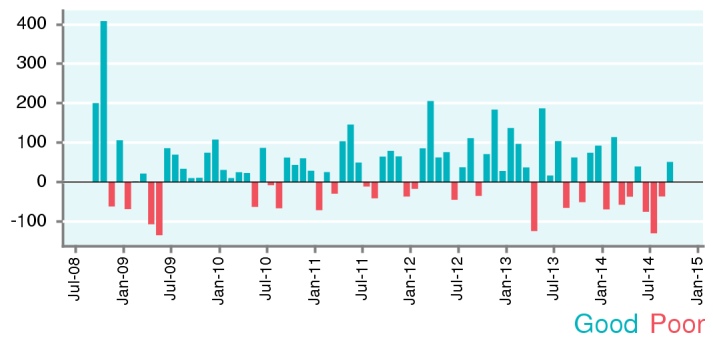
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4 - Total Added Value (bps)



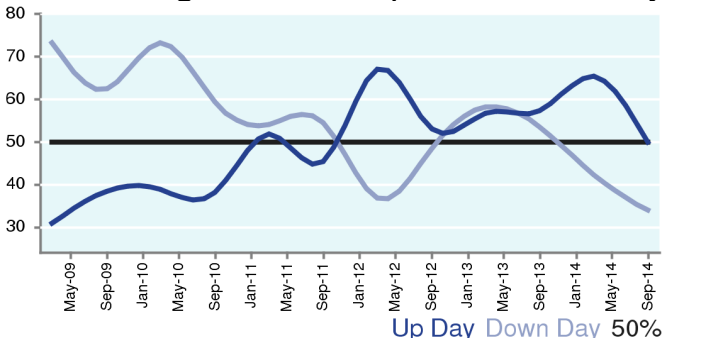
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5 - Persistency (bps)



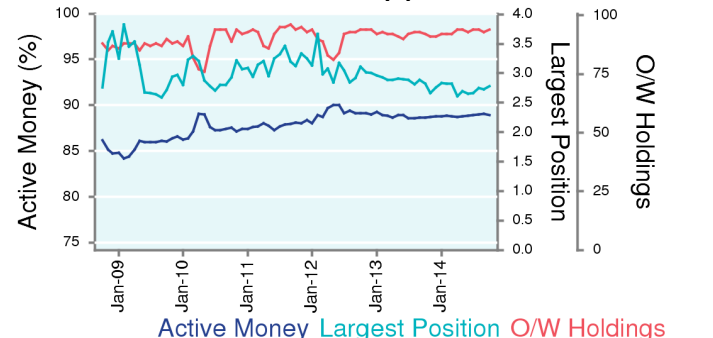
This shows the historical monthly contributions from the overweight stocks.

6 - Adding Value on Up and Down Days



This shows the performance of the days that the Manager out (under) performed on up (down) days.

7 - Risk Appetite



The chart shows the Active Money, the number of holdings and the largest active position.

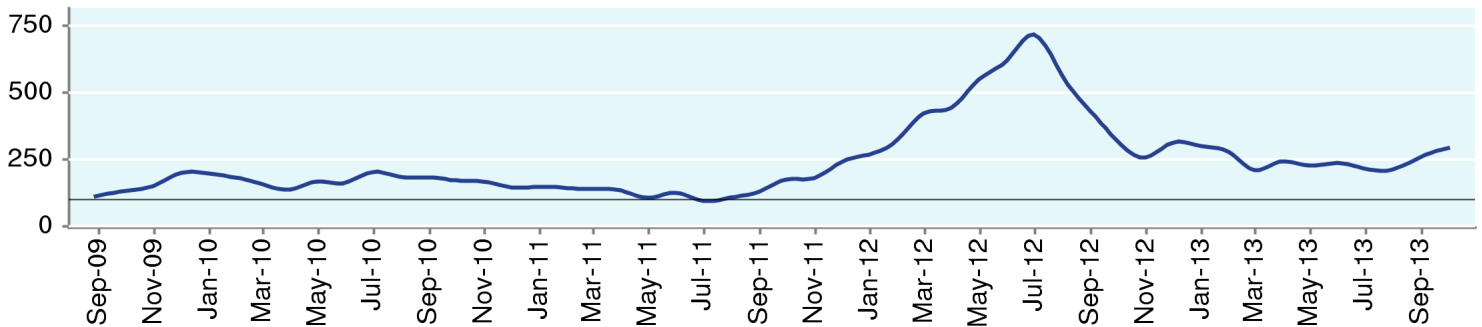
IN[^]ALYTICS



Warwickshire

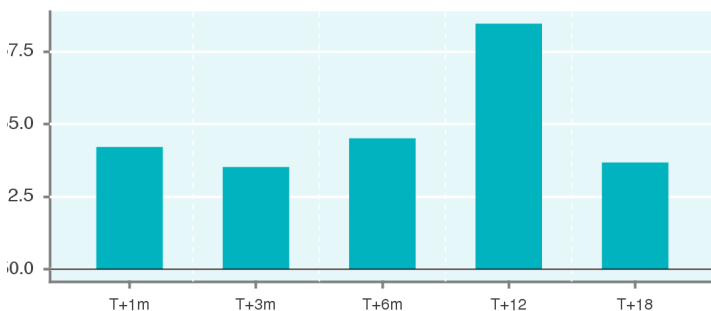
Threadneedle - September 2014

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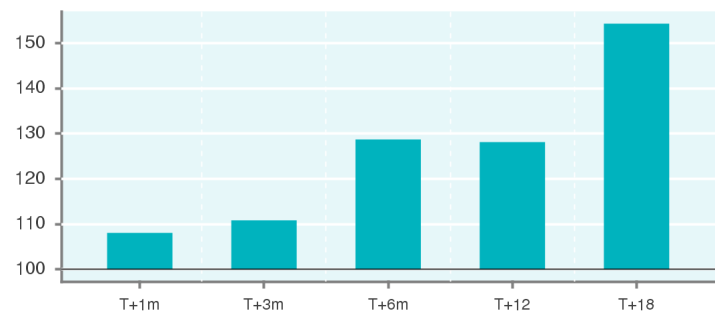
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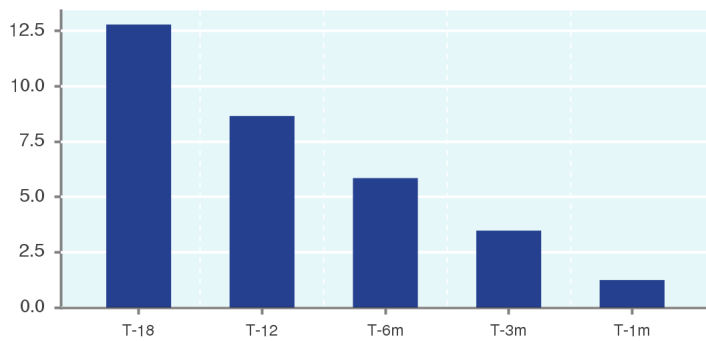
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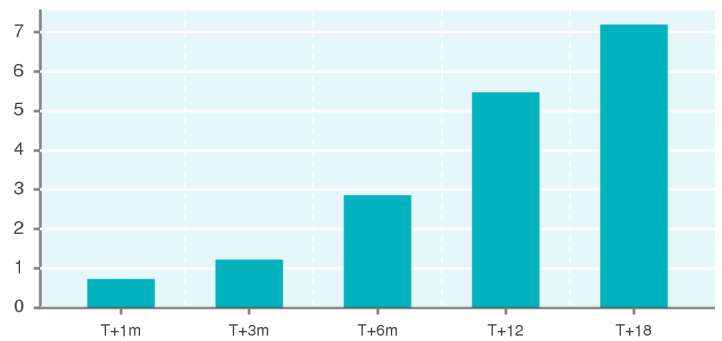
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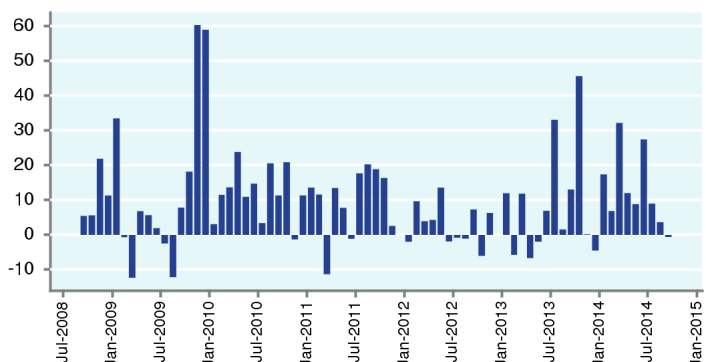
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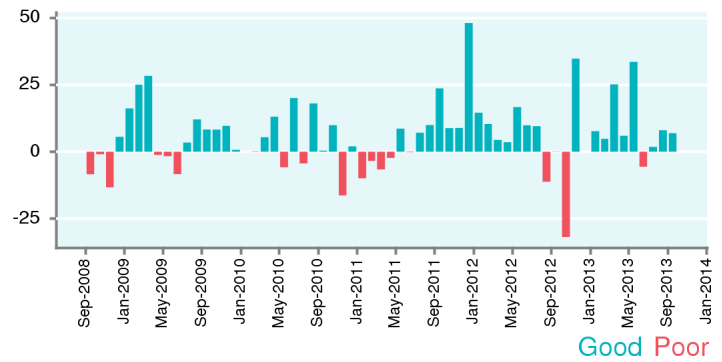
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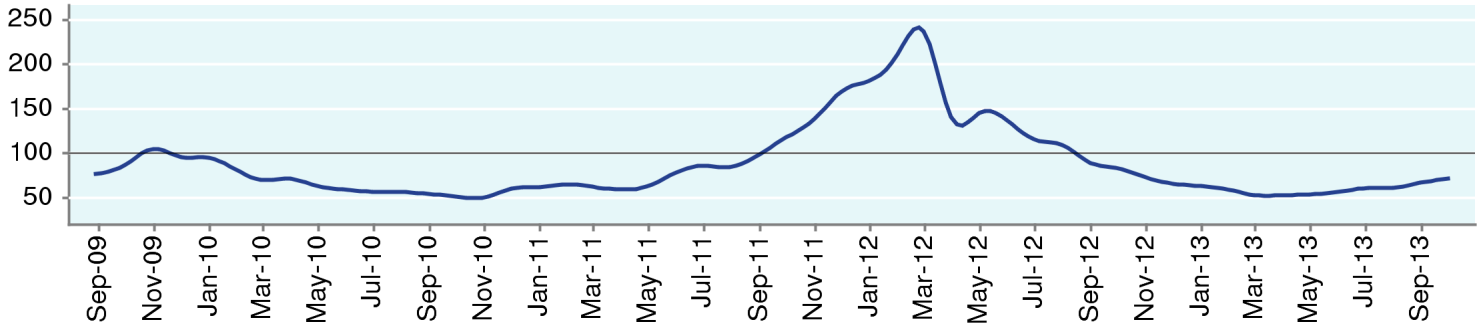
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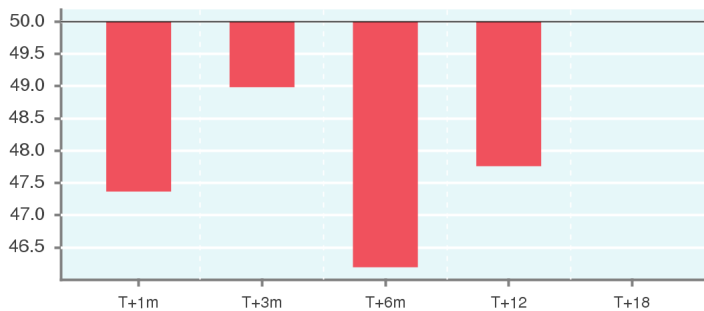
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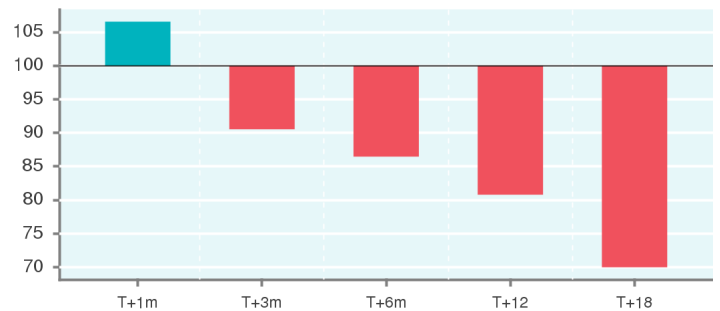
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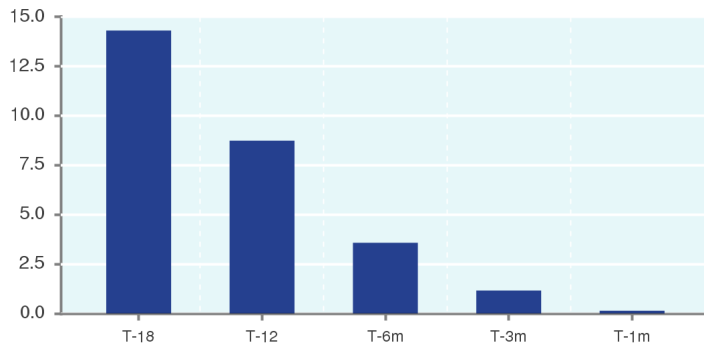
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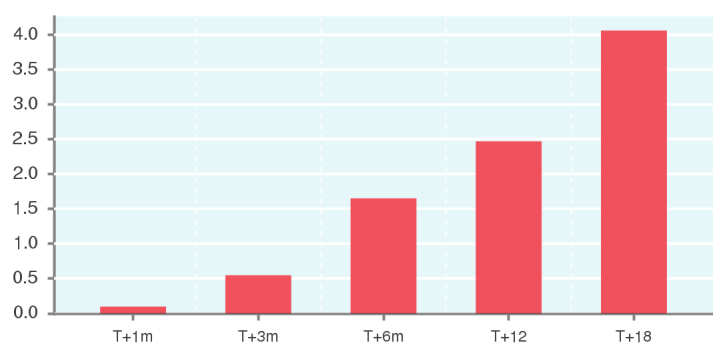
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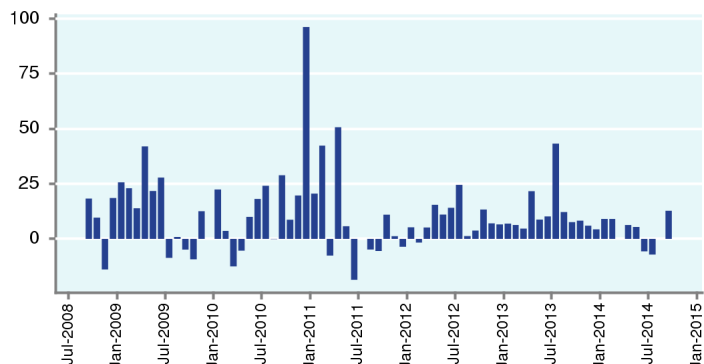
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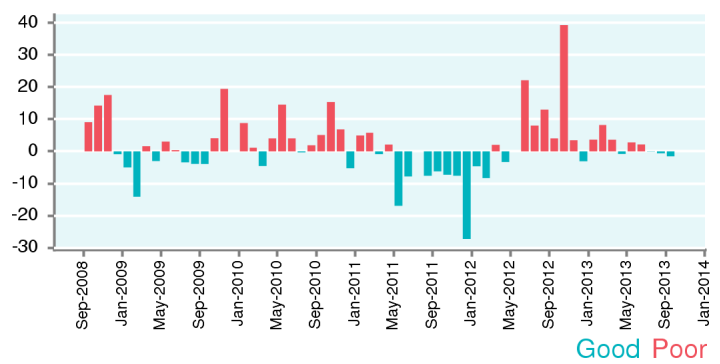
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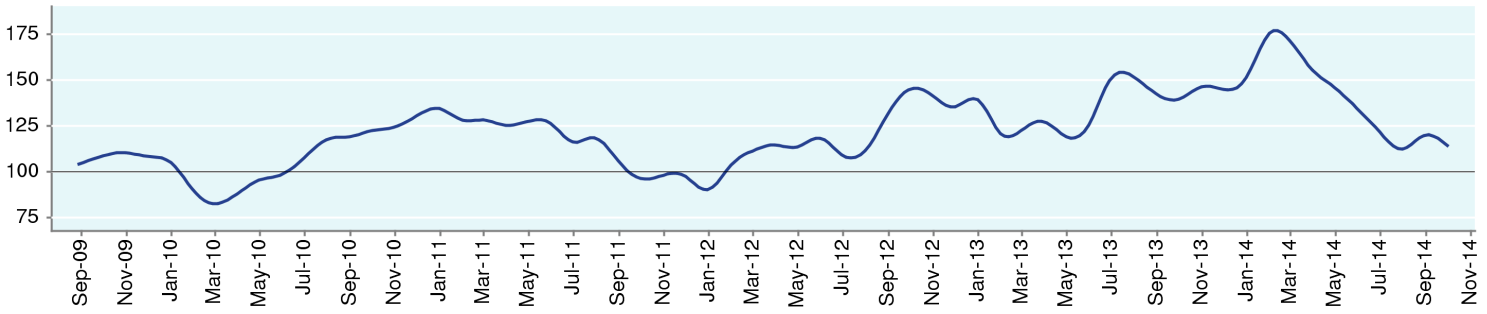
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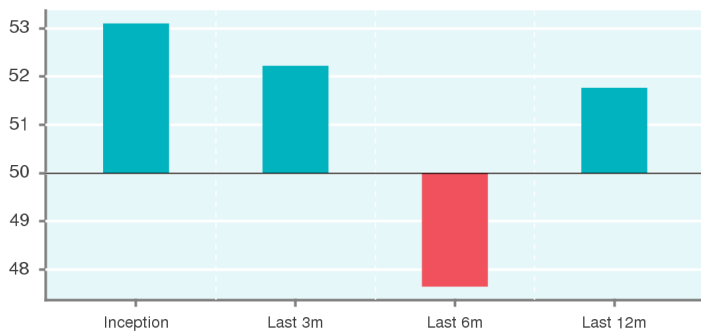
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1 - Skill at Holding Winners



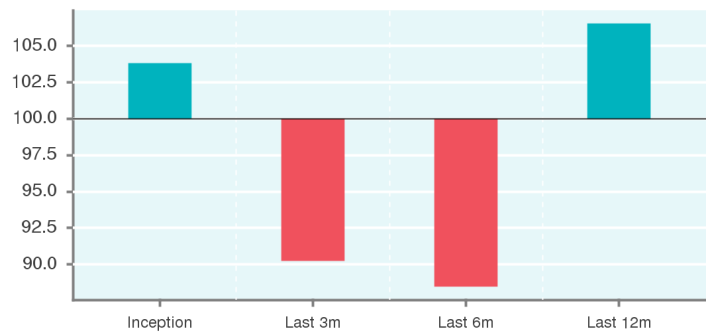
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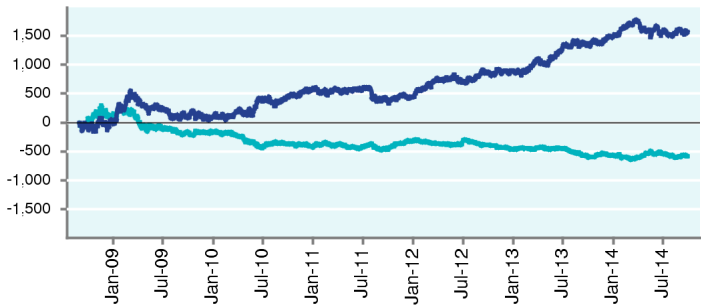
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3 - Contribution Ratio



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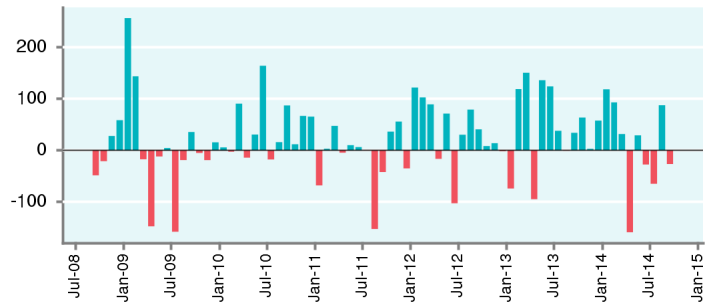
4 - Total Added Value (bps)



Overweight Underweight

This shows the cumulative added value from the overweight and the underweight stocks.

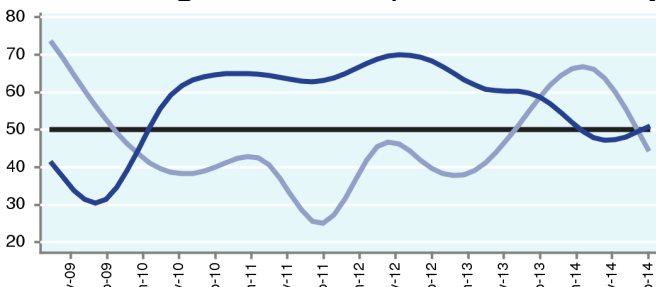
5 - Persistency (bps)



Good Poor

This shows the historical monthly contributions from the overweight stocks.

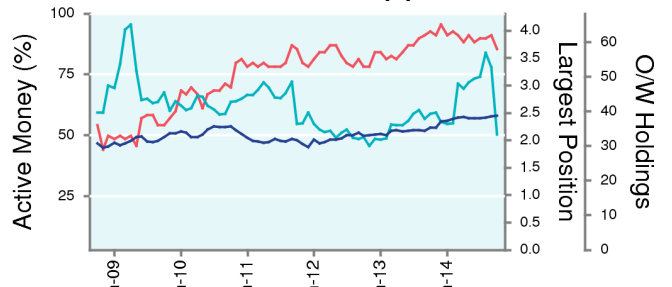
6 - Adding Value on Up and Down Days



Up Day Down Day 50%

This shows the performance of the days that the Manager out (under) performed on up (down) days.

7 - Risk Appetite



Active Money Largest Position O/W Holdings

The chart shows the Active Money, the number of holdings and the largest active position.

Pension Fund Investment Sub-Committee

17 November 2014

Annual Governance Report

Recommendations

The Committee is asked to:

- 1) **Comment on the Annual Governance Report of the External Auditors for Warwickshire Pension Fund, attached at Appendix A.**
- 2) **Comment on the Letter of Representation, attached at Appendix B.**

1. Purpose of the Report

- 1.1. The funds external auditors, Grant Thornton, are required to report to those charged with governance on issues arising from the audit of the Pension Funds financial statements before issuing their final opinion. Their report was approved at Audit and Standards Committee on 11 September 2014 and is attached at **Appendix A**.
- 1.2. 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 sufficient and appropriate and without omission of material facts to the financial statements, to the best of their knowledge. The Audit and Standards Committee approved this Letter of Representation on 11 September 2014 and is attached at **Appendix B**.
- 1.3. The final version of the letter was signed along with the statement of accounts by the Chair of the Council and the Head of Finance at County Council on 25 September 2014.

Background Papers

1. Warwickshire Pension Fund Statement of Accounts 2013/14

	Name	Contact Information
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The Audit Findings for Warwickshire County Council Pension Fund

Year ended 31 March 2014

September 2014

John Gregory

Engagement Lead

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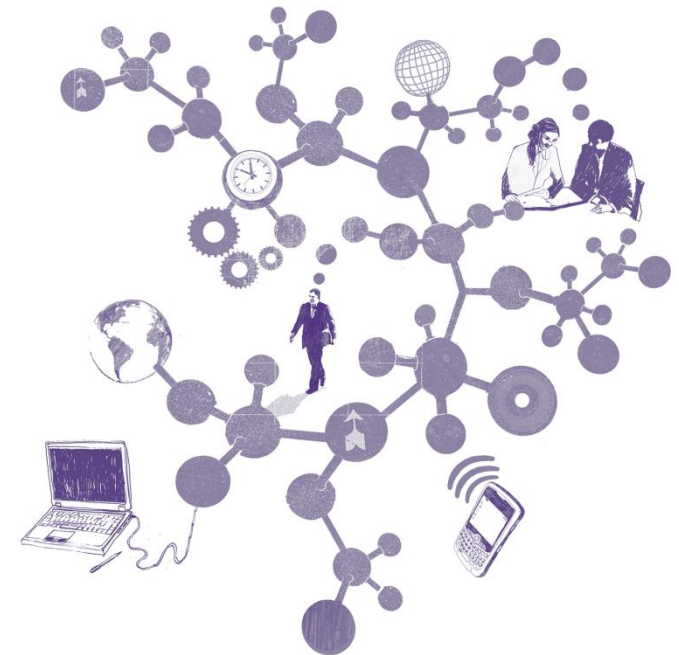
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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.

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Warwickshire Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

Introduction

In the conduct of our audit we have slightly altered our planned audit approach, which we communicated to you in our Audit Plan dated 12th June 2014, to include contributions as an area of reasonably possible risk. Further detail is contained in section 2.

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

- completion of confirmation of balances from the custodian and fund managers
- completion of work on experts used,
- completion of final specialist partner review,
- review of the final version of the financial statements,

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

While we have received assurances from the Head of Finance that the accounts were approved by the 30 June, these were not made available to the auditor until the 7 July.

Key issues arising from our audit

Financial statements opinion

We have not identified any adjustments affecting the Fund's reported financial position and plan to give an unqualified opinion. We have agreed with officers a large number of disclosure changes to ensure both greater compliance with accounting standards and to improve the overall presentation of the accounts.

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

- Working papers, particularly from the finance staff within the pension fund team, have been improved compared to previous years. We will continue to work with officers to make sure the requirements of the audit process are clear and relevant for the fund.
- There was a lack of evidence of a quality review of the draft accounts provided for audit. This has resulted in a greater number of audit queries than in previous years, particularly with regard to compliance with statutory disclosures and accounting standards.
- Delays in receipt of the draft accounts resulted in the need to re-schedule the technical review of the accounts, which resulted in some non-productive time on the audit. Significant delays have also been experienced in agreeing both the audit plan and arrangements letter which has again resulted in non-productive time chasing responses from officers. The assumptions made in setting the scale fee assume timely communication during the year. This is an area that needs to be improved going forward.
- Officers have confirmed that the annual report will now be available for audit prior to the audit committee on the 11th September. The date of receipt of this report and the associated supporting information will have a direct impact on the ability to issue a certificate on the accounts for both the Pension fund and the County Council.
- We have no adjusted or unadjusted misstatements to report.

Further details are set out in section 2 of this report.

Controls

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

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

We have not identified any significant control issues, other than those identified as part of the interim audit, which we reported to members in our Audit Plan on 12 June.

The way forward

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

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

01. Executive summary

02. Audit findings

03 Fees, non audit services and independence

04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 12 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

Following discussions with our technical team we have included contributions as a reasonably possible risk area within the audit. This was considered appropriate given the material nature of the balance and the number of transactions that are processed on an annual basis. The work we have completed in this area is set out on page 11.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion., a draft of which is attached at appendix A.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks




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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Investment activity not valid Fair value measurement not correct	<p>We have documented the controls in relation to this cycle and walked these through to confirm our understanding.</p> <p>We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records.</p> <p>We have obtained direct confirmation of investment balances from the custodian and external fund managers and gained explanations for variances identified.</p> <p>We have obtained direct confirmation of the existence of investments with the custodian and fund managers.</p> <p>We have tested a sample of investments to independent data to ensure they are recorded at the correct value.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Review of the investments made during the year have demonstrated two instances of non compliance with the Statement of Investment Principles. Officers are aware of this and are taking steps to bring the investments in line with the agreed principles.</p>
Benefit payments	Benefits improperly calculated/claims liability understated	<p>We have documented the controls in relation to this cycle and walked these through to confirm our understanding.</p> <p>We have tested a sample of individual pensions in payment, lump sum benefits and refunds back to appropriate source documentation.</p> <p>We have reviewed pensions paid compared to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>As in previous years the fund is unable to reconcile the data held on the Altair membership data system with the accounting records used to produce the financial accounts. We have gained sufficient assurance that the two systems are not materially different for the purposes of the accounts.</p>


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documented the controls in relation to this cycle and walked these through to confirm our understanding, • Confirmed with the fund that it received all expected contributions from member bodies, • 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. • Tested a sample of contributions to source data. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>There are two key policies in relation to revenue recognition: that for contribution income and that for investment income. Normal contributions are accounted for in the payroll month to which they relate. Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.</p>	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. 	<p style="text-align: center;"></p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>
<p>Judgements and estimates</p>	<p>Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code.</p> <p>The fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager.</p>	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. Sufficient assurance has been provided by either the experts used for valuing the fund, or we have been able to agree valuations to third party evidence. 	<p style="text-align: center;"></p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p> <p style="text-align: center;"></p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	The remainder of the Fund's Accounting policies are set out in part 5 of the accounts. These have been reviewed as a result of undertaking the detailed testing of the fund balances.	Our review of accounting policies has highlighted some areas that would benefit from clarification. Officers have agreed to make these changes, none of which are considered individually significant	<div style="text-align: center;">  <p>Accounting policy appropriate and disclosures sufficient</p> </div>

Assessment

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

Misclassifications & disclosure changes

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

Adjustment type	Account balance	Impact on the financial statements
Presentation and disclosure	Various	<p>Our review of the accounts highlighted a large number 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. However many of these could have been eliminated with improved quality assurance and a detailed review of the draft accounts against the CIPFA disclosure checklist.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • Inserting references to the corresponding note number within the fund account and net asset statement to improve clarity for the reader of the accounts; • Correcting inconsistencies between the primary statements and the corresponding notes, and ensuring that all tables cast correctly; • Ensuring all relevant accounting policies are included within the pension fund accounts, thus enabling them to 'stand alone' from the administering authority accounts; • Ensuring all relevant notes have comparative information included, particularly in regard to the reconciliation of classes of investments and also the tables relating to interest risk and price risk; • Adding an additional disclosure to explain that the incorporation of the requirements of IFRS 13 into the Code has been deferred until 2014/15; • Additional disclosures have been requested in respect of IFRS 7 to include greater clarification on the sensitivity analysis around liquidity risk, but also a more detailed analysis of the unrealised profit/loss between the different types of investments; • Additional disclosure has also been requested around the use of management judgements and the relationship that the fund has with its external advisors.

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Comments
2.	●	<ul style="list-style-type: none"> As part of our responsibilities as the auditor of the pension fund we are required to provide a level of assurance to the auditors of a number of admitted bodies, should they request it. The assurances include comments around the controls in place for member data. Our interim audit reported errors found in updating member data which have been re-visited during the final audit. Work during the final accounts visit demonstrated that errors previously identified have been corrected, and subsequent sampling across the populated resulted in no other errors been found. 	<ul style="list-style-type: none"> From 1 April 2014 the LGPS falls under the remit of the pension regulator. A key focus of the regulator is to ensure that member data is accurate and appropriately updated. The fund should ensure that it has sufficient controls around the updating of member data and that these are tested on a regular basis.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

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

Details of the fee variation were included within the audit plan dated 12 June. Members agreed this variation.

The fee variation above takes account of the work we are required to undertake for admitted bodies within the Audit Commission regime.

We are currently unable to confirm the final fees for the audit as we are still awaiting the annual report and supporting working papers.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

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

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

Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendix A: Audit Opinion

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

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Warwickshire County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Warwickshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head Of Finance and auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Director of Resources 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

Date



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Appendix B

Grant Thornton UK LLP
Colmore Plaza
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Birmingham
B4 6AT
September 2014

Dear Sirs

Warwickshire County Council Pension Fund Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with your audit of the financial statements of Warwickshire County Council Pension Fund for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

Financial Statements

- 1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.
- 2 We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- 3 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 4 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- 5 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- 6 All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- 7 We have not adjusted all of the misstatements brought to our attention in the Audit Findings Report, where we have not adjusted this is because they are considered to be immaterial to the Fund's accounts at the year-end. The financial statements are free of material misstatements, including omissions.
- 8 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.

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

10 We acknowledge our responsibilities for making the accounting estimates included in the financial statements, whether these are made by directly employed members of staff, or by experts employed for that purpose. 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 judgment 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.

Information Provided

11 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 determine it necessary to obtain audit evidence.

12 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.

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

14 We are not aware of any 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.

15 We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

16 We are not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

17 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. We have drawn to your attention all correspondence and notes of meetings with regulators.

18 We are not aware of any reports having been made to The Pensions Regulator by any of our advisors. We have drawn to your attention all correspondence with The Pensions Regulator confirmed to us by all of our other advisors.

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

Approval

The approval of this letter of representation was minuted by the Audit Committee at its meeting on 11 September 2014.

Signed on behalf of the Board

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

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

Pension Fund Investment Sub- Committee

17 November 2014

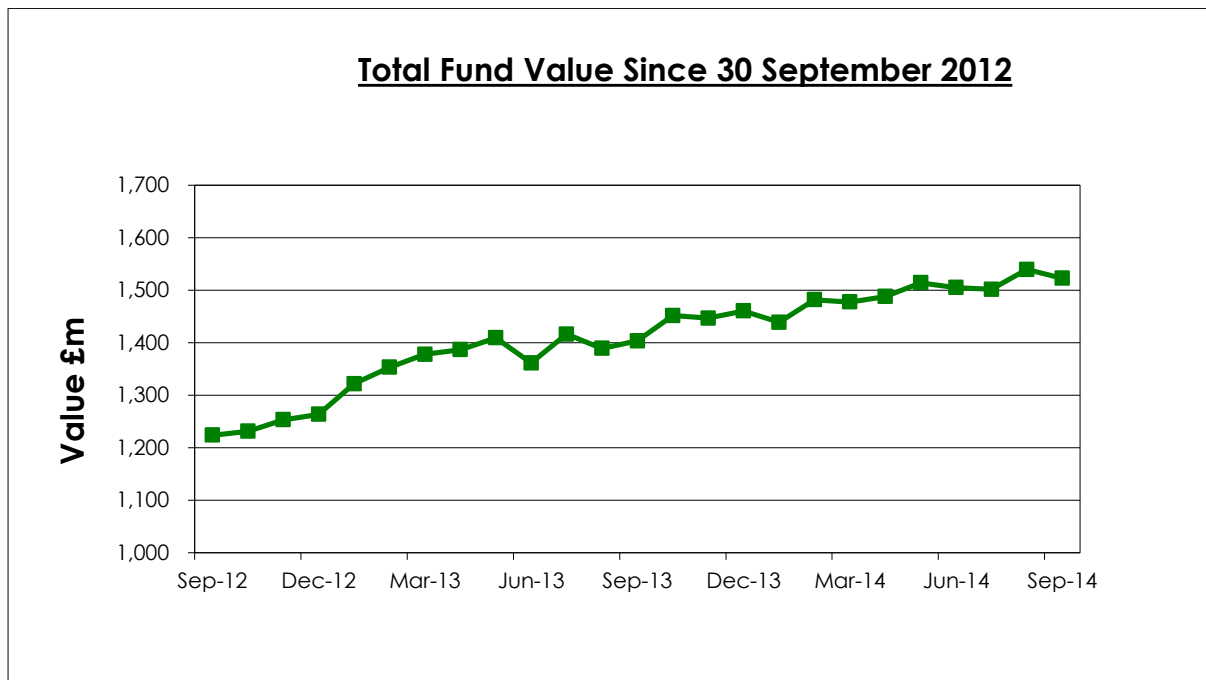
Investment Performance

Recommendation

That the Committee note the fund value and investment performance for the second quarter in 2014/15 to 30 September 2014.

1. Fund Value at 30 September 2014

- 1.1 The fund value was £1,522.6m at 30 September 2014 an increase of 1.2% on the previous quarter as shown in Figure 1.



2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 30 September 2014 is shown in Table 1.

Table 1: Fund Asset Allocation

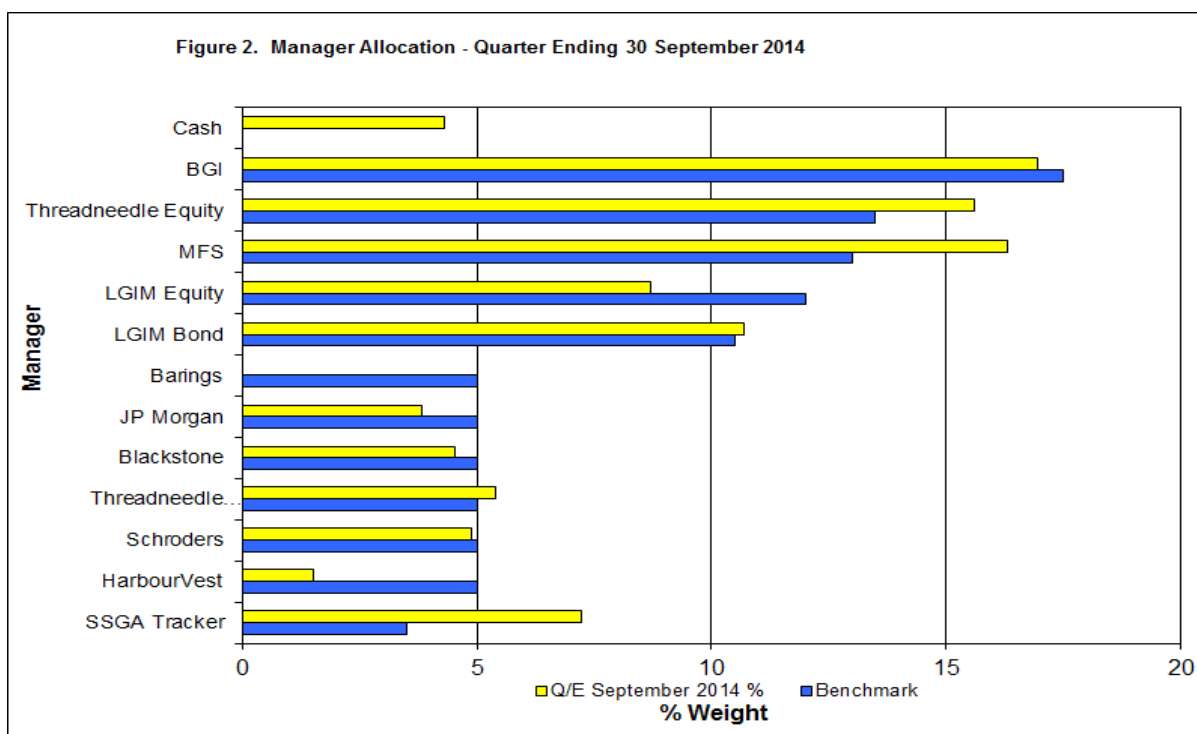
Asset Class	Q/E Sep 2014 %	Fund policy %	Over/under weight %
Equity	58.22	52.50	5.72
UK	28.22	22.50	5.72
Overseas	30.00	30.00	0.00
Fixed Income	16.83	17.50	-0.67
UK corporate bonds	9.93	10.00	-0.07
UK government bonds	2.20	2.50	-0.30
UK index linked bonds	4.70	5.00	-0.30
Hedge Funds	4.55	5.00	-0.45
Private Equity	1.53	5.00	-3.47
Property	10.09	10.00	0.09
Multi Asset Absolute Return	0.00	5.00	-5.00
Absolute Return Bonds	3.82	5.00	-1.18
Cash	4.96	0.00	4.96
Total	100.00	100.00	0.00

2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30 September 2014 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E September 2014 %	Benchmark	Variance
SSGA Tracker	7.22	3.5	3.7
HarbourVest	1.53	5.0	-3.5
Schroders	4.89	5.0	-0.1
Threadneedle Property	5.39	5.0	0.4
Blackstone	4.55	5.0	-0.5
JP Morgan	3.82	5.0	-1.2
Barings	0.00	5.0	-5.0
LGIM Bond	10.69	10.5	0.2
LGIM Equity	8.72	12.0	-3.3
MFS	16.31	13.0	3.3
Threadneedle Equity	15.60	13.5	2.1
BGI	16.96	17.5	-0.5
Cash	4.30	0.0	4.3
Total	100.0	100.0	0.0

2.2 Fund asset allocation against each manager is shown in Figure 2.



3. Fund Performance

3.1 Overall the fund under-performed its overall benchmark by 0.19%. The performances of managers against their benchmarks for the quarter ending 30 September 2014 were:

Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Sep 2014	Benchmark	Variance
		%	%	%
BlackRock Global Investors	<i>BlackRock Benchmark</i>	1.55	1.80	-0.25
MFS	<i>Global Equity Benchmark</i>	1.75	3.04	-1.29
State Street Tracker	<i>FTSE All-Share</i>	-0.95	-0.97	0.02
Threadneedle	<i>FTSE All-Share</i>	-1.25	-0.98	-0.27
Legal and General (Global Equities)	<i>LGIIM Benchmark</i>	0.28	1.03	-0.75
Legal and General (Fixed Interest)	<i>LGIIM Benchmark</i>	3.12	3.12	0.00
Threadneedle Property	<i>Customised Benchmark</i>	4.72	4.13	0.59
Schroders Property	<i>Customised Benchmark</i>	4.17	4.03	0.14
Blackstone Hedge	<i>Customised Benchmark</i>	1.49	0.09	1.40
Barings Multi Asset	<i>Customised Benchmark</i>	1.02	0.13	0.89
JP Morgan Strategic Bond	<i>Customised Benchmark</i>	-0.62	0.13	-0.75
Total	VCC Total Fund Benchmark	1.31	1.50	-0.19

3.2 Annualised return for the fund managers to 30 September 2014 is summarised in Figure 3. The three year annualised return is summarised in Figure 4.

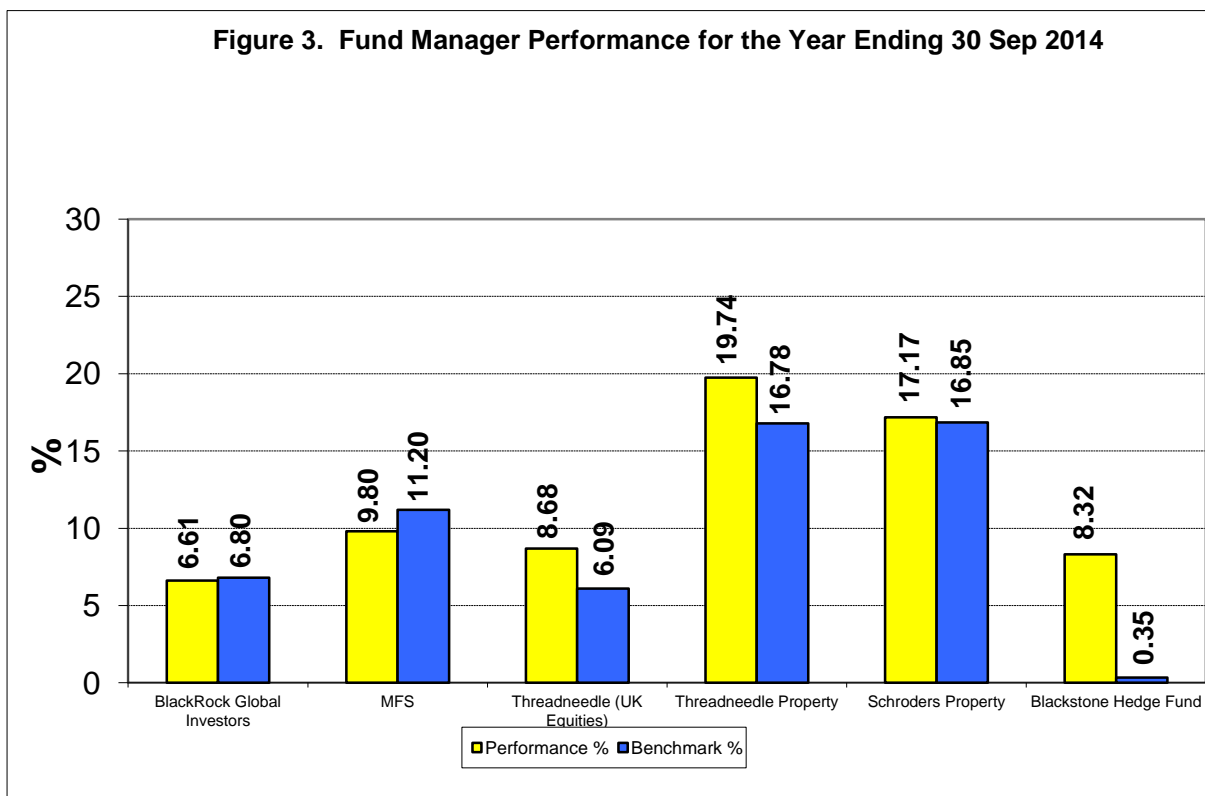
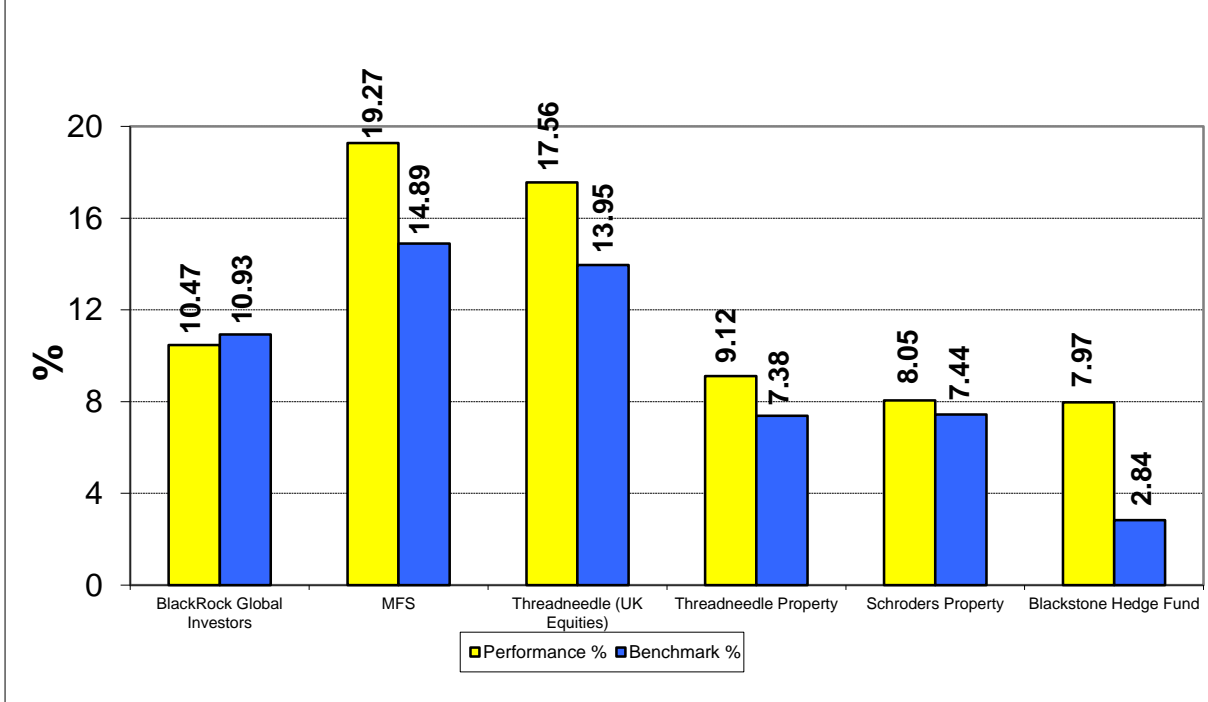
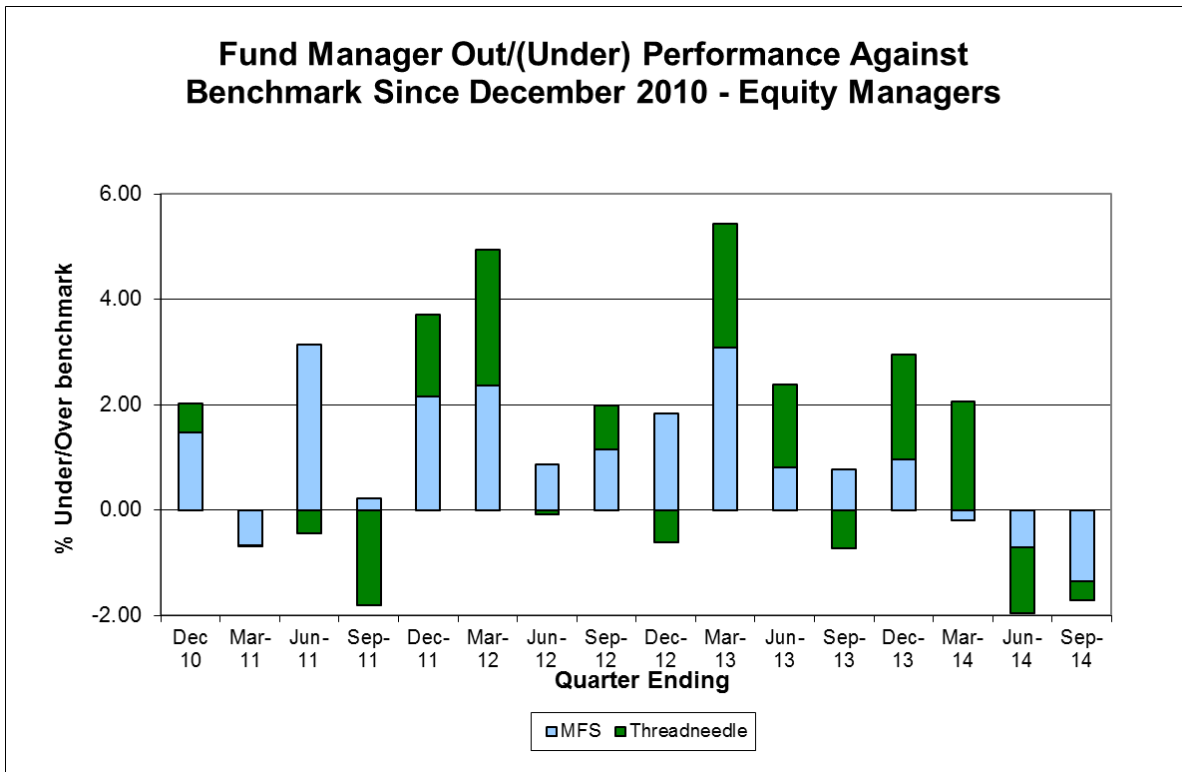


Figure 4. Fund Manager Performance for Three Years Ending 30 September 2014



3.3 Equity Manager performance against their benchmarks are summarised in Figures 5.



Background Papers

1. Bank of New York Mellon Quarterly Attribution Report September 2014

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