

The Audit Findings for Buckinghamshire Pension Fund

Year ended 31 March 2019

September 2019



Contents



Your key Grant Thornton
team members are:

Iain Murray

Director

T: 020 7728 3328

E: iain.g.murray@uk.gt.com

Tom Ball

Manager

T: 020 7728 2030

E: thomas.j.ball@uk.gt.com

Cherise Douglas

Executive

T: 020 7865 2488

E: cherise.a.douglas@uk.gt.com

Section

1. Headlines
2. Financial statements
3. Independence, ethics and fees

Page

- 3
4
10

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments

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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Buckinghamshire Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>We planned to complete our audit by 31 July 2019, but this was not possible. There are several reasons for this, which are as follows:</p> <ul style="list-style-type: none">• The 'Significant findings – other issues' section of this report sets out the additional work we have had to perform in respect of the McCloud court case. The work on this matter has impacted on the progress of a number of areas of the audit, due to the additional time commitment required. This matter was outside the control of the Pension Fund and the court case was only finalised in June, after the accounts had been submitted for audit• The additional work arising from this specialist pensions work has increased our total workload. We have sought to avoid this impacting on the quality of the audit by retaining our use of specialist public sector audit individuals, rather than expanding the team to use non-specialists. Whilst we have sought to contain and absorb the additional work as much as possible, we also want to avoid untenable pressures on our auditors as well as your finance team <p>Our findings are summarised on pages 4 to 8. We have identified no adjustments to the financial statements that affect the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management in Appendix A and detailed the follow up to our prior year recommendation in Appendix B. This report is an update to the version presented to the Regulatory and Audit Committee on 30 July 2019.</p> <p>There are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:</p> <ul style="list-style-type: none">- receipt of the management representation letter; and- review of the final version of the Pension Fund Annual Report.
-----------------------------	---	---

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Controls testing of the Pension Fund's member data system; and
- Substantive testing of significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019, other than to identify an additional risk in relation to the transfer of assets to the Brunel Pension Partnership during the year. Further details can be found on page 5.

Conclusion

Our audit of your financial statements is complete. This report contains all our findings to date which we need to report to you.

Our approach to materiality

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

Materiality calculations since those communicated in our Audit Plan have been updated to reflect the increase in value of the net assets of the Pension Fund since 31 March 2018 and the updated materiality amounts are stated right.

	Amount (£m)
Materiality for the financial statements	30.1
Performance materiality	22.6
Trivial matters	1.5

Significant findings – audit risks

Risks identified in our Audit Plan	Auditor commentary
<p>1 The revenue cycle includes fraudulent transactions (rebutted)</p>	<p>As communicated in our Audit Plan, we have rebutted this risk. We have made no changes to this assessment.</p>
<p>2 Management override of controls</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions <p>We raised one recommendation in relation to journals authorisation and further details can be found in Appendix A. Other than this recommendation, our audit work has not identified any issues in respect of management override of controls.</p>
<p>3 Valuation of Level 3 investments</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated management's processes for valuing Level 3 investments • 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; to ensure that the requirements of the Code are met • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period <p>Our audit work has not identified any issues in respect of the valuation of Level 3 investments.</p>
<p>4 Transfer of assets to Brunel Pension Partnership (BPP) The Fund transferred £767.1m to BPP during the year. As a numerically significant and unusual transaction, there is a risk that the transfer of assets is made incompletely or inaccurately.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated management's processes for transferring assets to BPP • tested the reconciliation used by management to confirm that the assets were transferred completely and accurately <p>Our audit work has not identified any issues in respect of the transfer of assets to BPP.</p>

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management’s assessment process

Auditor commentary

- Management have concluded that the use of the going concern basis is appropriate for the Pension Fund and that they have not identified events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund’s ability to continue as a going concern
- Management have supported their assessment by reference to the Pension Fund engaging in new business relationships, such as the ongoing agreements with Brunel Pension Partnership.

Work performed

Auditor commentary



- We considered the appropriateness of management’s use of the going concern basis in preparing the financial statements
- We assessed whether there were any events or conditions present that may cast significant doubt on the Pension Fund’s ability to continue as a going concern
- We evaluated the adequacy of disclosures in the financial statements relating to going concern.

Concluding comments





Auditor commentary

- We have not identified any reasons to modify our audit opinion as a result of our procedures over going concern.
-

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in private equity and infrastructure that in total are valued in the net assets statement as at 31 March 2019 at £152.8m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management use fund managers to determine valuations using recognised techniques for the particular investment type (private equity and infrastructure). The value of the investment has decreased by £13.6m in 2018/19, due mainly to transfer of assets to BPP and calls and distributions on these investments during the year.	<p>Our assessment of the estimate comprised:</p> <ul style="list-style-type: none"> Evaluating the audit opinion relating to the funds within which the investments are held Testing the key assumptions used to determine the estimate The appropriateness of the underlying information and techniques used to determine the estimate Adequacy of disclosure of the estimate in the financial statements 	 Green
Level 2 investments	The Pension Fund have investments in a range of bonds, pooled investment vehicles and property unit trusts that in total are valued in the net assets statement as at 31 March 2019 at £2,181.8m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management use fund managers to determine valuations using recognised pricing techniques (such as for the equities and bonds held within pooled investment vehicles) and where appropriate use qualified external providers (for property unit trusts). The value of the investment has increased by £550.1m in 2018/19, predominantly due to the transfer of assets to BPP, where the assets are predominantly held as pooled investment vehicles.	<p>Our assessment of the estimate comprised:</p> <ul style="list-style-type: none"> The controls employed by the fund managers engaged by management to determine the valuation of these investments Agreeing investment unit prices or valuations to reports from the custodian and fund managers The appropriateness of the underlying information and techniques used to determine the estimate Adequacy of disclosure of the estimate in the financial statements 	 Green

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

Significant findings – other issues

Issue	Commentary	Auditor view
<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Pension Fund has obtained an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in each of pension liabilities and past service costs of £38.8m.</p> <p>Management's view is that the impact of this change is material. The Pension Fund has now received the updated IAS 26 Report from its actuary and is incorporating the revised actuarial valuation into its 2018-19 financial statements.</p>	<p>We consider that that the approach used by the Pension Fund's actuary and the assumptions used in assessing the impact of the McCloud judgement are reasonable.</p> <p>Given the change in liability resulting from the McCloud judgement management has agreed to process the adjustments of £38.8m based on the updated IAS 26 report. We consider this an appropriate adjustment to the Pension Fund's financial statements.</p> <p>We have included this as an adjusted item at Appendix C.</p>

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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Regulatory and Audit Committee. 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 procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A letter of representation has been requested from the Pension Fund, which is included in the Regulatory and Audit Committee papers.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Pension Fund's custodian, fund managers and bank. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, except for the Pension Fund's bank. We undertook additional, alternative procedures in respect of the cash balance recorded in the Pension Fund financial statements and identified no issues.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7	Matters on which we report by exception	<ul style="list-style-type: none"> 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. We have concluded our review of the Annual Report and intend to issue an unqualified 'consistency' opinion on the Pension Fund Annual Report.

Independence, ethics and fees

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Non-audit related			
IAS 19 procedures for other bodies admitted to the pension fund	TBC	Self interest	Fees are insignificant when compared to the audit fee.




Audit Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services. The fees reconcile to the financial statements.




	Proposed fee	Final fee
Pension Fund Audit	£19,275	TBC
Total audit fees (excluding VAT)	£19,275	TBC

Action plan

We have currently identified three recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. 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	Recommendations
1	 <ul style="list-style-type: none"> Our journals testing identified a number of journals that did not contain any evidence of authorisation before posting. It is our understanding of the Pension Fund's policy that journals of those types should be subject to separate authorisation but that as a result of the lower volume of transactions and fewer members of staff who can post journal entries as compared to the County Council, this policy is not always followed in practice. 	<ul style="list-style-type: none"> Journals for the Pension Fund should be authorised in accordance with the relevant internal policy or that policy amended for the purposes of the Pension Fund. <p>Management response</p> <ul style="list-style-type: none"> The Pension Fund's journal policy will be reviewed and updated.
2	 <ul style="list-style-type: none"> As part of our testing of investments we considered management's quarterly reconciliation of investment valuations and noted that a number of differences had been identified that were not followed up with the custodian until year end. It would be more efficient for these differences to be followed up at the time they arise so that any corrections can be made promptly. 	<ul style="list-style-type: none"> Any differences identified from the custodian's quarterly reconciliation should be followed up in a more timely way. <p>Management response</p> <ul style="list-style-type: none"> Agreed, there were a number of inconsistencies in the accounting reports from the custodian. We now have a clearer understanding of those inconsistencies and are confident that we will be able to follow up differences identified in a more timely manner.
3	 <ul style="list-style-type: none"> Management's reconciliation of the pension fund bank account contains uncleared miscellaneous items totalling approximately £354k. This balances comprises 105 transactions of which 77 relate to March 2019 and the remainder are spread across 9 months within the period March 2018 to February 2019. Whilst the uncleared transactions are individually and in aggregate not numerically significant, there are a number of aged transactions that it would be preferable to resolve as quickly as possible. 	<ul style="list-style-type: none"> Uncleared miscellaneous items in the bank account reconciliation should be resolved more promptly. <p>Management response</p> <ul style="list-style-type: none"> 69 of the transactions were posted during the last week of March, 56 of these transactions were cleared during the first week in April. There are some 4,000 transactions processed each year with a small number that are difficult to allocate due to lack of information about the transaction.

Controls

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

Follow up of prior year recommendations

We identified the following issue in the audit of the Pension Fund's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations as outlined below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>①</p> <p>✓/X</p>	<p>In 2016/17 we reported that: The reconciliation of monthly returns for scheme contributions from scheduled and admitted bodies was not maintained on a regular basis during the year and a number of significant reconciling differences were not followed up and resolved. If this reconciliation is not kept up to date, then there is a risk that any misstatements of contributions recorded on the general ledger could go unidentified.</p> <p>In 2017/18 we reported that: The scheme contributions reconciliation has been maintained to a higher standard over 2017/18 and did not contain material reconciling differences as it did in the prior year. However, we noted from our testing of scheme contributions number of minor reconciling differences on the contributions for many of the scheduled and admitted bodies. This indicates that there remains further scope for management to improve the accuracy of the contributions reconciliation.</p>	<p>Our testing of the 2018-19 reconciliation determined that there were no material reconciling differences, however, the differences identified were still numerically significant. These differences represented three employers who were not included in the reconciliation, but which were included in the financial statements. There were also a number of insignificant differences noted in relation to several other employers. Whilst the accuracy and completeness of the reconciliation has been improved since this issue was first identified, we consider that there remains a need to improve further these aspects of the reconciliation.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the Pension Fund's reported financial position for the year ending 31 March 2019. Our audit work has not identified any adjusted or unadjusted misstatements to report to you.

Disclosure changes

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

Disclosure	Detail	Impact
Note 12 – Financial Instruments	The cash deposits balance relating to investments as at 31 March 2018 was stated as £127,559k in the unaudited financial statements. To be consistent with the net assets statements, this should have been recorded as £121,408k. Management have agreed to correct for this.	The value of cash deposits as at 31 March 2018 has been reduced from £127,559k to £121,408k. There is no impact on the net assets statement.
Note 14 – Related Parties	The unaudited financial statements recorded contributions from the County Council in the current and prior years as £40.3m, which did not include all elements of the Council's contribution. Management have agreed to update the amounts for both years.	The contributions from the County Council during 2017/18 2018/19 have been increased to £45.1m.
Note 18 – Actuarial Present Value of Promised Retirement Benefits	Management have updated this disclosure to reflect the increased present value of defined benefit obligation and past service costs arising from the revised actuarial estimate to reflect the McCloud judgment, as detailed on page 8.	This present value of the defined benefit obligation as at 31 March 2019 has increased from £4,752.4m to £4,791.3m. The past service costs for the year to 31 March 2019 have increased from £1.9m to £40.7m.



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.