

# The Audit Plan

## Buckinghamshire County Council Pension Fund

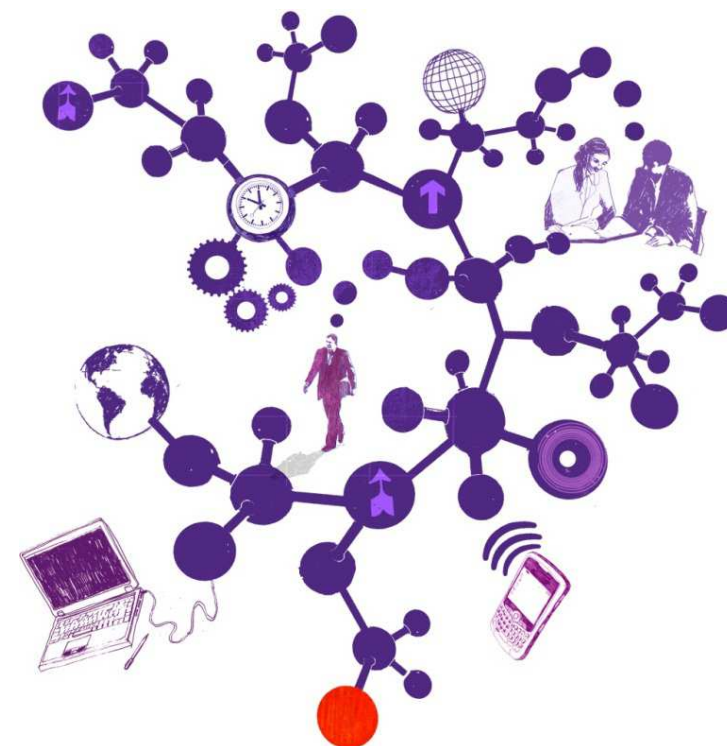
**Year ended 31 March 2015**

15 April 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. 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.

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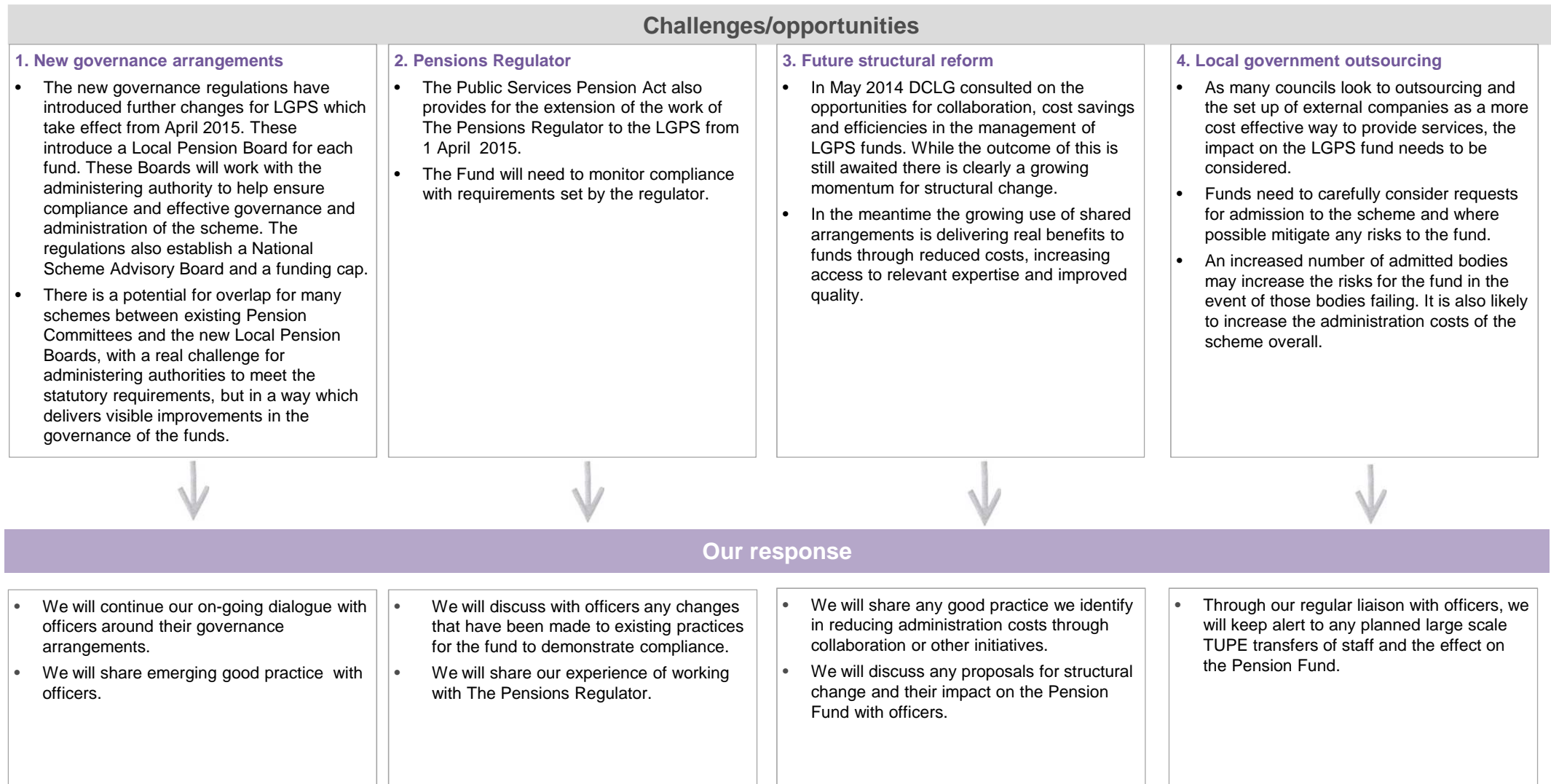
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# Understanding your business

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

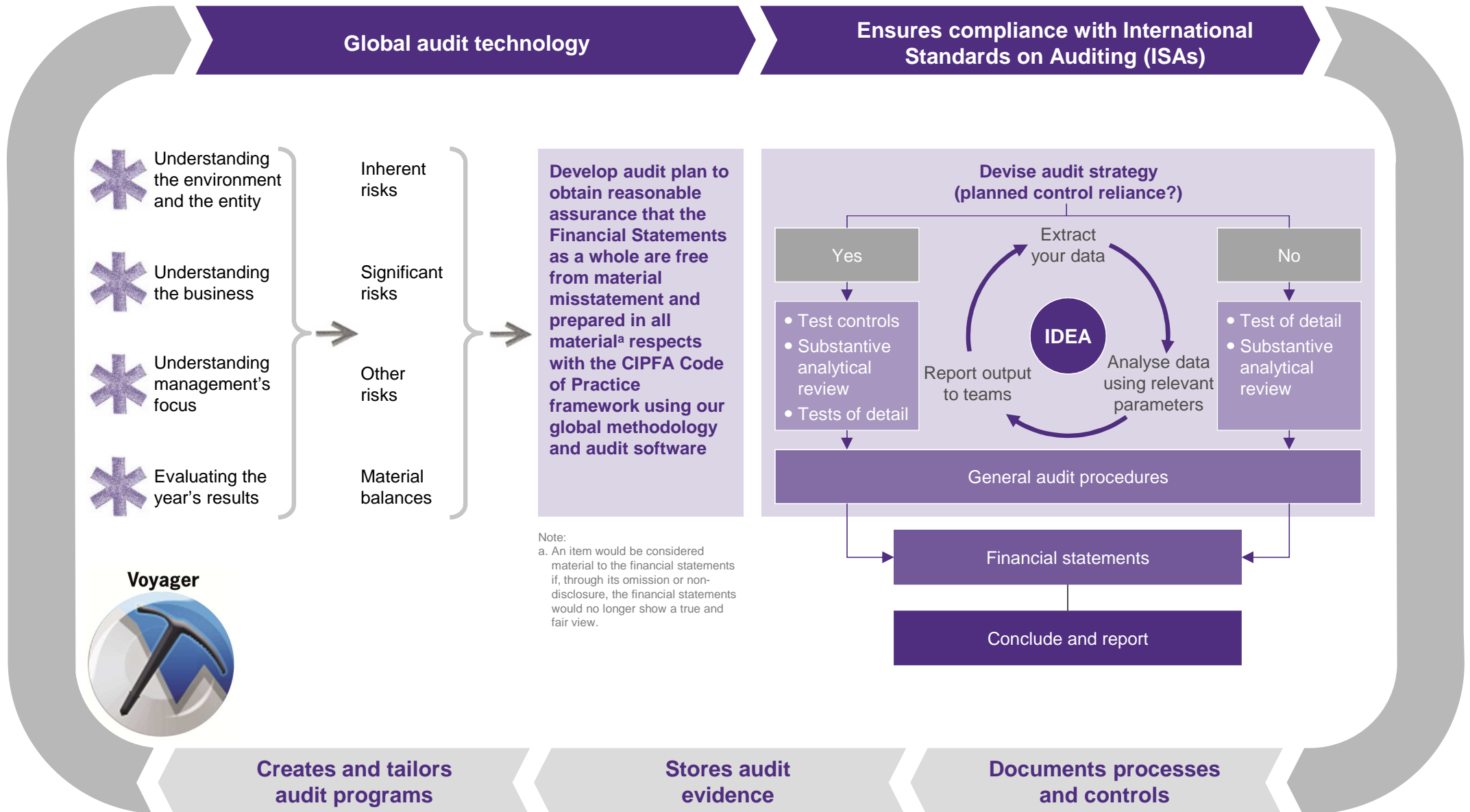
- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

- 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



# 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. The first two risks are presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs). Further details are set out 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 Buckinghamshire County Council 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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Buckinghamshire County Council Pension Fund who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Risk assessment of accounting estimates, judgments and decisions made by management</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions.</li> </ul>
Level 3 Investments – Valuation is incorrect	Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• walkthrough tests of controls on investments</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• 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 31<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>• To review the nature and basis of estimated values.</li> </ul>

# 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 purchases and sales	Investment activity not valid. (Valuation Gross)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Walkthrough tests of controls on investments</li></ul> <b>Work planned:</b> <ul style="list-style-type: none"><li>Test a sample of purchases and sales to ensure are appropriate.</li></ul>
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Walkthrough tests of controls on investments</li></ul> <b>Work planned:</b> <ul style="list-style-type: none"><li>Test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices.</li></ul>
Contributions	Recorded contributions not correct (Occurrence)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Walkthrough tests of controls on contributions</li></ul> <b>Work planned:</b> <ul style="list-style-type: none"><li>Controls testing over occurrence, completeness and accuracy of contributions</li><li>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.</li></ul>



## Other risks identified cont'd

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
Benefits payable	Benefits improperly computed/claims liability understated (Completeness)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Walkthrough tests of controls on benefits payable</li></ul> <b>Work planned:</b> <ul style="list-style-type: none"><li>Controls testing over, completeness, accuracy and occurrence of benefit payments,</li><li>Test a sample of individual pensions in payment by reference to member files.</li><li>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.</li></ul>
Member Data	Member data not correct. (Rights and Obligations)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Walkthrough tests of controls on member data</li></ul> <b>Work planned:</b> <ul style="list-style-type: none"><li>Testing of reconciliations and verifications with individual members</li><li>Sample testing of changes to member data made during the year to source documentation.</li></ul>

# Results of interim audit work

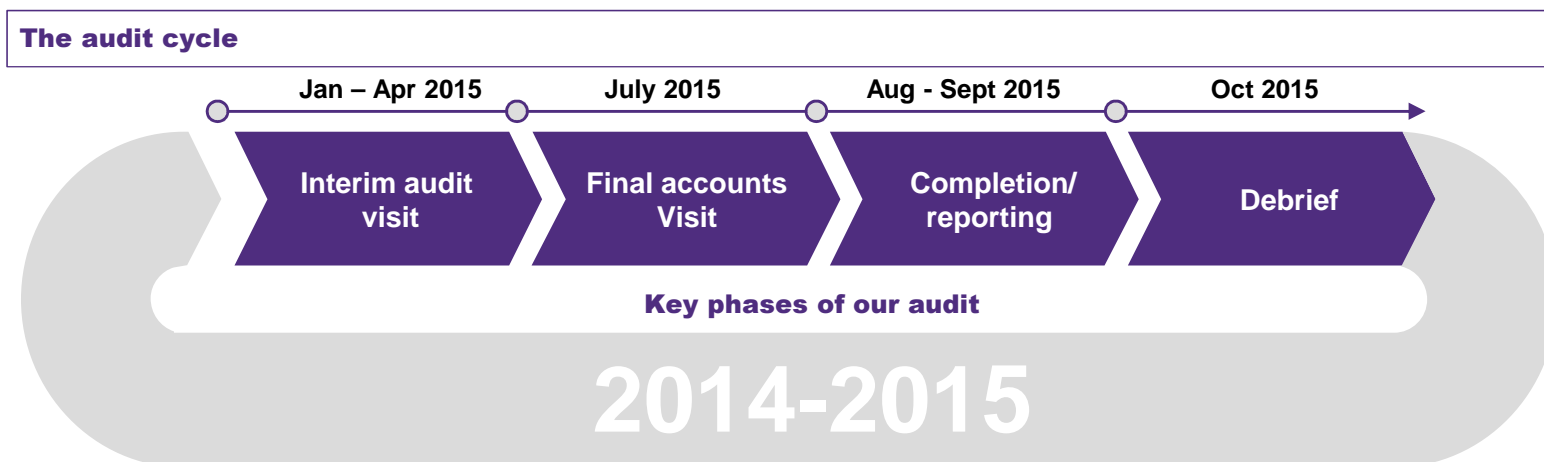
	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Fund.</p> <p>Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<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>Our walkthrough of controls on investments identified one control failure on level 3 investments. We note there is an absence of control for agreeing level 3 Fund Manager valuations against individual Fund audited statements. As these types of investments are not quoted, we would expect level 3 valuation provided by the Fund Manager valuations to be independently validated.</p> <p>As at 31 March 2014, these types of investments represented approximately 51% of the Fund's value of investments.</p> <p>No other issues have been identified from our walk through testing that we would like to bring to your attention at this time.</p>	<p>As level 3 investments by their very nature require a significant degree of judgement in reaching an appropriate valuation at year end, we recommend officers tests these valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date.</p> <p>We will undertake additional substantive testing at year end on level 3 investments.</p>
<b>Entity level controls</b>	<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"> <li>• communication and enforcement of integrity and ethical values</li> <li>• commitment to competence</li> <li>• participation by those charged with governance</li> <li>• management's philosophy and operating style</li> <li>• organisational structure</li> <li>• assignment of authority and responsibility</li> <li>• a selection of human resource policies and practices.</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements.</p>

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## Results of interim audit work cont'd

	Work performed	Conclusion
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.	Our work has not identified any issues of note that we would like to bring to your attention at this time.

# Key dates



Date	Activity
Jan 2015	Planning
13 Apr 2015	Controls testing
15 Apr 2015	Presentation of Audit Plan to Regulatory and Audit Committee
13 July 2015	Audit of Pension Fund statements commences
Aug 2015	Audit findings clearance meeting with Pensions and Investments Manager and Service Director
23 Sept 2015	Report audit findings to those charged with governance (Regulatory and Audit Committee)
By 30 Sept 2015	Issue opinion Pension Fund statements

# Fees and independence

## Fees

	£
Total fees (excluding VAT)	25,033

### 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

## 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](http://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 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		✓

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# Appendices

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# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Agree all unquoted level 3 valuations provided by Fund Managers to audited accounts for each type of fund.	High	A documented review of the internal controls reports and the audited accounts for all fund managers who hold level 3 investments will be implemented.	6 March 2015 Senior Finance Officer (Treasury).





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