

Pension Fund Investment Sub-Committee

15 June 2015

Audit Plan 2014/15

Recommendation

The Pension Fund Investment Sub -committee is asked to consider the report and make any comments, if necessary.

1. Purpose of the Report

- 1.1 The County Council's external auditor – Grant Thornton – is required to advise those charged with governance its plan for the audit of the Pension Fund for the financial year 2014/15.
- 1.2 A full copy of the Plan is attached at **Appendix A**.
- 1.3 The Committee may wish to consider future reports on the funds external audit process being presented to Staff and Pensions Committee or the Local Pension Board.

Background Papers

None

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The Audit Plan for Warwickshire Pension Fund

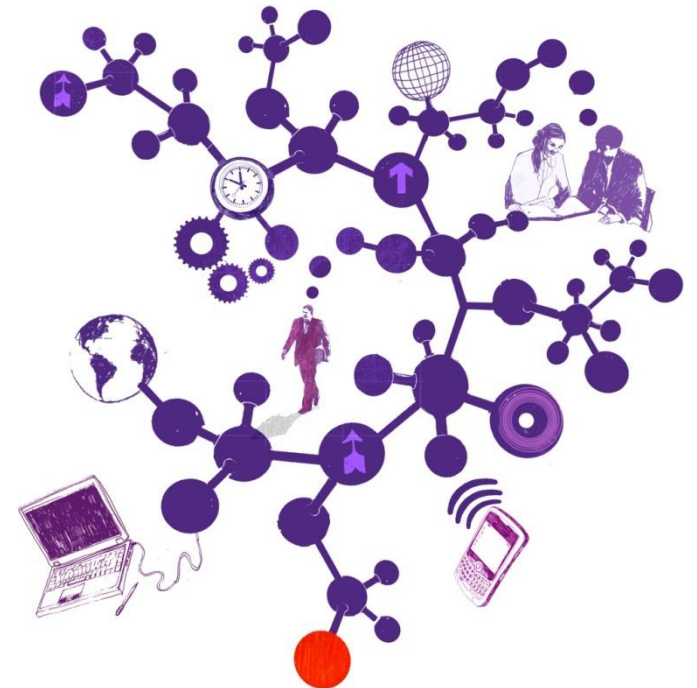
Year ended 31 March 2015

23 March 2015

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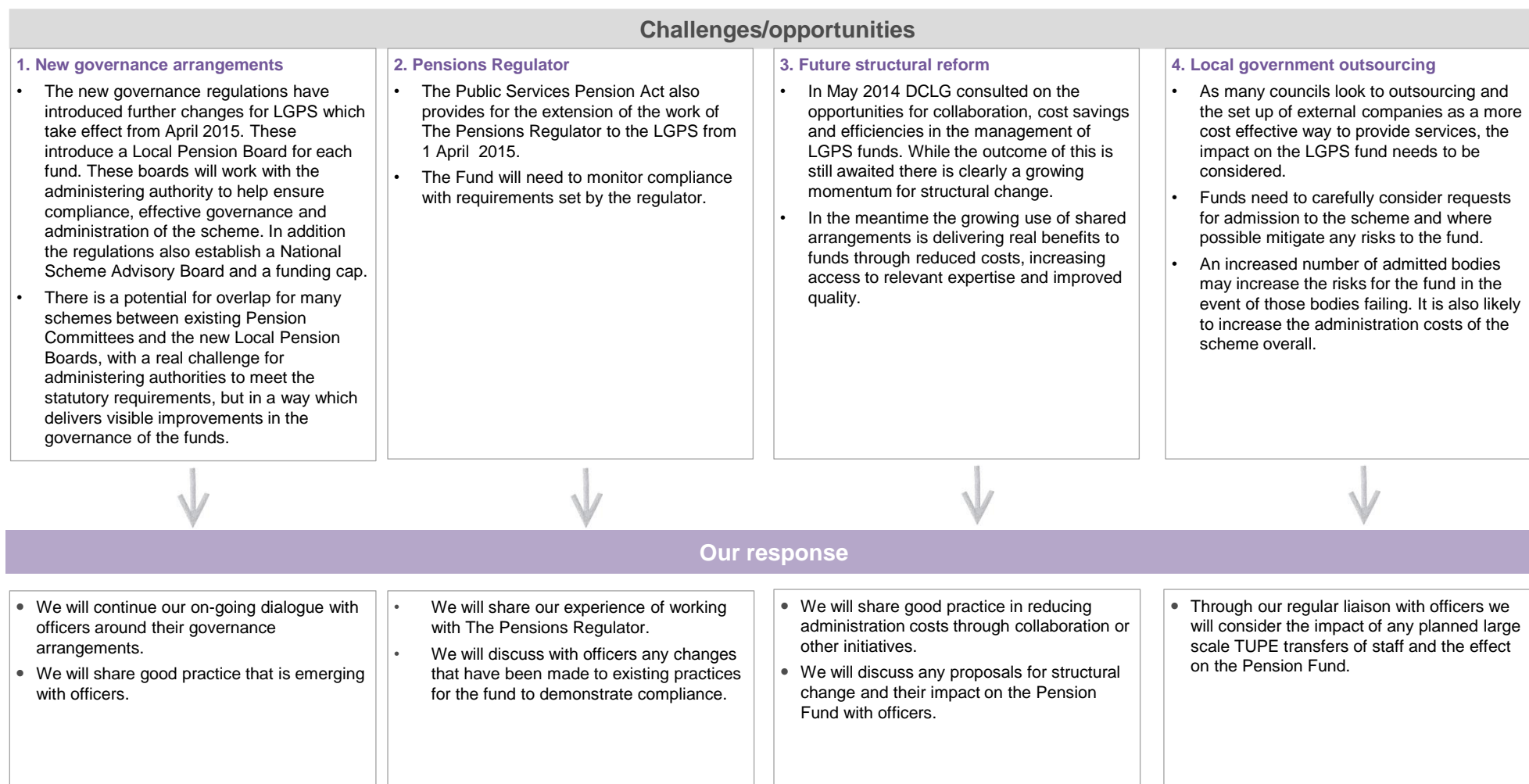
Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks
6. Results of interim audit work
7. Key dates
8. Fees and independence
9. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code .

3. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

Our response

- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

Our audit approach

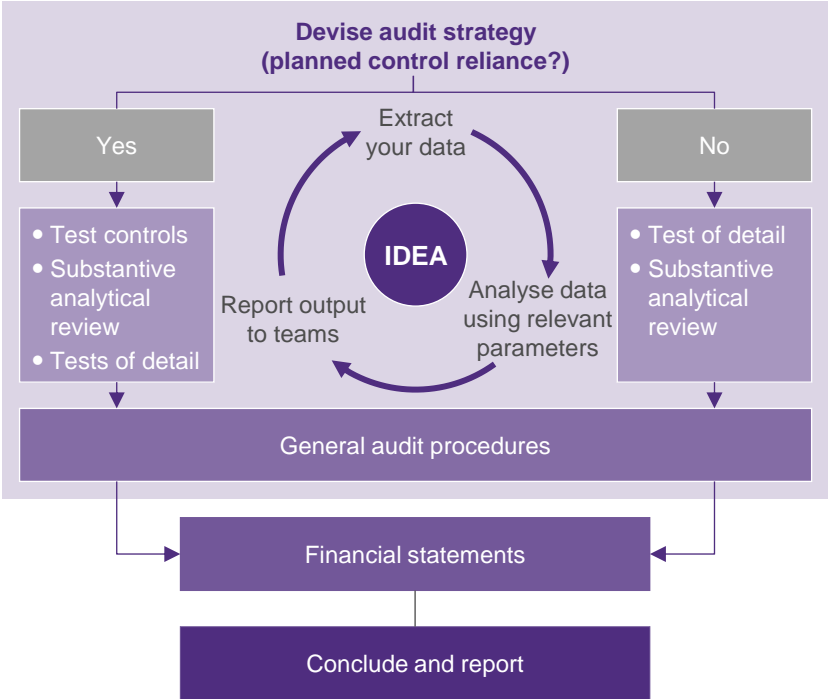
Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- * Understanding the environment and the entity
- * Understanding the business
- * Understanding management's focus
- * Evaluating the year's results

Inherent risks
 Significant risks
 Other risks
 Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software



Note:
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>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:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition.• opportunities to manipulate revenue recognition are very limited.• the culture and ethical frameworks of local authorities, including Warwickshire County Council who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none">• Review of the journal control environment. <p>Further work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries.• Review of unusual significant transactions.

Significant risks identified cont'd

Significant risk	Description	Substantive audit procedures
<p>Level 3 Investments – Valuation is incorrect.</p> <p>A level 3 investment is one where at least one input that could have a significant effect on the value of the investment is not based on observable market data. The most common example of which are investments in private equity, which are valued using various estimation techniques.</p>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Obtained details of the fund managers and written to them asking for external confirmation of the year end balance, and their control report. • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. <p>Further work planned:</p> <ul style="list-style-type: none"> • For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • Review the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit.• We have performed walkthrough tests of the controls identified in the cycle. <p>Further work planned:</p> <ul style="list-style-type: none">• We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit.• We have performed walkthrough tests of the controls identified in the cycle. <p>Further work planned:</p> <ul style="list-style-type: none">• We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.

Other risks identified continued

Other risks	Description	Audit Approach
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. We have performed walkthrough tests of the controls identified in the cycle. <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over the contributions made to the fund. Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. We have performed walkthrough tests of the controls identified in the cycle. We have undertaken control testing over the arrangements for members to be enrolled into the scheme, up until the end of January 2015. <p>Further work planned:</p> <ul style="list-style-type: none"> Confirm that controls for members to be enrolled in the scheme are in place at year end. Test a sample of individual pensions in payment by reference to member files. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.

Other risks identified continued

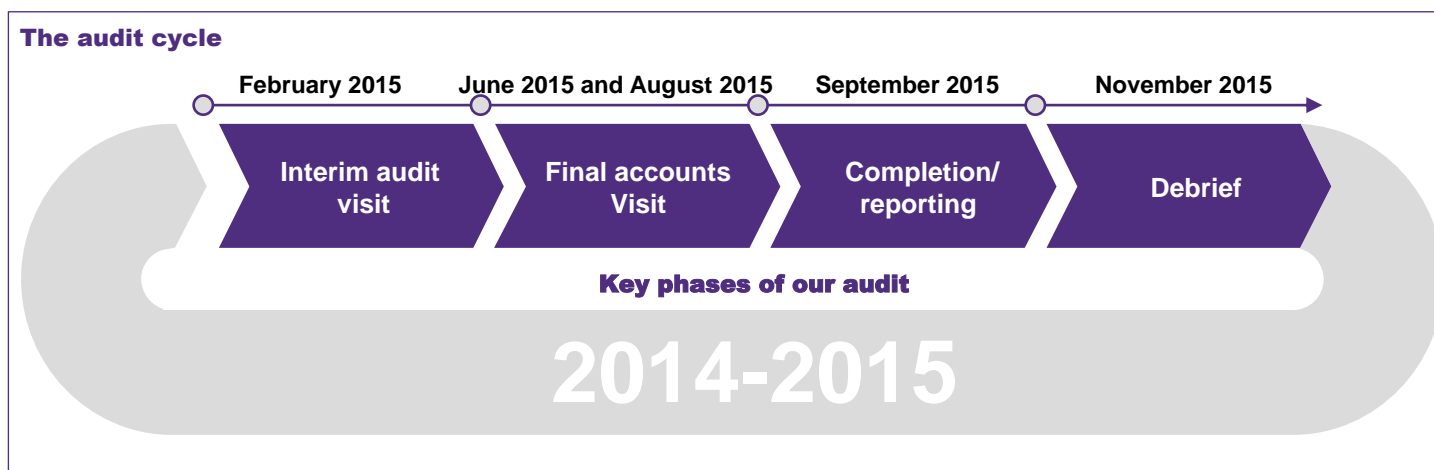
Other risks	Description	Audit Approach
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit.• We have performed walkthrough tests of the controls identified in the cycle.• Controls testing over starters, leavers and amendments to the pension fund data for payrolls that are provided by Warwickshire County Council, up until the end of January 2015 <p>Further work planned:</p> <ul style="list-style-type: none">• Confirm that controls over changes to the pension scheme are in place at year end.• Controls testing over starters, leavers and amendments to the pension fund data for external payrolls.• Sample testing of changes to member data made during the year to source documentation.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Internal controls have been implemented in accordance with our documented understanding, however we note that no changes have been made to the control environment since the introduction of LGPS 2014 particularly in respect of ensuring the correct payment on contributions.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Internal audit	We have completed a high level review of internal audit's overall arrangements. We note that no specific internal audit work is planned for the pension fund for the current year. Given the introduction of both LGPS 2014 and the pension regulator members will need to ensure that appropriate alternative assurance is sought, particularly around the quality of member data.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements
Journal entry controls	We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	No issues have been identified that we wish to highlight for your attention.

Key dates



Date	Activity
February 2015	Planning
February 2015	Interim site visit
June 2015	Presentation of audit plan to Audit Committee
June 2015 and August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting
September 2015	Report audit findings to those charged with governance
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£	£
	2014/15	2013/14
Pension Fund Scale Fee	23,892	23,892
Proposed fee variation – IAS 19 Assurances	1,328	1,328
Total fees (excluding VAT)	25,220	25,220

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies within the Audit Commission regime and is consistent with that requested in prior years.

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan 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.

	Audit plan	Audit findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue 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 the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Communication of audit matters with those charged with governance

In addition to the areas covered on the previous page, we are required to consider the following in our discussions with those charged with governance (the Audit and Standards Committee)

Area of consideration	Current understanding based on planning and interim work to date
Awareness of fraud or suspected fraud	There are no material instances of fraud that have been identified during the year. Any significant suspected or alleged fraud are investigated by Internal Audit and reported to the Audit Committee on a regular basis.
Views about the risks of fraud	Although there is an on-going risk of fraud being committed against the fund arrangements are in place to both prevent and detect fraud. These include the regular review of arrangements and work carried out by Internal Audit as part of their annual plan. The risk of material misstatement of the accounts due to undetected fraud is low and this is consistent with the risk management processes that are in place within the Fund and administering authority.
Awareness of whistleblower tips or complaints	Internal Audit are involved in the investigation of whistleblower referrals or complaints with a potential financial impact. There are no material instances of fraud that have been identified during the year arising from whistleblower tips or complaints.
How the Audit & Standards Committee provide oversight of management's fraud risk assessment process	The Annual Governance Statement and Head of Internal Audit Opinion are formally presented to the Audit Committee on an annual basis. The system of internal control is reviewed annually as part of the annual governance statement. The work plan of Internal Audit includes reviewing the operation of internal controls and appropriate segregation of duties. Internal Audit include fraud risk in their planning process.



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