

The Audit Findings Report for Buckinghamshire County Council Pension fund

Year ended 31 March 2014

3 September 2014

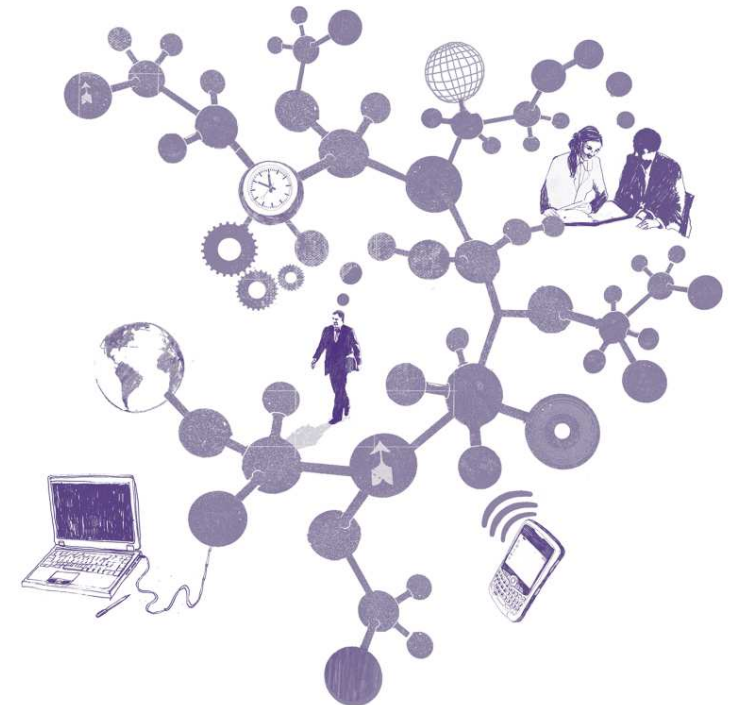
Updated 17 September 2014.

An earlier version of this report was presented to the Pension Fund Committee on 11 September 2014.

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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

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Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Buckinghamshire County Council 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 (UK & Ireland) 260.

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, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 10 June 2014.

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

- receipt of queries on accounting disclosures - disclosure amendments set out on page 12
- receipt of direct bank account confirmation
- receipt and review of the amended Pension fund annual report
- receipt and review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and the accompanying working papers were of good quality and were available at the start of our audit.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements.

The draft financial statements recorded net assets carried forward of £1,941,806k; which remains unchanged post audit. We made a number of adjustments to improve the presentation of the financial statements.

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

- subject to the satisfactory completion of outstanding work outlined above, we anticipate providing an unqualified opinion on the Fund's financial statements
- the Fund's financial statements provided for audit were complete and compiled in accordance with the CIPFA Code of Practice for Local Authority Accounting
- the Council produced good working papers to support the figures in the Fund statements
- we note one instance where journal segregation of controls had not operated as designed.

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

Acknowledgement

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

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

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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 Regulatory and Audit Committee on 10 June 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you .

Audit opinion

We anticipate that we will provide the Fund with an unqualified opinion as set out in Appendix A subject to the satisfactory completion of outstanding work outlined on page 5.

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>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for the Buckinghamshire County Council Pension Fund for the following reasons:</p> <ul style="list-style-type: none"> • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, the custodian and its fund managers provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted/scheduled bodies, are supported by separately sent schedules and are directly attributable to gross pay, making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.
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 journals 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>However, we note one instance where a year end journal was input in error to the wrong year and reversed. The error was identified and corrected immediately. Both journal transactions were not approved by a senior officer as required by your journal procedures.</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..

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	<ul style="list-style-type: none"> Investments not valid Investments activity not valid Fair value measurement not correct (Level 1-3 investments) 	<p>We reviewed the reconciliation between information provided by the fund managers, the custodian and the Fund's own records and sought explanations for any variances.</p> <p>We tested a sample of the individual investments held by the fund at the year end and tested the valuation of the sample by agreeing prices to third party sources (quoted investments) or by review of the valuation methodology used to ensure it represented fair value.</p> <p>The existence of investments was confirmed directly to relevant documentation.</p> <p>We tested a sample of purchases and sales during the year back to detailed information provided by the fund managers.</p>	<p>Our work is complete, there are no significant issues to bring to your attention.</p>
Benefit Payments	<ul style="list-style-type: none"> Benefits improperly computed/claims liability understated 	<p>We confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments were generated and recorded. We tested the key controls identified in these areas.</p> <p>We tested a sample of individual transfers, pensions in payments (new and existing), lump sum benefits and refunds by reference to member files.</p> <p>We tested pensions paid with reference to changes in pensioner numbers and increases applied in the year together by comparing pensions paid on a monthly basis and ensured that any unusual trends were satisfactorily explained.</p>	<p>Our work is complete, there are no significant issues to bring to your attention.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	<ul style="list-style-type: none"> Recorded contributions not correct 	<p>We confirmed the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from member bodies. We substantively tested contributions deductions.</p> <p>We substantively tested contribution deductions from the Administering Authority. We also reviewed contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained.</p>	<p>Our work is complete, there are no significant issues to bring to your attention.</p>
Member data	<ul style="list-style-type: none"> Member data not correct 	<p>We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. We tested the key controls identified in these areas.</p>	<p>Our work is complete, there are no significant issues to bring to your attention.</p>

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 Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Council's policy for major sources of revenues (contribution income and Investment income) are set out in detail within Note 2 Accounting Policies. 	Your revenue recognition policy is consistent with our audit of the pension fund financial statements.	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements disclosed in Note 2 include: <ul style="list-style-type: none"> – pension fund valuations and settlements – investment valuation – accruals. 	<ul style="list-style-type: none"> We reviewed key estimates and judgements made by management within the notes to the accounts. For the disclosures listed, we concluded they were consistent with guidance set out in the Code of Practice of Local Authority Accounting. 	 Green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. We note you have not disclosed your accounting policy in respect of taxes on income. Whilst your taxes on income are not material year on year, we recommend as good practice you disclose your accounting policy in respect of this within Note 2 Accounting Policies. 	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	107,998	Note 9 Investments – Change in market value of investments	The net change in market value £107,998k should separately disclose all realised and unrealised profits during the year. The disclosure note has been amended.
2 Disclosure	n/a	Note 12 Financial Instruments	We note that financial instruments disclosure note isn't fully compliant with the IFRS. For example, the methods used when a valuation technique is used to derive its fair value and the assumptions made in doing so should be disclosed. The additional disclosures have been made to the updated accounts.
3 Disclosure	n/a	Post Balance Sheet Event	We note share prices are being significantly affected in anticipation of the Scottish independence vote which could have a material impact on LGPS investments. You also advised us of a change in strategy the Fund implemented during May 2014 to switch 10% of assets from equities to bonds. You considered the impact on your LGPS investments and concluded this was a non adjusting as the event do not change the values as at 31 March 2014. You have disclosed the facts as a PBSE note.

Other communication requirements

We set out below details of other matters which we, as auditors, 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 procedures.
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 standard letter of representation for the pension fund audit will be requested at the conclusion of our audit.
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

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Fund audit	25,033	25,033
Total audit fees	25,033	25,033

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: Future developments

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Developments relevant to your Pension Fund and the audit

Political	Environmental	Social	Technological
Developments relevant to the next financial year			
<p>1. Financial reporting</p> <p>CIPFA has published best practice guidance relating to the identification and disclosure of administrative and investment management expenditure. This applies from 2014/15 and will enable consistent reporting across the LGPS facilitating more meaningful comparisons in this area. The definition is separated into three distinct categories of costs.</p>	<p>2. Legislation</p> <p>Under the Local Government Pension Scheme (LGPS 2014), pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Administering authorities will need to ensure their updated administration systems are calculating new pensions accruals correctly from 1 April 2014; dealing effectively with more complex data requirements and that new contribution rates are being correctly applied by employers.</p>	<p>3. Actuarial valuation</p> <p>Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.</p>	<p>4. Other issues</p> <p>The number of LGPS employers continues to grow as local authorities outsource services. Affected funds need to consider the impact this has on its exposure to risks and reflect on the impact this has for their investment strategies.</p>
Developments relevant to future periods			
<p>1. Financial reporting</p> <p>Changes to the Pension SORP may affect the investment disclosures in the Net Asset Statement and Fair Value determination (changing the classification from level 1, 2 & 3 to A, B & C). A revised SORP will be issued in 2014 and may find its way into the LG code in 2015/16.</p>	<p>2. Legislation</p> <p>From April 1 2015 The Pensions Regulator will have formal powers and responsibilities for oversight of the LGPS. This will include monitoring implementation of new governance arrangements, which require the creation of a scheme manager and pension board for each LGPS.</p> <p>The Administering Authority will need to determine how it will meet the requirement to have a pension board and the consequent changes it will need to make to its general governance arrangements.</p>	<p>3. Structural reform</p> <p>DCLG is consulting on the potential use of Collective Investment Vehicles and passive management of funds.</p> <p>The outcome of this consultation may lead to a change in administration of some schemes and significant changes in investment strategies.</p>	<p>4. Other issues</p> <p>The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.</p>

Section 5: Communication of audit matters

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Communication of audit matters to 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.

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 Fund'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 Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund 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 Fund 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 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

Appendix A: Audit opinion

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

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Buckinghamshire 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 Buckinghamshire 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 Service Director (Finance & Commercial Services) and auditor

As explained more fully in the Statement of the Service Director (Finance & Commercial Services) Responsibilities, the Service Director (Finance & Commercial Services) 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 Service Director (Finance & Commercial Services); 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.

Darren Wells

Director

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

Grant Thornton UK LLP

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XX September 2014



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