

# The Audit Findings for Buckinghamshire County Council Pension Fund

Year ended 31 March 2015

23 September 2015

**Darren Wells**

Engagement Lead

T 01293 554120

E [darren.j.wells@uk.gt.com](mailto:darren.j.wells@uk.gt.com)

**Ade Oyerinde**

Manager

T 020 7728 3332

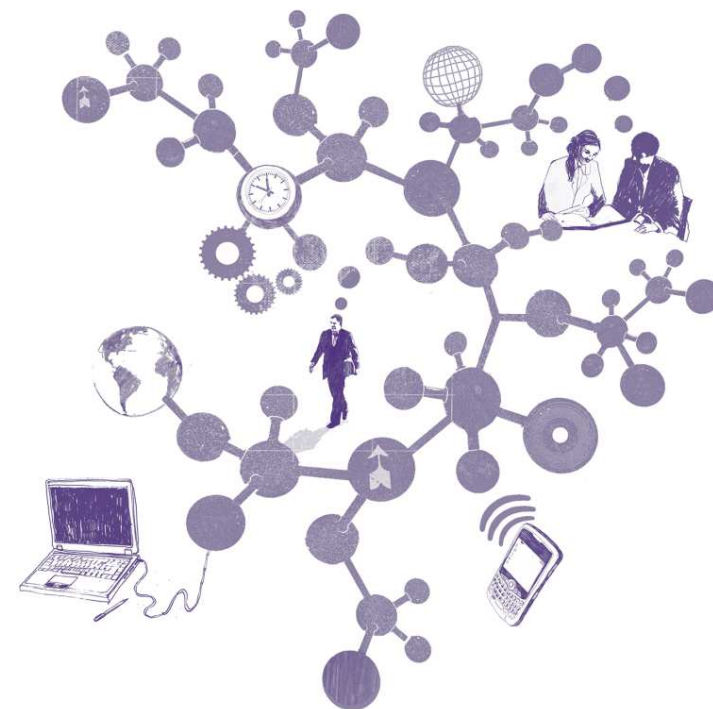
E [ade.o.oyerinde@uk.gt.com](mailto:ade.o.oyerinde@uk.gt.com)

**Fahad Hafeez**

Executive

T 020 7728 3202

E [fahad.hafeez@uk.gt.com](mailto:fahad.hafeez@uk.gt.com)



Buckinghamshire County Council  
Walton Street  
Aylesbury  
Buckinghamshire  
HP20 1UA

23 September 2015

Dear Members of the Regulatory and Audit Committee

**Audit Findings for Buckinghamshire County Council Pension Fund for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Buckinghamshire County Council Pension Fund, the Regulatory and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with the Regulatory and Audit Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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.

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

Yours sincerely

**Darren Wells**

Engagement Lead

**Chartered Accountants**

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Buckinghamshire County Council Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. 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 260 (ISA UK&I).

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 and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA 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 15 April 2015.

We received draft financial statements, Pension Fund Annual Report and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

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

- review of the final adjusted Statements of Accounts and Pension Fund Annual Report

- receipt and review of letter of representation from Chair of the Regulatory and Audit Committee
- updating our post balance sheet events review, to the date of signing the opinion.

## Key messages arising from our audit Financial statements opinion

The key messages arising from our audit of the Pension Fund statements are:

- subject to the satisfactory completion of outstanding audit work outlined above, we anticipate providing an unqualified opinion in respect of the Fund's financial statements
- the Fund's 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's statements
- a small number of minor disclosure amendments were made to the notes to the Fund's statements
- the draft financial statements recorded net assets as at 31 March 2015 of £2,205,758k and the post audit position is unchanged.

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

## **Controls**

### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 report these to the Council as the administering authority.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

### **The way forward**

Matters arising from the financial statements audit have been discussed with the Director of Assurance and the Fund's finance team.

## **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2015**

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## 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 the findings arising from our work in respect of the audit risks we identified in our Audit Plan presented to the Regulatory and Audit Committee. We also set out the adjustments to the financial statements arising 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 on 15 April 2015.

## **Audit opinion**

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts.

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix A.

We propose to give an unqualified consistency with opinion on the financial statements in the Pension Fund Annual Report.



# 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 (UK&I) 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><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the Audit Plan.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• walkthrough testing of controls</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions.</li> </ul>	<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>We have not been made aware of nor identified any unusual significant journal transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p><b>Level 3 Investments</b></p> <p>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>	<p>We have undertaken the following work in relation to this risk::</p> <ul style="list-style-type: none"> <li>• walkthrough tests of controls on investments</li> <li>• test a sample of 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.</li> <li>• review the nature and basis of estimated values.</li> </ul>	<p>Our audit work has not identified any issues in respect of level 3 investments.</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
<p><b>Investments</b></p>	<p>Investment activity not valid.</p> <p>Fair value measurement priced using inputs (other than quoted prices from active markets for identical investments) that are not observable either directly or indirectly not correct.</p> <p>Fair value measurement priced using inputs not based on observable market data (using models or similar techniques) not correct..</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented and confirmed the operation of controls around investment activities</li> <li>• reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>• tested a sample of purchases and sales during the year back to detailed information provided by the fund managers and custodian.</li> <li>• as sufficient assurance was obtained from the work performed above, we did not need to complete the planned predictive analytical review for different types of investments.</li> </ul>	<p>Our work is complete and there are no significant issues to bring to your attention.</p>
<p><b>Contributions</b></p>	<p>Recorded contributions not correct.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• carried out analytical review of employee and employer contributions</li> <li>• undertaken substantive testing on a sample of contributions received during the year to ensure they were deducted at the correct rate given the changes that have occurred following the introduction of LGPS 2014.</li> </ul>	<p>Our work is complete and there are no significant issues to bring to your attention.</p>

# Audit findings against other risks continued



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Benefit payments</b></p>	<p>Benefits improperly calculated/claims liability understated.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded</li> <li>• rationalised pensions paid with reference to changes in pensioner numbers and increases applied during the year to ensure that any unusual trends were explained.</li> <li>• tested a sample of individual pensions, lump sums and commutations in payment by reference to member files but we did not re-perform any benefit calculations.</li> </ul>	<p>Our work is complete and there are no significant issues to bring to your attention.</p>
<p><b>Member data</b></p>	<p>Member data not correct.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• also performed sample testing of changes to member data during the year, including the consideration of new starters within this exercise.</li> </ul>	<p>Our work is complete and there are no significant issues to bring to your attention.</p> <p>However, we note the report from Altair used to produce the disclosure for contributors, pensioners and deferred pensioners was based on data from May 2015 rather than at year end. The Altair system is a live system and it isn't possible to retrospectively run a member data report. We undertook alternative procedures to assure ourselves that the May 2015 member data report was not materially overstated.</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 Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>The Council's policy for major sources of revenues (contribution income and Investment income) is set out in detail within Note 2 Accounting Policies.</li> </ul>	Your revenue recognition policy is consistent with our audit of the pension fund financial statements.	 <b>Green</b>
<b>Estimates and judgements</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements disclosed in Note 2 include:                             <ul style="list-style-type: none"> <li>– pension fund valuations and settlements</li> <li>– investment valuation</li> <li>– accruals.</li> </ul> </li> </ul>	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.	 <b>Green</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 <b>Green</b>

**Assessment**

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with Regulatory and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Fund.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no non-trivial omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to seek confirmation of your year end bank and investment balances. This permission was granted and the requests were sent. We are currently awaiting confirmation from your bankers.</li> </ul>
7.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.</li> </ul>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for investments; benefits; contributions membership data and as set out on page 10 and 11 above.

The controls were found to be operating effectively and we have no matters to report to the Regulatory and Audit Committee.

## Disclosure changes

A small number of minor amendments were made to the disclosures in the Fund accounts to improve consistency and accuracy.

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## 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.

## Fees

	Per Audit plan £	Actual fees £
<b>Total audit fees (excluding VAT)</b>	25,033	25,033

## 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 Financial Reporting Council'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.



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## Section 4: Communication of audit matters

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# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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](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 Fund'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 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		✓

# Appendices

# Appendix A: Audit opinion

**We anticipate we will provide the Council with an unqualified audit report on the Pension Fund**

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

We have audited the Pension Fund financial statements of the Buckinghamshire County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The Pension Fund financial statements comprise the Pension 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 2014/15.

This report is made solely to the members of the Buckinghamshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Director of Assurance and auditor**

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Assurance is responsible for the preparation of the Authority's Statement of Accounts, which include 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Assurance; and the overall presentation of the Pension Fund financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited Pension Fund 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 financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Opinion on other matters**

In our opinion, the information given in the Explanatory Foreword for the financial year for which the Pension Fund financial statements are prepared is consistent with the Pension Fund financial statements.

### **Darren Wells**

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

Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
Euston Square  
London  
NW1 2EP

September 2015



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