

To Members - Regulatory and Audit Committee

From Grant Thornton

Re Matters arising action

Background

At the April 2015 meeting, we presented the Pension Fund Audit Plan to Members. Amongst the points we highlighted for Members' attention were significant risks that were often non-routine transactions, unusual, either due to size or nature, and that therefore occur infrequently. Members may recall we highlighted three significant risks in our Plan namely:

- revenue cycle includes fraudulent transactions
- management over-ride of controls
- Level 3 Investments – Valuation is incorrect.

The last of these 'Level 3 investments' by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. As at 31 March 2014, these types of investments represented approximately 51% of Bucks Pension Fund's value of investments.

Members' question

Members asked how the proportion of Bucks Level 3 investments compared with other Pension Funds we audited. We agreed to make inquiries to that effect and provide the committee with comparable data if available.

Auditor's response

In response to Members' question, we undertook a benchmarking exercise of the Funds we audit, however the outcome was inconclusive. There were no discernible pattern arising from the results. Some Funds as a proportion of their total portfolio of Funds had significantly more and others had less or none at all when compared with Bucks Fund portfolio. We also corroborated the findings with our Pension Lead who confirmed the lack of available data and the possible likely benefit of such data given the different funding strategies and size of Funds across the country.

We would however remind Members' as set out in the Audit Plan presented in April, that the significant degree of judgement required to reach an appropriate valuation at year end reason contributed to our decision in classifying the Level 3 investment as a significant risk and not the investment strategy employed by the Council and Pension Fund committee. We also reported in the Plan the result of our walkthrough of

controls on investments. We reported one control failure on level 3 investments being the 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 Manger valuations to be independently validated.

We made a recommendation to management which was agreed. We will be undertaking testing of the year end Level 3 valuation during our opinion work and will report back to Members' the outcome of our work in the Pension Fund Audit Findings Report by the September 2015 deadline.