

Regulatory and Audit Committee 25 July 2018

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Regulatory & Audit Committee

Title: Pension Fund Accounts for the Year Ended 31 March 2018
Date: 25 July 2018
Author: Director of Finance & Procurement
Contact officer: Julie Edwards 01296 383910
Electoral divisions affected: N/A

Summary

To present Grant Thornton's draft report on any significant findings from its audit of the Pension Fund Accounts.

Recommendation

That the Committee considers its response to the matters raised by Grant Thornton in their Audit Findings Report 2017-18 and agrees that the Statement of Accounts for the Pension Fund for the financial year ended 31 March 2018 can be signed by the Chairman of this Committee.

That the Committee approves the Letters of Representation on behalf of the Pension Fund and agrees that they can be signed by the Chairman of this Committee.

That the Committee agrees the response to the proposed action plan within the Audit Findings Reports for the Pension Fund.

Resource implications

- 1 There are none arising directly from this report.

Other implications/issues

- 2 The Pension Fund's Unaudited Statement of Accounts were presented to the Pension Fund Committee at its meeting on 24 May 2018 and the Regulatory and Audit Committee as part of the Council's overall unaudited Statement of Accounts on 31 May 2018. They were signed by the Director of Finance and Procurement, the Council's appointed S151 officer. At that stage, the audit of the accounts had not commenced. Grant Thornton audited the Pension Fund Accounts during June and we anticipate that Grant Thornton will issue an unqualified audit opinion on the Pension Fund's financial statements. There were no changes to the Net Assets Statements. The Accounts are attached as

Appendix 1, the changes from the draft accounts are highlighted in the document.

- 3 Representatives from Grant Thornton will provide an update on their findings at the meeting as detailed in the Audit Findings Report, see Appendix 2. Page 13 of Audit Findings Report details the misclassification and disclosure changes. The Letter of Representation from the administering authority is also attached as Appendix 3.
- 4 The Accounts, Grant Thornton's Audit Findings Report for the Pension Fund will be reported to the Regulatory & Audit Committee on 25 July 2018. Members of this Committee are requested to comment on the Statement of Accounts, the Audit Findings Report and the Letter of Representation.

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

- 5 Not applicable

Background Papers

None



Buckinghamshire County Council Pension Fund

Statement of Accounts

For the year ended 31 March 2018

Pension Fund Accounts

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DRAFT - Independent auditor's report to the members of Buckinghamshire County Council on the pension fund financial statements**Opinion**

We have audited the pension fund financial statements of Buckinghamshire County Council (the 'Authority') for the year ended 31 March 2018 which comprise the Pension Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2017/18.

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 2018 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & Procurement's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Director of Finance & Procurement has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Director of Finance & Procurement is responsible for the other information. The other information comprises the information included in the Pension Fund Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Pension Fund Accounts

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Pension Fund Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance & Procurement and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance & Procurement. The Director of Finance & Procurement is responsible for the preparation of the 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance & Procurement determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Finance & Procurement is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Regulatory and Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

[Signature]

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

30 Finsbury Square
London
EC2A 1AG

[Date]

Pension Fund Accounts

Pension Fund Account for the Year Ended 31 March 2018

The Pension Fund Accounts contain two core statements, the Pension Fund Account and the Net Assets Statement. Each of the statements is accompanied by supplementary notes providing additional detail to the figures presented.

31 March 2017	Pension Fund Account	Note	31 March 2018
£000			£000
	Dealings with Members, Employers and Others directly Involved in the Fund		
	Income		
(120,799)	Contributions	3	(134,066)
(14,985)	Transfers in from other pension funds	4	(16,504)
(78)	Other income		(110)
(135,862)			(150,680)
	Benefits	5	
81,960	Pensions		85,504
24,368	Commutation of pensions and lump sums		22,700
	Payments to and on Account of Leavers	6	
1,172	Refunds of contributions		556
12,658	Transfers out to other pension funds		14,113
120,158			122,873
(15,704)	Net Additions from Dealings with Members		(27,807)
	Management expenses	7	
17,194			19,239
1,490	Net (Additions)/Withdrawals including Fund Management Expenses		(8,568)
	Returns on Investments		
(46,777)	Investment income	8	(45,448)
(429,377)	Profits and losses on disposal of investments and changes in the market value of investments	9	(73,103)
333	Taxes on income	16	554
(475,821)	Net Returns on Investments		(117,997)
(474,331)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(126,565)

Net Assets Statement

31 March 2017 £000	Net Assets Statement	Note	31 March 2018 £000
	Investments		
-	Long term investments		840
852,632	Equities - quoted		883,946
339,005	Bonds		352,726
1,204,325	Pooled investment vehicles		1,239,939
183,581	Unit trusts - property		204,534
87,736	Cash deposits		121,408
385	Derivative contracts		102
7,848	Dividend income receivable		9,504
2,675,512	Net Investments	11	2,812,999
24,372	Current assets	15	14,293
(4,300)	Current liabilities	15	(5,143)
2,695,584	Net Assets of the Fund Available to Fund Benefits at 31 March		2,822,149

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 18.

1 Description of the Fund

Buckinghamshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Buckinghamshire County Council. Organisations participating in the Fund include the County Council, Milton Keynes Council, the district and parish Councils of Buckinghamshire, Thames Valley Police, Buckinghamshire Fire and Rescue Service, and other scheduled and admitted bodies. These are listed in Note 21 to these Financial Statements. Teachers, fire fighters and police officers, for whom separate pension schemes apply, are excluded from the Pension Fund.

children, based on pay and past service. The scheme is a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Employee contribution bands range from 5.5% to 12.5% of pensionable pay. In April 2014 a 50/50 option was introduced which means members can pay half their contribution rate and build up half the pension benefit whilst retaining full value of other scheme benefits such as death in service lump sum and ill health cover. Accrued pension is revised annually in line with the Consumer Prices Index. Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. More details of benefits provided under the scheme are available on the Council's pension website.

<https://www.buckscc.gov.uk/services/council-and-democracy/local-government-pension-scheme/scheme-members>

The Fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pensions Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

In 2015 the government announced that they wanted the 91 Local Government Pension Scheme funds to pool their investments into larger pools in order to achieve savings in investment management costs. Brunel Pension Partnership Ltd was formed to implement the investment strategies for ten Funds. The founding Funds include The

Pension Fund Accounts

Environment Agency Pension Fund, and the Local Government Funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire. The company Brunel Pension Partnership Ltd was formed on 14 October 2016. By 31 December 2017 the collective assets of the pool were £27 billion.

The objective of pooling assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will produce. Local accountability will be maintained as each individual fund will remain responsible for strategic decisions including asset allocation. The pooling of assets will only affect the implementation of the investment strategy in terms of manager appointments. The transition of assets is expected to begin June 2018 through to 2020 for the majority of the assets, although illiquid alternative assets such as private equity may need a longer transition timetable. More information and updates can be found on the Brunel Pension Partnership website at: www.brunelpensionpartnership.org

The following summarises the membership of the Fund:

31 March 2017	Membership of the Fund	31 March 2018
22,754	Contributors	24,042
17,566	Pensioners	18,548
26,699	Deferred pensioners	27,313
67,019	Total Membership of the Fund	69,903

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. The Investment Strategy Statement can be viewed on the Council's website.

https://www.buckscc.gov.uk/media/4508836/bccpf_iss_may2017.pdf

Further Information

The County Council publishes a separate Annual Report on the Pension Fund, which gives more detailed information, a copy can be viewed on the Council's pension website.

<http://www.buckscc.gov.uk/services/council-and-democracy/local-government-pension-scheme/investment/pension-fund-annual-reports/>

Basis of Preparation

The accounts summarise the Fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the Code), which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed at Note 18 of these accounts.

The Pension Fund is administered by Buckinghamshire County Council, but the Fund balances are not included in Buckinghamshire County Council's Consolidated Balance Sheet.

2. Accounting Policies and Critical Judgements in Applying Accounting Policies

Accounting Policies

Accruals of Income and Expenditure

The financial statements are prepared on an accruals basis, unless otherwise stated. That is, income and expenditure are recognised as they are earned or incurred, not as they are received or paid.

Contributions, benefits and investment income are included on an accruals basis. All settlements for buying and selling investments are accrued on the day of trading. Interest on deposits is accrued if not received by the end of the financial year. Investment management expenses are accounted for on an accruals basis. Administrative expenses are accounted for on an accruals basis, staff costs are paid by Buckinghamshire County Council then recharged to the Pension Fund at the year end and group transfers to and from the Fund are accounted for on an accruals basis unless it is too early in the negotiations for an estimate of the value to be available. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Assets Statement. Some additional payments are made to beneficiaries on behalf of certain employers. These payments are subsequently reimbursed by those employers. The figures contained in the accounts are shown exclusive of both payments and reimbursements.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Individual transfers in / out are accounted for when received / paid, which is normally when the member liability is accepted or discharged.

Investment Income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as dividend income receivable. Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits / losses during the year.

Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Management Expenses

All management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. These are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Global Thematic Partners – global equities
- Investec Asset Management – global equities
- Mirabaud – UK equities
- Royal London Asset Management – bonds
- Schroders – global equities
- Standard Life – UK equities

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Financial Instruments

Financial Instruments that are “held for trading” are classified as financial assets and liabilities at fair value through profit or loss when the financial instrument is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
- A derivative.

Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.

Financial instruments have been classified as Loans and Receivables when they have fixed or determinable payments and are not quoted in an active market. Loans and receivables are initially recognised at Fair Value and carried at historic cost as they are all short term.

The value of market quoted investments is determined by the bid market price ruling on the final day of the accounting period. Fixed interest securities are recorded at net market value based on their current yields. Pooled investments in property funds, equity funds, fixed interest funds, private equity funds and hedge fund of funds are valued by the fund manager in accordance with industry guidelines. **Note 12 includes commentary on the valuation methods that the Fund’s fund managers use.**

Foreign Currency Transactions

Foreign currency transactions are translated into sterling at the exchange rate ruling at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Currently the Fund only holds forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Contingent Assets & Liabilities and Commitments

Contingent liabilities are disclosed by way of a note when there is a possible obligation which may require a payment or a transfer of economic benefits. The timing of the economic transfer and the level of certainty attaching to the event are such that it would be inappropriate to make a provision.

Contingent assets are disclosed by way of a note where inflow or a receipt or an economic benefit is possible and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Pension Fund.

Commitments are disclosed by way of a note when there is a contractual commitment which may require a payment.. The timing of the payment is such that it would be inappropriate to make a provision. Commitments are accounted for at the best estimate of the obligation.

Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The last such valuation took place as at 31 March 2016, the funding level of the Fund as a whole increased from 82% to 87% between 31 March 2013 and 31 March 2016. The next valuation will take place as at 31 March 2019. The Fund's actuary undertook an interim valuation as at 31 March 2018 which showed that the funding level had increased to 95% and the average required employer contribution would be 21.3% of payroll assuming the deficit is to be paid by 2032. The estimated funding position is based on market movements since 31 March 2016 rather than being a full valuation with updated member data.

Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year end date and the amounts reported for assets and liabilities at the year end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 18)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £90m a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £84m a one-year increase in assumed life expectancy would increase the liability by approximately £171m.
Private equity fund of funds (Note 12)	Private equity investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2012). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £166m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by £24m.

Events After The Reporting Date

Since 31 March 2018, there has been some volatility in the financial markets, there would be an impact on the market value of the fund's investments were they to be valued as at the date these accounts were authorised. These changes are deemed to be non-adjusting post balance sheet events. There have been no events since 31

Pension Fund Accounts

March 2018, and up to the date when these accounts were authorised, which require any adjustments to these accounts.

Accounting Standards that have been issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The Accounting changes introduced in the 2018/19 Code relate to the reporting of IFRS9 Financial Instruments and IFRS15 Revenue from contracts. IFRS9 Financial Instruments introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments. IFRS15 Revenue from contracts with customers set out the requirements for recognising revenue that apply to contracts with customers. The Fund does not have any revenue streams within the scope of the new standard.

3. Contributions

Contributions relating to wages and salaries paid up to 31 March 2018 have been included in these accounts, there were no augmented employers' contributions received during 2016/17 or 2017/18.

2016/17 £000	Contributions by Category	2017/18 £000
	Employers' Contributions	
(80,066)	Normal Contributions	(91,568)
(12,288)	Deficit Recovery Contributions	(13,049)
(92,354)	Total Employers' Contributions	(104,617)
(28,445)	Members' Contributions	(29,449)
(120,799)	Total Contributions	(134,066)

2016/17 £000	Contributions by Authority	2017/18 £000
(33,999)	Administering authority	(40,298)
(78,204)	Scheduled bodies	(88,050)
(8,596)	Admitted bodies	(5,718)
(120,799)	Total Contributions	(134,066)

4. Transfer Values

2016/17 £000	Transfers in from other pension funds	2017/18 £000
(6,061)	Group transfers	(4,427)
(8,924)	Individual transfers	(12,077)
(14,985)	Total Transfers in from other pension funds	(16,504)

The individual transfer values relate to transfers, which have been received during the financial year i.e. included on a cash basis. On 31 March 2018 there were no outstanding transfer values receivable greater than £50k. (On 31 March 2017 there were 5 outstanding transfer values receivable greater than £50k, for which £785k had not been received).

On 31 March 2018 there were 3 group transfers to the Fund being negotiated with other Funds (7 on the 31 March 2017), the value of the transfers to the Fund is being negotiated between the Funds' actuaries. The income due to the Fund for the transfers has not been accrued since negotiations are at too early a stage for an estimate of the value to be available.

5. Benefits

Benefits include all valid benefit claims notified during the financial year.

2016/17 £000	Benefits Payable by Category	2017/18 £000
81,960	Pensions	85,504
21,515	Commutations of pensions and lump sum retirement benefits	19,951
2,853	Lump sum death benefits	2,749
106,328	Total Benefits	108,204

2016/17 £000	Benefits Payable by Authority	2017/18 £000
37,168	Administering authority	37,825
60,107	Scheduled bodies	62,049
9,053	Admitted bodies	8,330
106,328	Total Benefits	108,204

6. Payments to and on Account of Leavers

2016/17 £000	Payments to and on Account of Leavers	2017/18 £000
671	Refunds to members leaving service	439
501	Payments for members joining the state scheme	117
1,615	Group transfers to other pension funds	942
11,043	Individual transfers to other pension funds	13,171
13,830	Total Payments to and on Account of Leavers	14,669

The individual transfer values relate to transfers, which have been paid during the financial year i.e. included on a cash basis. On 31 March 2018 there were 4 outstanding individual transfer values payable greater than £50k, for which £439k had not been paid. On 31 March 2017 there were no outstanding individual transfer values payable greater than £50k.

On 31 March 2018 there was one group transfer from the Fund being negotiated with other Funds (3 on the 31 March 2017); the value of the transfers from the Fund is being negotiated between the Funds' actuaries. The expenditure in respect of the transfer has not been accrued since negotiations are at too early a stage for an estimate of the value to be available.

Pension Fund Accounts

7. Management Expenses

2016/17 £000	Management Expenses	2017/18 £000
1,779	Administrative costs	1,840
14,808	Investment management expenses	16,623
583	Oversight and governance costs	751
24	External Audit Fee	25
17,194	Total Management Expenses	19,239

The analysis of the cost of managing the Pension Fund during the period has been prepared in accordance with CIPFA guidance. Management expenses have been categorised as administrative costs, investment management expenses and oversight / governance costs. Management fees for pooled funds and transaction costs have been included in the investment management expenses.

The investment management expenses include £0.775m (£1.562m in the 2016/17 financial year) in respect of performance related fees payable to the fund's investment managers. It also includes £1.697m in respect of transaction costs (£1.566m in the 2016/17 financial year).

8. Investment Income

2016/17 £000	Investment Income	2017/18 £000
(22,970)	Dividends from equities	(23,781)
(11,395)	Income from bonds	(13,510)
(1,169)	Income from pooled investments	(804)
(7,858)	Income from property unit trusts	(6,767)
18	Interest on cash deposits	(201)
(3,403)	Other	(385)
(46,777)	Total Investment Income	(45,448)

9. Investments

All investments are valued on a fair value basis and where there is an active market the bid price is the appropriate quoted market price. The investment accounting information is provided by BNY Mellon and State Street, BNY Mellon was the Fund's custodian bank to 12 December 2017. State Street became the Fund's custodian bank on 13 December 2017. Realised profit of £169.689m and unrealised loss of £96.586m are combined to report an increase in the market value of investments of £73.103m.

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Investments (All values are shown £000)	Value at 31 March 2017 £000	Reclass- ification of Assets £000	Purchase s at Cost £000	Sales Proceeds £000	Realised Profit / (Loss) £000	Unrealised Profit / (Loss) £000	Value at 31 March 2018 £000
Long Term Investments	0	0	840	0	0	0	840
Equities - quoted	852,632	(214)	672,947	(643,674)	89,550	(87,295)	883,946
Bonds	339,005	0	163,024	(141,800)	3,808	(11,311)	352,726
Pooled investment vehicles	1,204,325	214	180,998	(212,055)	75,522	(9,065)	1,239,939
Unit Trusts - property funds	183,581	-	12,682	(2,826)	201	10,896	204,534
Derivative contracts	385	-	866	(1,473)	608	(284)	102
Cash deposits	87,736	-	-	33,199	-	473	121,408
	2,667,664	-	1,031,357	(968,629)	169,689	(96,586)	2,803,495
Investment income due	7,848						9,504
	2,675,512						2,812,999

Realised profit of £96.190m and unrealised profit of £333.187m are combined to report an increase in the market value of investments of £429.377m.

Investments (All values are shown £000)	Value at 31 March 2016 £000	Reclass- ification of Assets £000	Purchase s at Cost £000	Sales Proceeds £000	Realised Profit / (Loss) £000	Unrealised Profit / (Loss) £000	Value at 31 March 2017 £000
Equities - quoted	647,353	-	576,778	(561,042)	82,313	107,230	852,632
Bonds	308,243	-	502,494	(498,115)	14,187	12,196	339,005
Pooled investment vehicles	995,692	-	45,266	(50,431)	8,044	205,754	1,204,325
Unit Trusts - property funds	186,330	-	25,654	(27,096)	(6,378)	5,071	183,581
Derivative contracts	(298)	-	3,525	(1,549)	(1,976)	683	385
Cash deposits	69,072	-	-	16,411	-	2,253	87,736
	2,206,392	-	1,153,717	(1,121,822)	96,190	333,187	2,667,664
Investment income due	7,157						7,848
	2,213,549						2,675,512

Pooled investment vehicles are funds where the Pension Fund is not the named owner of specific investments such as shares or bonds, but owns a proportion of a pooled fund. The Code requires that pooled investments are analysed between unit trusts, unitised insurance policies and other managed funds. The pooled investment vehicles in the tables above are other managed funds. These funds include the following types of investments:

- Equities
- Fixed interest securities
- Index linked securities
- Hedge fund of funds
- Diversified growth funds
- Private equity fund of funds

The change in the fair value of investments during the year comprises all increases and decreases in the fair value of investments held at any time during the year, including profits and losses realised on sales of investments during the

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year. The Fund's investments in derivatives are not material and therefore further disclosures are not included in the accounts. Indirect costs are incurred through the bid-offer spread on investments within pooled investments.

The Fund does not participate directly in a stock lending programme.

On 31 March 2018 assets which exceed 5% of the total value of the net assets of the Fund are a £214.5m, 7.6%, investment in Legal & General's All Stocks Index-Linked Gilt Fund (£166.2m as at 31 March 2017) and a £178.4m, 6.3%, investment in Legal & General's Europe (ex UK) Equity Index Fund (£172.6m as at 31 March 2017).

IFRS accounting requires that the Fund discloses information on fair value hedges, cash flow hedges and hedges of net investments in foreign operations. The Fund has exposure to hedges through its investments in a hedge fund of funds pooled investment vehicle, and so the hedge disclosure is not applicable to this type of investment.

10. Investment Management Arrangements

The value of the Fund with the fund managers as at 31 March 2018 was £2,723m (£2,670m at 31 March 2017). Fund manager fees have been calculated according to the specific mandate and the associated contract agreement as shown in the following table:

Fund Manager	Mandate	Negotiated Fee Basis	Proportion of Fund 31 March 2017	Proportion of Fund 31 March 2018
Aviva Investors	Property	Percentage of fund	7%	8%
BlackRock	Cash / inflation plus	Percentage of fund	5%	5%
Blackstone Alternative Asset Management	Hedge fund of funds	Percentage of fund	5%	5%
Global Thematic Partners	Less constrained global equities	Performance related fee	7%	7%
Investec Asset Management	Less constrained global equities	Performance related fee	8%	8%
Legal & General Investment Management	Passive index-tracker	Percentage of fund	28%	28%
Mirabaud Investment Management Limited	UK equities	Performance related fee	5%	5%
Pantheon Private Equity	Private equity	Percentage of Funds Committed & Incentive Fee	6%	5%
Partners Group	Private equity	Percentage of fund	2%	1%
Royal London Asset Management	Core plus bonds	Performance related fee	14%	14%
Schroders	Less constrained UK equities	Performance related fee	8%	7%
Aberdeen Standard Investments	Less constrained UK equities	Performance related fee	5%	4%

11. Analysis of the Value of Investments

31 March 2017 £000	Analysis of the Value of Investments	31 March 2018 £000
-	Long Term Investments	840
	Bonds	
	Fixed Interest Securities	
27,906	UK public sector	-
1,363	Overseas public sector	319
234,902	UK other	213,922
-	Overseas other	78,448
264,171	Total Fixed Interest Securities	292,689
	Index-Linked Securities	
74,834	UK Index-linked securities public sector	50,934
-	UK Index-linked securities other	9,103
74,834	Total Index-Linked Securities	60,037
339,005	Total Bonds	352,726
	Equities	
251,374	UK quoted	301,919
601,258	Overseas quoted	582,027
852,632	Total Equities	883,946
	Pooled Investment Vehicles	
11,134	UK Equities	10,735
280,215	UK Bonds	358,218
480,995	Overseas Equities	436,412
96,293	Overseas Diversified Growth Fund	134,940
128,372	Overseas Hedge Fund of Funds	134,050
207,316	Overseas Private Equity	165,584
1,204,325	Total Pooled Investment vehicles	1,239,939
	Other	
183,581	Unit Trusts - property funds	204,534
385	Derivatives	102
87,736	Cash deposits – sterling and foreign cash	121,408
7,848	Dividend income receivable	9,504
279,550	Total Other	335,548
2,675,512	Total Value of Investments	2,812,999

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12. Financial Instruments

The Net Assets of the Fund disclosed in the Net Assets Statement are made up of the following categories of financial instruments:

31 March 2017			31 March 2018		
Fair value through profit and loss £000	Loans And Receivables £000	Financial Liabilities At amortised cost £000	Fair value through profit and loss £000	Loans And Receivables £000	Financial Liabilities At amortised cost £000
Financial Assets					
-	-	-	840	-	-
852,632	-	-	883,946	-	-
339,005	-	-	352,726	-	-
1,204,325	-	-	1,239,939	-	-
183,581	-	-	204,534	-	-
385	-	-	102	-	-
7,848	-	-	9,504	-	-
-	87,736	-	-	127,559	-
-	14,925	-	-	6,371	-
2,587,776	102,661	-	2,691,591	133,930	-
Financial Liabilities					
-	-	-	-	-	-
-	-	(3,471)	-	-	(4,190)
-	-	(3,471)	-	-	(4,190)
2,587,776	102,661	(3,471)	2,691,591	133,930	(4,190)

The net gains and losses on financial instruments are shown in the table below.

31 March 2017 £000		31 March 2018 £000	
Financial Assets			
475,729	Fair value through profit and loss	121,320	
91	Loans and receivables	1,770	
-	Financial liabilities measured at amortised cost	-	
Financial Liabilities			
-	Fair value through profit and loss	-	
481	Loans and receivables	(238)	
-	Financial liabilities measured at amortised cost	-	
476,301	Total	122,852	

The code requires that for each class of financial assets and financial liabilities an authority shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount. As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1: Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, quoted equities are classified as level 1. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2: Financial instruments where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. **Fixed interest securities are traded in an active market and evaluated prices sourced from a valid pricing vendor.**

Level 3: Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based on valuations provided by the general partners to the private equity fund of funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are audited annually as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.

The values of the hedge fund of funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Value at 31 March 2018	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Outputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Long term investments	-	-	840	840
Equities - quoted	883,946	-	-	883,946
Bonds	-	352,726	-	352,726
Pooled investment vehicles	-	1,074,355	165,584	1,239,939
Property – unit trusts	-	204,534	-	204,534
Derivatives	-	102	-	102
Total	883,946	1,631,717	166,424	2,682,087

State Street, the Fund's new custodian, classifies the fair value hierarchy differently from BNY Mellon, the Fund's previous custodian. The fair value hierarchy table for 2016/17 and 2015/16 comparator figures have been restated. **Cash has been removed from the analysis of assets held at fair value since it is held at amortised cost, not fair value.**

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Restated Value at 31 March 2017	Quoted	Using	With	Total
	Market	Observable	Significant	
	Price	Inputs	Unobservable	
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Equities - quoted	852,632	-	-	852,632
Bonds	-	339,005	-	339,005
Pooled investment vehicles	19,298	977,711	207,316	1,204,325
Property – unit trusts	-	183,581	-	183,581
Derivatives	-	385	-	385
Total	871,930	1,500,682	207,316	2,579,928

Original Value at 31 March 2017	Quoted	Using	With	Total
	Market	Observable	Significant	
	Price	Inputs	Unobservable	
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Fixed interest securities	-	264,171	-	264,171
UK equities - quoted	251,374	-	-	251,374
Overseas equities - quoted	601,258	-	-	601,258
Index-linked securities	-	74,834	-	74,834
Pooled investment vehicles	772,344	-	431,981	1,204,325
Property – unit trusts	-	183,581	-	183,581
Derivatives	-	385	-	385
Cash deposits	-	87,736	-	87,736
Total	1,624,976	610,707	431,981	2,667,664

Restated Value at 31 March 2016	Quoted	Using	With	Total
	Market	Observable	Significant	
	Price	Inputs	Unobservable	
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Equities - quoted	647,352	-	-	647,352
Bonds	-	308,243	-	308,243
Pooled investment vehicles	-	804,605	191,088	995,693
Property – unit trusts	-	186,330	-	186,330
Derivatives	-	(298)	-	(298)
Total	647,352	1,298,880	191,088	2,137,320

Original Value at 31 March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Outputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Fixed interest securities	-	219,783	-	219,783
UK equities - quoted	201,877	-	-	201,877
Overseas equities - quoted	445,475	-	-	445,475
Index-linked securities	-	88,460	-	88,460
Pooled investment vehicles	612,221	-	383,472	995,693
Property – unit trusts	-	186,330	-	186,330
Derivatives	-	(298)	-	(298)
Cash deposits	-	69,072	-	69,072
Total	1,259,573	563,347	383,472	2,206,392

Sensitivity Analysis of Assets Valued at Level 3

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the potential impact on the closing value of investments held at 31 March 2018 and 31 March 2017.

	Assessed valuation range (+/-)	Value at 31 March 2018 £000	Value on increase £000	Value on decrease £000
Pooled investment vehicles – private equity	15%	165,584	190,422	140,746
Total		165,584	190,422	140,746

	Assessed valuation range (+/-)	Value at 31 March 2017 £000	Value on increase £000	Value on decrease £000
Pooled investment vehicles – private equity	15%	207,316	238,413	176,219
Total		207,316	238,413	176,219

Reconciliation of Fair Value Measurements Within Level 3

	Value at 31 March 2017 £000	Sales during the year £000	Unrealised Profit £000	Value at 31 March 2018 £000
Pooled investment vehicles – private equity	207,316			165,584
Total	207,316			165,584

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	Value at 31 March 2016 £000	Sales during the year £000	Unrealised Profit £000	Value at 31 March 2017 £000
Pooled investment vehicles – private equity	190,566			207,316
Total	190,566			207,316

The Fund's fund managers provided the following commentary on the valuation methods they use:

Blackstone – Fund of Hedge Funds

Blackstone's direct securities and derivative investments made through Blackstone's fund of hedge fund vehicles, such as Securities, Options, Futures are valued using prices quoted on the relevant exchanges. Forward currency contracts are valued at the current forward market prices obtained from brokers. Total return swaps are valued using the last reported public closing price of the underlying index.

Partners Group – Private Equity

Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP).

Partners Group gathers the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications.

LGIM – Passive Tracker Fund

The method used to value units is the same at every valuation date throughout the year. All holdings of the appropriate Pooled Fund Sections are valued at the close of business valuation point using a recognised pricing service. These values are then adjusted to allow for outstanding dividends, tax payable or recoverable and any relevant expenses (this creates the "Mid Value").

Aviva – Property Fund

Aviva rely on the NAV provided by each fund manager, computed in accordance with appropriate local standards, incorporating independent valuations conducted from suitably qualified external providers. These external NAVs are subject to review by Aviva Investors Real Estate Multi Manager (REMM) team.

They also employ an independent external accountant, Langham Hall, to undertake analysis of each fund's NAV when reported, in addition to that undertaken by the REMM team.

Wherever possible, and through the use of side letters if necessary, we seek to ensure consistency of reporting to an IFRS INREV NAV standard basis. Where this is not possible, managers are asked to provide the building blocks to create this analysis. They then work with Langham Hall, to reconcile back to the NAV provided in the fund's normal accounting standards.

Pantheon – Private Equity

Investments are valued using the most relevant of methods listed below:

- Cost/recent round of financing/price of recent investment where recent transactions may be the most reflective of fair value.
- Comparable Private Company Transactions used for companies with low enterprise value or low EBITDA which means it is not appropriate to use earnings multiples of similar publicly listed companies.

- Earnings/Earnings Multiples /Performance Multiples valuations involve applying a multiple, appropriate to the company being valued, to the earnings of a company. The valuation is described as a function of two variables, price and earnings (The most widely used of the valuation methodologies, especially for buyout or other businesses that have comparable characteristics to companies in the public markets).
- Underlying value of Net Assets.
- Discounted Cash flows (DCF) where there are predictable cash flows visible over a given time horizon.
- Industry Benchmarks are normally based on the assumption that investors are willing to pay for market share, and that profitability of the business in the does not vary greatly.
- Unrestricted Publicly traded securities are valued at the closing public market price on the valuation date.

These methods are consistently applied across all investment types.

BlackRock Institutional Jersey Dynamic Diversified Growth Fund

The above Fund is a sub-fund of the BlackRock Institutional Jersey Funds umbrella which reports under UK SORP and is not exchange-traded. The price is determined daily by the Funds Administrator and will be representative of the Fund's net asset value ("NAV") at each dealing point subject to any spreads applied, where appropriate. The Fund is not subject to any redemption notice periods and can be redeemed at each dealing point, currently on a daily basis.

13. Additional Financial Risk Management Disclosures

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund Committee manages these investment risks as part of its overall Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Pension Fund Risk Assessment analyses the risks faced by the Council's pensions operations, it is reviewed regularly by the Pension Fund Committee to reflect changes in activity and in market conditions. The analysis below is designed to meet the disclosure requirements of IFRS 7.

Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices of equities, commodities, interest rates, foreign exchange rates and credit spreads. This could be as a result of changes in market price, interest rates or currencies. The objective of the Fund's Investment strategy is to manage and control market risk exposure within acceptable parameters, while optimising the return.

In general excessive volatility in market risk is managed through diversification across asset class, investment manager, country, industry sector and individual securities. Each manager is expected to maintain a diversified portfolio within their allocation.

Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting the market in general.

By diversifying investments across asset classes and managers, the Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst the appointment of specialist managers enables the Fund to gain from their investment expertise.

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Market Price - Sensitivity Analysis

Whilst the value of the Fund's assets is sensitive to changes in market conditions and the Fund's assets are diversified across fund managers and asset classes to mitigate the risks. The Fund's liability to pay future benefits is equally sensitive, particularly to interest rate changes. The Fund's investment consultant undertakes triennial strategy reviews following the triennial actuarial valuation to ensure that the asset allocation of the Fund remains appropriate to expectations for its liabilities both in the short term and in the long term. The latest review, carried out by Mercer in March 2017, showed that the overall risk factor (standard deviation) for the Fund is 13.4%. The next review is due in early 2020 following the triennial valuation, interim strategy reviews can be undertaken if required. Following analysis of historical data and expected investment return movement during the financial year, applying a 13.4% movement in market price risk which is reasonably possible for the 2017/18 reporting period, if the market price of the Fund's investments does increase/decrease in line with the table below, the change in the market price of net assets available to pay benefits would be as follows.

Asset Type	31 March 2018 £000	Percentage Change %	Value on increase £000	Value on decrease £000
Long term investments	840	13.4	953	727
Equities – quoted	883,946	13.4	1,002,395	765,497
Bonds	352,726	13.4	399,991	305,461
Pooled investment vehicles	1,239,939	13.4	1,406,091	1,073,787
Property - unit trusts	204,534	13.4	231,942	177,126
Derivative contracts	102	13.4	116	88
Cash deposits	121,408	13.4	137,677	105,139
Investment income due	9,504	13.4	10,778	8,230
Total	2,812,999		3,189,943	2,436,055

Following analysis of historical data and expected investment return movement during the financial year, applying a 13.4% movement in market price risk which is reasonably possible for the 2016/17 reporting period, if the market price of the Fund's investments does increase/decrease in line with the table below, the change in the market price of net assets available to pay benefits would be as follows which has been restated to show totals for equities and bonds.

Restated Table by Asset Type	31 March 2017 £000	Percentage Change %	Value on increase £000	Value on decrease £000
Equities – quoted	852,632	13.4	966,885	738,379
Bonds	339,005	13.4	384,432	293,578
Pooled investment vehicles	1,204,325	13.4	1,365,705	1,042,945
Property - unit trusts	183,581	13.4	208,181	158,981
Derivative contracts	385	13.4	437	333
Cash deposits	87,736	13.4	99,493	75,979
Investment income due	7,848	13.4	8,900	6,796
Total	2,675,512		3,034,033	2,316,991

Original Table by Asset Type	31 March 2017 £000	Percentage Change %	Value on increase £000	Value on decrease £000
Fixed interest securities	264,171	13.4	299,570	228,772
UK equities – quoted	251,374	13.4	285,058	217,690
Overseas equities – quoted	601,258	13.4	681,827	520,689
Index-linked securities	74,834	13.4	84,862	64,806
Pooled investment vehicles	738,264	13.4	837,192	639,337
Property - unit trusts	183,581	13.4	208,181	158,981
Alternatives	466,061	13.4	528,513	403,609
Derivative contracts	385	13.4	437	333
Cash deposits	87,736	13.4	99,493	75,979
Investment income due	7,848	13.4	8,900	6,796
Total	2,675,512		3,034,033	2,316,992

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest Rate – Sensitivity Analysis

The Pension Fund recognises that interest rates vary and can impact income to the fund and the fair value of the assets. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the impact of a 1% change in value. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Asset Type	Value £000	Change for the year in net assets available to pay benefits	
		1%	-1%
As at 31 March 2018		£000	£000
Cash deposits	121,408	-	-
Cash balances (not forming part of the investment assets)	3,473	-	-
Bonds	292,689	2,927	(2,927)
Total	417,570	2,927	(2,927)

Asset Type	Value £000	Change for the year in net assets available to pay benefits	
		1%	-1%
As at 31 March 2017		£000	£000
Cash deposits	87,736	-	-
Cash balances (not forming part of the investment assets)	4,176	-	-
Bonds	264,171	2,642	(2,642)
Total	356,083	2,642	(2,642)

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A 1% increase in interest rates will reduce the fair value of the relevant net assets and vice versa.

Income Source	Value	Change for the year on income values	
		1%	-1%
As at 31 March 2018	£000	£000	£000
Cash deposits / cash and cash equivalents	201	20	(20)
Bonds	8,230	-	-
Total	8,431	20	(20)

Income Source	Value	Change for the year on income values	
		1%	-1%
As at 31 March 2017	£000	£000	£000
Cash deposits / cash and cash equivalents	148	15	(15)
Bonds	10,897	-	-
Total	11,045	15	(15)

Changes in interest rates do not impact on the value of cash / cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that the fair value of financial instruments will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value of foreign currency denominated investments will fall. Over the long term the differences in currencies are likely to balance out and the Fund has chosen not to hedge its currencies, with the exception of the European element of the Aviva property mandate.

Currency Risk – Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates have been analysed using a 9.79% movement in exchange rates in either direction for 31 March 2018. This analysis assumes that all variables, in particular interest rates, remain constant. Based on the composition of the Fund's currency exposure a 9.79% fluctuation in the currency is considered reasonable. A 9.79% weakening or strengthening of Sterling against the various currencies at 31 March 2018 would have increased or decreased the net assets by the amount shown below.

Currency Exposure by Asset Type	31 March 2018	Value on	Value on
		increase	decrease
	£000	£000	£000
		+9.79%	-9.79%
Equities – quoted	540,358	593,259	487,457
Bonds	7,020	7,707	6,333
Pooled investment vehicles	167,712	184,131	151,293
Property - unit trusts	580	637	523
Cash deposits	98,247	107,865	88,629
Total	813,917	893,599	734,235

The sensitivity of the Fund's investments to changes in foreign currency rates have been analysed using a 9.67% movement in exchange rates in either direction for 31 March 2017. This analysis assumes that all variables, in particular interest rates, remain constant. Based on the composition of the Fund's currency exposure a 9.67% fluctuation in the currency is considered reasonable. A 9.67% weakening or strengthening of Sterling against the various currencies at 31 March 2017 would have increased or decreased the net assets by the amount shown below.

Currency Exposure by Asset Type	31 March 2017	Value on increase	Value on decrease
	£000	£000	£000
		+9.67%	-9.67%
Equities – quoted	563,439	617,924	508,954
Bonds	7,669	8,411	6,927
Pooled investment vehicles	207,311	227,358	187,264
Property - unit trusts	4,142	4,543	3,741
Cash deposits	1,746	1,915	1,577
Total	784,307	860,151	708,463

One important point to note is that currency movements are not independent of each other. If sterling strengthened generally it may rise against all the above currencies producing losses across all the currencies.

Currency Exposure by Significant Currency

The Fund's most significant currency exposures are to US Dollars and EUROS, using data on currency risk of 9.71% for the US Dollar and 9.23% for the EURO. Weakening or strengthening of Sterling against US Dollars and EUROS at 31 March 2018 would have increased or decreased the net assets by the amounts shown in the following table.

Asset Type	31 March 2018	Percentage Change	Value on increase	Value on decrease
	£000	%	£000	£000
US Dollars	483,474	9.71	530,419	436,529
EUROS	179,210	9.23	195,751	162,669
Total	662,684		726,170	599,198

Weakening or strengthening of Sterling against US Dollars and EUROS at 31 March 2017 would have increased or decreased the net assets by the amounts shown in the following table.

Asset Type	31 March 2017	Percentage Change	Value on increase	Value on decrease
	£000	%	£000	£000
US Dollars	466,964	9.41	510,905	423,023
EUROS	157,924	9.18	172,421	143,427
Total	624,888		683,326	566,450

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. In essence the Fund's entire investment portfolio is exposed to some sort

Pension Fund Accounts

of credit risk. The Fund is exposed to credit risk through its investment managers, custodian and its daily treasury management activities. Credit risk is minimised through the careful selection and monitoring of financial institutions and counterparties. Contractual credit risk is represented by the net payment or receipt that remains outstanding.

A source of credit risk is the cash balances held internally or by managers. The Pension Fund's bank account is held at Lloyds, which holds an "A" long term credit rating. The management of the cash held in this account is managed by the Council's Treasury Management Team in line with the Council's Treasury Management Strategy which sets out the permitted counterparties and limits. The value of the Fund invested by the Treasury Management Team at 31 March 2018 was £1.186m in an instant access Lloyds account. (On 31 March 2017 £4.535m was invested in an instant access Lloyds account.) Cash held by investment managers is invested with the global custodian, State Street, in a diversified money market fund rated AAAM.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The main liabilities of the Fund relate to the benefits payable which fall due over a long period of time. The investment strategy reflects this and sets out the strategic asset allocation of the Fund. Liquidity risk is mitigated by investing a proportion of the Fund in actively traded instruments in particular equities and fixed income investments. The Fund maintains a cash balance to meet operational requirements.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer to convert in to cash. The following table summarises the Fund's illiquid assets by fund manager.

31 March 2017		31 March 2018
£000		£000
193,323	Aviva	211,284
128,372	Blackstone	134,050
165,106	Pantheon Private Equity	135,818
42,206	Partners Group	29,761
581	Hg Capital	567
529,588		511,480

14. Related Parties

The Buckinghamshire County Council Pension Fund is administered by Buckinghamshire County Council and therefore there is a strong relationship between the Council and the Pension Fund.

The County Council was reimbursed £2.1m (£1.9m in the 2016/17 year) for oversight & governance costs and administration costs incurred by the County Council on behalf of the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £40.3m to the Fund in 2017/18 (£34.0m in the 2016/17 year).

The Pension Fund's surplus cash held for day to day cash flow purposes is invested on the money markets by the treasury management function of Buckinghamshire County Council, through a service level agreement. During the year to 31 March 2018, the Fund had an average investment balance of £7.2m (£4.7m in the 2016/17 year), earning interest of £30k (£27k in the 2016/17 year).

Membership of the Local Government Pension Scheme (LGPS) for Councillors closed to new members on 31 March 2014, councillors who were active members ceased to be a member at the next end of term of office. There are no members of the Pension Fund Committee who are pensioner or deferred members of the Fund on 31 March 2018

(on 31 March 2017 no pensioner or deferred members). The Director of Finance and Procurement (s151 Officer), holds a key position in the financial management of the Fund and is an active member. He is an employee of Buckinghamshire County Council for whom a portion of his costs of employment are re-charged to the Fund. Disclosure of his pay costs can be found within the officer remuneration note in the main Buckinghamshire County Council accounts.

The Pension Fund has transactions with Brunel Pension Partnership Ltd (BPP Ltd) (Company number 10429110) which was formed on 14 October 2016 and will oversee the investment of pension fund assets for ten Funds. The founding Funds include The Environment Agency Pension Fund, and the Local Government Funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire. Each of the 10 organisations, including Buckinghamshire County Council own 10% of BPP Ltd. During the year to 31 March 2018 the Fund paid BPP Ltd £840k (£0k in the year to 31 March 2017).

15. Current Assets and Liabilities

31 March 2017 £000	Current Assets and Liabilities	31 March 2018 £000
	Current Assets	
9,447	Contributions due from employers 31 March	7,922
4,176	Cash balances (not forming part of the investment assets)	3,473
10,749	Other current assets	2,898
24,372	Total Current Assets	14,293
	Current Liabilities	
(937)	Management charges	(2,091)
(829)	HM Revenue and Customs	(953)
(519)	Unpaid benefits	(511)
(2,015)	Other current liabilities	(1,588)
(4,300)	Total Current Liabilities	(5,143)
20,072	Net Current Assets	9,150

31 March 2017 £000	Current Assets and Liabilities	31 March 2018 £000
	Current Assets	
2,720	Central government bodies	1,642
12,296	Other local authorities	5,652
3	NHS bodies	2
4,300	Public corporations and trading funds	3,801
5,053	All other bodies	3,196
24,372	Total Current Assets	14,293
	Current Liabilities	
(828)	Central government bodies	(953)
(1,615)	Other local authorities	-
-	NHS bodies	-
(944)	Public corporations and trading funds	(4,028)
(913)	All other bodies	(162)
(4,300)	Total Current Liabilities	(5,143)
20,072	Net Current Assets	9,150

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16. Taxes on Income

2016/17 £000	Taxes on Income	2017/18 £000
-	Withholding tax - fixed interest securities	-
333	Withholding tax - equities	554
333	Total Taxes on Income	554

The Fund retains the following taxation status:

- VAT input tax is recoverable on all fund activities by virtue of Buckinghamshire County Council being the administering authority.
- The fund is an exempt approved fund under the Finance Act 2004 and is therefore not liable to UK income tax or capital gains tax.
- Income earned from investments overseas in the United States and certain other countries is exempt from national taxation and therefore not subject to withholding tax.

17. Actuarial Position of the Fund

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013 (as amended), the Fund's actuary, Barnett Waddingham LLP, undertakes a funding valuation every three years to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

On 31 March 2016, the market value of the assets held were £2,221.253m, sufficient to cover 87% of the accrued liabilities assessed on an ongoing basis. All employers are projected to be fully funded after an average recovery period of 16 years. The primary rate of contribution is the employers' share of the cost of benefits accruing in each of the three years beginning 1 April 2017 and is 15.1% of payroll. In addition each employer pays a secondary contribution rate based on their particular circumstances, the secondary contribution rate across the whole Fund averages 6.2% in 2017/18, 6.3% in 2018/19 and 6.4% in 2019/20.

The results of the valuation are that the past service funding level of the Fund as a whole has increased from 82% to 87% between 31 March 2013 and 31 March 2016. The improvement of the funding position since the previous valuation is mainly due to good investment returns and employer contributions.

The main assumptions used in the valuation were:

Future assumed returns

- Investment return - gilts 2.4% per annum
- Investment return - other bonds 3.3% per annum
- Investment return - cash / temporary investments 1.8% per annum
- Investment return - equities 7.4% per annum
- Investment return - property 5.9% per annum
- Investment return - absolute return fund (LIBOR+) 5.8% per annum
- Investment return - expense allowance -0.2% per annum

Financial assumptions

- Discount rate 5.4% per annum
 - Pension increases 2.4% per annum
 - Short term pay increases in line with CPI from 31 March 2016 to 31 March 2020
 - Long term pay increases 3.9% per annum
-

The demographic assumptions are the same as those used by the Government Actuary's Department when LGPS reforms were designed and are based on analysis of incidence of death, retirement and withdrawal for Local Authority Funds.

The Fund's actuary undertook an interim valuation as at 31 March 2018 which showed that the funding level had increased to 95% and the average required employer contribution would be 21.3% of payroll assuming the deficit is to be paid by 2032. The estimated funding position is based on market movements since 31 March 2016 rather than being a full valuation with updated member data.

18. Actuarial Present Value of Promised Retirement Benefits

International Financial Reporting Standards (IFRS) requires the disclosure of the actuarial present value of promised retirement benefits. The Fund's Actuary has prepared a report which rolls forward the value of the Employers' liabilities calculated for the Triennial valuation as at 31 March 2016. On an IAS 19 basis the Actuary estimates that the net liability as at 31 March 2018 is £1,794m (31 March 2017 £1,858m), but figures calculated on an IAS 19 basis are not relevant for calculations undertaken for funding purposes or for other statutory purposes undertaken under UK pensions legislation. The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

For the Triennial Valuation the actuary asks the question – what is the value of the assets required based on existing investment strategy to be sufficient to meet future liabilities? For IAS 19 valuations, however, the actuary asks the question – how much would need to be borrowed on the corporate bond market to meet future liabilities?

The expected returns on the assets actually held will be different from borrowing costs, and so different amounts are required. This manifests itself in different discount rates being used in each type of valuation, and so different values are placed on the same liabilities.

31 March 2017		31 March 2018
£000		£000
4,503,310	Present value of funded obligation	4,605,799
(2,645,301)	Fair value of scheme assets	(2,812,158)
1,858,009	Net Liability	1,793,641

The Present Value of Funded Obligation consists of £4,470m (£4,351m at 31 March 2017) in respect of Vested Obligation and £136m (£152m at 31 March 2017) in respect of Non-Vested Obligation. Vested benefits are the benefits that employees have a right to receive even if they do not render services to the employer. In other words, the employees will receive their vested benefits even if they stop working for the employer. Thus, non-vested benefits are the benefits an employee can receive in the future if he or she continues providing services to the employer. The liabilities above are calculated on an IAS19 basis and therefore differ from the results of the triennial funding valuation (see Note 17) because IAS19 stipulates a discount rate rather than a rate that reflects market rates. The main assumptions used were:

31 March 2017		31 March 2018
3.6%	RPI increases	3.3%
2.7%	CPI increases	2.3%
4.2%	Salary increases	3.8%
2.7%	Pension increases	2.3%
2.8%	Discount rate	2.6%

These assumptions are set with reference to market conditions at 31 March. The Actuary's estimate of the duration of the Fund's past service liabilities is 20 years. An estimate of the Fund's future cashflows is made using notional

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cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This approach has changed from the “spot approach” adopted at the previous accounting date to reflect national auditor preferences.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. The approach has changed from the “spot rate” approach adopted at the previous accounting date to reflect national auditor preferences. As future pension increases are expected to be based on CPI rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 1.0% below RPI i.e. 2.3%.

Salaries are assumed to increase at 1.5% above CPI in addition to a promotional scale. However, the Actuary has allowed for a short term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

Demographic/Statistical assumptions

The actuary has adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 85%. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a. The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 March 2018	31 March 2017
Retiring today	24.0	23.9
Males	26.1	26.0
Females		
Retiring in 20 years		
Males	26.2	26.1
Females	28.4	28.3

The actuary also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

19. Contingent Liabilities and Contractual Commitments

Contractual commitments that the Fund has entered into by 31 March 2018 are:

Contractual Commitments	Amount Paid as	Amount Paid	Total
	at 31 March 2017	as at 31 March 2018	Contractual Commitment
	\$000	\$000	\$000
Pantheon Asia Fund V LP	22,938	22,938	25,000
Pantheon Asia Fund VI LP	29,704	35,250	47,000
Pantheon USA Fund VII Limited	19,635	19,635	21,250
Pantheon USA Fund VIII Feeder LP	65,325	66,525	75,000
Pantheon Global Secondary Fund IV Feeder LP	9,975	9,975	15,000
Partners Group Global Resources 2009, LP	27,751	30,751	35,000
	175,328	185,074	218,250
	€000	€000	€000
Pantheon Europe Fund V "A" LP	16,548	16,983	18,125
Pantheon Europe Fund VI LP	57,980	59,605	65,000
Partners Group Global Real Estate 2008 SICAR	22,996	22,996	25,000
Partners Group Global Infrastructure 2009 SICAR	21,842	21,842	25,000
	119,366	121,426	133,125

These contractual commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity, resources, global real estate and infrastructure parts of the portfolio. The amounts "called" by the funds are irregular in both size and timing over several years from the date of each original commitment. The total contractual commitment at 31 March 2018 is the same as the total contractual commitment at 31 March 2017.

The undrawn amount, the outstanding commitment, for each of these contracts is shown in the table below:

Funds Undrawn	31 March 2017		31 March 2018	
	\$000	€000	\$000	€000
Pantheon Asia Fund V LP	2,062	1,603	2,062	1,466
Pantheon Asia Fund VI LP	17,296	13,444	11,750	8,352
Pantheon USA Fund VII Limited	1,615	1,255	1,615	1,148
Pantheon USA Fund VIII Feeder LP	9,675	7,520	8,475	6,024
Pantheon Global Secondary Fund IV Feeder LP	5,025	3,906	5,025	3,572
Partners Group Global Resources 2009, LP	7,249	5,635	4,249	3,020
	42,922	33,363	33,176	23,582
	€000	€000	€000	€000
Pantheon Europe Fund V "A" LP	1,577	1,333	1,142	999
Pantheon Europe Fund VI LP	7,020	5,935	5,395	4,721
Partners Group Global Real Estate 2008 SICAR	2,004	1,694	2,004	1,754
Partners Group Global Infrastructure 2009 SICAR	3,158	2,670	3,158	2,764
	13,759	11,632	11,699	10,238

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On 31 March 2018 there were 3 group transfers to the Fund being negotiated with other Funds (7 on the 31 March 2017), the value of the transfers to the Fund is being negotiated between the Funds' actuaries. The income due to the Fund for the transfers has not been accrued since negotiations are at too early a stage for an estimate of the value to be available. On 31 March 2018 there was 1 group transfer from the Fund being negotiated with other Funds (3 on the 31 March 2017), the value of the transfers from the Fund is being negotiated between the Funds' actuaries. The expenditure in respect of the transfers has not been accrued since negotiations are at too early a stage for an estimate of the value to be available.

20. Additional Voluntary Contributions (AVCs)

AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. The AVC providers to the Fund are Prudential and Scottish Widows, Scottish Widows replaced Clerical Medical on 7 May 2017. Prudential invests in several funds including with profits accumulation, deposit and discretionary funds. Scottish Widows invests in a range of funds to suit Scheme members' changing lifestyles. These amounts are not included in the Pension Fund Net Assets Statement in accordance with regulation 5(2)c of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

2016/17	Prudential	2017/18
£000		£000
4,085	Value of AVC fund at beginning of year	4,035
0	Correction opening value	91
650	Employees' contributions and transfers in	570
150	Investment income	242
(850)	Benefits paid and transfers out	(1,069)
4,035	Value of AVC fund at year end	3,869

Scottish Widows	07.05.2017 - 31.03.2018
	£000
Value of AVC fund at beginning of year	3,378
Employees' contributions	141
Investment income	400
Benefits paid and transfers out	(598)
Value of AVC fund	3,321

Clerical Medical	01.11.2016 - 07.05.2017
	£000
Value of AVC fund at beginning of year	3,233
Employees' contributions	77
Investment income	394
Benefits paid and transfers out	(326)
Value of AVC fund	3,378

21. List of Scheduled and Admitted Bodies

Scheduled Bodies

Buckinghamshire County Council	Princes Risborough Town Council
Buckinghamshire Fire and Rescue Service	Shenley Brook End and Tattenhoe Parish Council
Thames Valley Police	Shenley Church End Parish Council
Aylesbury Vale District Council	Stantonbury Parish Council
Chiltern District Council	Stony Stratford Town Council
Milton Keynes Council	Taplow Parish Council
South Bucks District Council	Waddesdon Parish Council
Wycombe District Council	Wendover Parish Council
Amersham Town Council	West Bletchley Town Council
Aston Clinton Parish Council	Weston Turville Parish Council
Aylesbury Town Council	West Wycombe Parish Council
Beaconsfield Town Council	Winslow Town Council
Bletchley & Fenny Stratford Town Council	Woburn Sands Town Council
Bradwell Parish Council	Wolverton & Greenleys Town Council
Broughton & Milton Keynes Parish Council	Wooburn & Bourne End Parish Council
Buckingham Town Council	Woughton Community Council
Burnham Parish Council	Alfriston School
Campbell Park Parish Council	Amersham School
Chalfont St Giles Parish Council	Amersham & Wycombe College
Chalfont St Peter Parish Council	Aylesbury College
Chepping Wycombe Parish Council	Aylesbury Grammar School
Chesham Bois Parish Council	Aylesbury High School
Chesham Town Council	Aylesbury Vale Academy
Chiltern Crematorium	Beaconsfield High School
Chilterns Conservation Board	Beechview Academy
Coldharbour Parish Council	Bedgrove Infant School
Coleshill Parish Council	Bedgrove Junior School
Gerrards Cross Parish Council	Bourne End Academy
Great Missenden Parish Council	Bourton Meadow Academy
Hambleden Parish Council	Bridge Academy
Hazlemere Parish Council	Brill CofE Combined School
Iver Parish Council	Brookmead School
Ivinghoe Parish Council	Brookward School
Kents Hill & Monkston Parish Council	Brushwood Junior School
Lacey Green Parish Council	Buckinghamshire New University
Lane End Parish Council	Buckinghamshire University Technical College
Little Marlow Parish Council	Burnham Grammar School
Longwick-cum-Ilmer Parish Council	Bushfield School
Marlow Town Council	Castlefield School
Mentmore Parish Council	Chalfonts Community College
New Bradwell Parish Council	Chalfont St Peter CE Academy
Newport Pagnell Town Council	Chalfont Valley E-Act Academy
Newton Longville Parish Council	Charles Warren Academy
Olney Town Council	Chepping View Primary Academy
PCC for Thames Valley	Chesham Grammar School
Penn Parish Council	Chestnuts Academy
Piddington & Wheeler End Parish Council	Chiltern Hills Academy

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Chiltern Way Academy
Cottesloe School
Danesfield School
Denbigh School
Denham Green E-Act Academy
Dorney School
Dr Challoner's Grammar School
Dr Challoner's High School
E-Act Burnham Park Academy
EMLC Academy Trust
Fairfields Primary School
George Grenville Academy
Germander Park School
Gerrards Cross CoE School
Glastonbury Thorn First School
Great Kimble CoE School
Great Kingshill CoE Combined School
Great Marlow School
Great Missenden CoE Combined School
Greenleys Junior School
Green Park School
Green Ridge Academy
Hamilton Academy
Hazeley Academy
Heronsgate School
Highcrest Academy
Holmer Green Senior School
Ickford School
Inspiring Futures Through Learning
Ivingswood Academy
John Colet School
John Hampden Grammar School
Jubilee Wood Primary School
Kents Hill School
Khalsa Secondary Academy
Knowles Primary School
Lace Hill Academy
Lent Rise Combined School
Lord Grey School
Loudwater Combined School
Loughton School
Middleton Primary School
Milton Keynes Academy
Milton Keynes College
Milton Keynes Development Partnership
Milton Keynes Education Trust
Monkston Primary Academy
NET Academies Trust
New Bradwell Combined School
New Chapter Primary School
Oakgrove School
Olney Infant School
Olney Middle Academy
Orchard Academy
Ousedale School
Overstone Combined School
Oxley Park Academy
Padbury CofE School
Portfields Combined School
Princes Risborough Primary School
Princes Risborough School
Rickley Park Primary School
Royal Grammar School
Royal Latin School
St Nicolas' CE Combined School Taplow
St Paul's RC School
Seer Green CofE School
Shenley Brook End School
Shepherdswell School
Sir Henry Floyd Grammar School
Sir Herbert Leon Academy
Sir Thomas Fremantle Academy
Sir William Borlase's Grammar School
Sir William Ramsay School
Southwood Middle School
Stanton School
Stantonbury Campus
Stephenson Academy
The Beaconsfield School
The Meadows School
The Misbourne School
The Premier Academy
The Radcliffe School
Thomas Harding Junior School
Two Mile Ash School
Waddesdon CoE School
Walton High
Water Hall Primary School
Wycombe High School
Wyvern School

Election Fees:
Aylesbury Vale Local
Aylesbury Vale Parliamentary
Chiltern Local
Chiltern Parliamentary
Milton Keynes Local
Milton Keynes Parliamentary
Wycombe Local
Wycombe Parliamentary
South Bucks Local
South Bucks Parliamentary

Admitted Bodies

Acorn Childcare	Excelcare
Acorn Childcare (Jubilee Wood School)	Frosts (MKC)
Action for Children	Hayward Services Ltd
Action for Children (Children's Centres)	Heritage Care
Adventure Learning Foundation (BCC)	Hertsmere Leisure Trust
Adventure Learning Foundation (WDC)	Hightown Housing Association Ltd
Alliance in Partnership	Innovate Ltd
Ambassador Theatre Group	Kids Play Ltd
Archgate Cleaning	Manpower Direct Ltd
Ashridge Security Management	Mears Group plc
Aspens Services Ltd	MK Dons
Beacon Housing Association	NSL Services Group
Birkin Cleaning (John Colet)	Nurture Landscapes (MKC)
Birkin Cleaning (Oakgrove School)	OFM Support Ltd
Bucks Association of Local Councils	Oxfordshire Health NHS Foundation Trust
Bucks County Museum Trust	Oxon PCT (SALT)
Bucks Learning Trust	Paradigm Housing Association
Busy Bee Cleaning Services Ltd (WDC)	Places for People Leisure (Newp TC)
C-SALT (Woughton Leisure Centre)	Places for People Leisure (WDC)
Capita (WDC)	Police Superintendents Association
Caterlink Ltd (Buckingham Primary)	Red Kite Community Housing Ltd
Caterlink Ltd (Chiltern Hills Academy)	Ridge Crest Cleaning Ltd (Walton High)
Caterlink Ltd (Orchard Academy)	Ringway Infrastructure Services
Chartwells Ltd (Oakgrove School)	Ringway Jacobs
Chiltern Rangers CIC	Serco MKC Recreation & Maintenance
Cleantec Services Limited	Servest Group Limited
Connection FS (BCC)	Sports Leisure Management
Connection Support (MKC Brokerage)	Spurgeons
Connexions Buckinghamshire	Stantonbury Arts & Leisure
Cucina Restaurants Ltd (Denbigh School)	The Fremantle Trust
Cucina Restaurants Ltd (Walton High)	Vale of Aylesbury Housing Trust
Derwent Facilities Management Ltd	Wolverton & Watling Way Pools Trust
Enterprise Support Services UK	Wycombe Heritage and Arts Trust

Audit Findings

Year ending 31 March 2018

Buckinghamshire Pension Fund

25 July 2018



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Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

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.

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Headlines

Introduction

This table summarises the key issues 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 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: <ul style="list-style-type: none">the Pension Fund's financial statements 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 Code of Practice on Local Authority Accounting;	Our audit work was completed on site during June and July. Our findings are summarised on pages 3 to 10. We have not identified any adjustments to the Fund's reported financial performance and position detailed within the Pension Fund Account and the Net Assets Statement. We have identified a number of amendments to the disclosures set out in the notes to the accounts, which are detailed in Appendix B. Our follow up of a recommendation from the prior year's audit is detailed in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Regulatory and Audit Committee meeting on 25 July 2018, as detailed in Appendix D. These outstanding items include: <ul style="list-style-type: none">- receipt of management's response to our findings from review of the draft accounts;- finalisation of testing of contributions from scheduled and admitted bodies;- finalisation of testing of data submitted to the actuary;- receipt and review of the Pension Fund Annual Report- receipt of the management representation letter; and- review of the final set of financial statements.
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Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings 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), 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 benefit payments to new pensions and of starters, leavers and changes of circumstance processed on the pension admin system; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Regulatory and Audit Committee meeting on 25 July 2018, as detailed in Appendix D. These outstanding items include:

- receipt of management's response to our findings from review of the draft accounts;
- receipt and review of the Pension Fund Annual Report
- receipt of the management representation letter; and
- review of the final set of financial statements.

Materiality calculations remains the same as reported in our audit plan.

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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.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£26,966,000	<ul style="list-style-type: none"> • In calculating materiality, we have considered the users the financial statements and the extent to which they place reliance on the financial statements.
Performance materiality	£18,876,000	<ul style="list-style-type: none"> • In calculating performance materiality, we have considered the Fund's control environment and the likelihood of material misstatements of the financial statements arising.
Trivial matters	£1,000,000	<ul style="list-style-type: none"> • We have considered the level at which audit misstatements would be of interest to management and to members of the Regulatory and Audit Committee in discharging their duties.

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

Management have assessed that the Fund has sufficient resources to meet its liabilities as they fall due for the foreseeable future.

Auditor commentary

- We are satisfied regarding the appropriateness of management’s process for formulating their going concern assessment.

Work performed

Detail audit work performed on management’s assessment

Auditor commentary

- We have considered the financial position of the Fund and undertaken a review to identify any possible indicators of any circumstances or events that could indicate that the Fund is no longer a going concern.

Concluding comments

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Auditor commentary

- We have identified no events or conditions in the course of the audit that we consider may cast significant doubt on your ability to continue as a going concern.
 - We are satisfied with the appropriateness of management’s going concern assessment process. As such we plan to issue an unmodified audit report in respect of going concern.
-

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Buckinghamshire County Council as the Administering Authority of Buckinghamshire Pension Fund, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Buckinghamshire Pension Fund.

Though we have rebutted this risk, we have still tested all revenue streams to a material extent. Our audit work has not identified any issues in respect of revenue recognition.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

- We undertook the following procedures in relation to this risk:
 - gained an understanding of the significant accounting estimates, judgements applied and decisions made by management and consider their reasonableness;
 - obtained a full listing of journal entries, identified and then tested unusual journal entries for appropriateness; and
 - evaluated the rationale for any changes in accounting policies or significant unusual transactions that came to our attention during the course of the audit.
- Our work has not identified any issues in respect of this risk.

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Significant audit risks (continued)

Risks identified in our Audit Plan	Commentary
<p>3 The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> • We undertook the following procedures in relation to this risk: <ul style="list-style-type: none"> – gained an understanding of the Fund’s process for valuing Level 3 investments and evaluating the design of the associated controls; – reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments; and – for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts as at 31 December 2017 for individual investments, agreeing these to fund manager reports at that date and reconciling those values to the valuations reported at 31 March 2018 with reference to known movements in the intervening period. • Our work has not identified any issues in respect of this risk.
<p>4 Change in custodian</p> <p>During the year a number of funds have transferred custodian from BNY Mellon to State Street.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> • We undertook the following procedures in relation to this risk: <ul style="list-style-type: none"> – documented the controls in place to manage the transfer of data to the system of new custodian; and – reviewed and tested management’s reconciliation of the closing position from the old custodian system to the opening position of the new system. • Our work has not identified any issues in respect of this risk.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

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Contributions

Contributions from employers and employees' represents a significant percentage (68%) of the Fund's revenue.

We therefore identified occurrence of contributions as a risk requiring particular audit attention.

Auditor commentary

- We undertook the following procedures in relation to this risk:
 - evaluated the Fund's accounting policy for recognition of contributions for appropriateness;
 - gained an understanding of the Fund's system for accounting for contributions income and evaluate the design of the associated controls;
 - tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; and
 - rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners and noted no unusual trends.
- Our work has not identified any issues in respect of this risk.

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Pension Benefits Payable

Pension benefits payable represents a significant percentage (76%) of the Fund's expenditure.

We identified completeness of pension benefits payable as a risk requiring particular audit attention:

Auditor commentary

- We undertook the following procedures in relation to this risk:
 - evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
 - gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls;
 - undertaken controls testing in respect of a sample of benefit payments to new pensioners who commenced receipt of pension payments during 2017/18; and
 - rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.
- Our work has not identified any issues in respect of this risk.

7

The valuation of Level 2 investments is incorrect




While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We identified valuation of level 2 investments as a risk requiring particular audit attention.

Auditor commentary




- We undertook the following procedures in relation to this risk:
 - gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls;
 - 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; and
 - for a sample of investments, tested the valuation by obtaining independent information from custodian/manager on units and unit prices.
- Our work has not identified any issues in respect of this risk.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Contributions and investment income are included on an accruals basis. All settlements for buying and selling investments are accrued on the day of trading. Interest on deposits is accrued if not received by the end of the financial year. 	The revenue recognition policies are appropriate and in accordance with the CIPFA Code of Practice and International Financial Reporting Standards (IFRS).	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> the assumptions within the IAS26 calculation of the present value of future retirement benefits; the assumptions within the triennial valuation; and valuation of Level 3 investments. 	We are satisfied that in all significant respects, judgements and estimates have been disclosed appropriately and adequately in accordance with appropriate accounting policies.	 Green
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. We consider the Fund's accounting policies are appropriate and consistent with previous years.	 Green

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Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

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 in our Audit Plan dated 31 May 2018. We have not been made aware of any frauds during the period in respect of the Fund and no 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 standard letter of representation has been requested from the Pension Fund.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to your fund managers, custodians and other institutions with which you held bank or investment balances as at the year end. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6	Disclosures	<ul style="list-style-type: none"> Our review identified a number of disclosure omissions or required adjustments in respect of the financial statements. These are detailed in Appendix B.
7	Significant difficulties	<ul style="list-style-type: none"> We have experienced no significant difficulties in performing our audit work.
8	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 propose to issue our 'consistency' opinion on the Pension Funds Annual Report on 26 July 2018 alongside our main opinion on the financial statements.

Independence and ethics

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 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.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified.

Follow up of prior year recommendations

We identified the following issues in the audit of Buckinghamshire Pension Fund's 2016/17 financial statements, which resulted in one recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented our recommendation.

1	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓/X	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	

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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.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Description of the Fund	<ul style="list-style-type: none"> The sections 'Description of the Fund' and 'Membership of the Fund' that precede the financial statements should be moved to a note to the accounts to make clear that these disclosures form part of the audited statement of accounts. 	✓
Accounting Policies	<ul style="list-style-type: none"> No accounting policy was disclosed within Note 2 'Accounting Policies and Critical Judgements in Applying Accounting Policies' in respect of distributions from pooled funds or contractual commitments. 	✓
Accounting Policies	<ul style="list-style-type: none"> Within Note 2 'Accounting Policies and Critical Judgements in Applying Accounting Policies' it was disclosed that loans and receivables financial instruments are carried at historic cost. The balances are actually carried at amortised cost. 	✓
Contributions	<ul style="list-style-type: none"> No analysis was provided within Note 3 'Contributions' of employers contributions by category, ie between the classifications employers' normal contributions, employers' deficit recovery contributions and employers' augmentation contributions. 	✓
Benefits	<ul style="list-style-type: none"> Within Note 5 'Benefits', no disclosure was provided of the benefits payable analysed between the administering authority, scheduled bodies and admitted bodies. 	✓
Investment Income	<ul style="list-style-type: none"> The analysis of income provided in Note 8' Investment Income' did not use the same classification of investments as used on the Pension Fund Account and contained no reference to income from pooled investments 	✓
Investments	<ul style="list-style-type: none"> Within Note 9 'Investments', no quantitative analysis of pooled investments was provided. 	✓
Financial Instruments	<ul style="list-style-type: none"> In Note 12 'Financial Instruments', investment cash balances were included within the fair value hierarchy disclosure table, however cash carried at amortised cost and not fair value and so therefore should not be disclosed within this table. 	✓
Financial Instruments	<ul style="list-style-type: none"> Within Note 12 'Financial Instruments', there has been a restatement of the fair value hierarchy disclosure table. However, no disclosure was provided of the comparative balances as at 1 April 2016 on the restated basis. 	✓
Actuarial Present Value of Promised Retirement Benefits	<ul style="list-style-type: none"> Within Note 17 'Actuarial Position of the Fund' and Note 18 'Actuarial Present Value of Promised Retirement Benefits, no disclosure was provided in respect of key demographic, salary and commutation assumptions made in calculating the actuarial estimates reporting in the accounts. 	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£25,033	£25,033
Total audit fees (excluding VAT)	£25,033	£25,033

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

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Non Audit Fees

No other services have been provided.

Audit opinion

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

Independent auditor's report to the members of Buckinghamshire County Council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of Buckinghamshire County Council (the 'Authority') for the year ended 31 March 2018 which comprise the Pension Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2017/18.

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 2018 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & Procurement's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Director of Finance & Procurement has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Director of Finance & Procurement is responsible for the other information. The other information comprises the information included in the Pension Fund Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Pension Fund Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance & Assets and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance & Procurement. The Director of Finance & Procurement is responsible for the preparation of the 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance & Procurement determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Finance & Procurement is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Regulatory and Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

[Signature]

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

30 Finsbury Square
London
EC2A 1AG

[Date]



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Buckinghamshire County Council

Resources

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Director of Finance and Procurement
Richard Ambrose

www.buckscc.gov.uk

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Dated: 25 July 2018

Dear Sirs

Buckinghamshire County Council Pension Fund – Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Buckinghamshire Pension Fund ('the Fund) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

Except as disclosed in the financial statements:

- there are no unrecorded liabilities, actual or contingent
- none of the assets of the Fund have been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

- i We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- ii The financial statements are free of material misstatements, including omissions.

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Regulatory and Audit Committee at its meeting on 25 July 2018.

Yours faithfully

Signed

Signed

Name Richard Ambrose

Name David Martin

Position Director of Finance & Procurement

Position Chairman of Regulatory & Audit Committee

Date

Date

Signed on behalf of Buckinghamshire County Council as administering body of the Buckinghamshire County Council Pension Fund.

Regulatory and Audit Committee

Title:	Annual Governance Statement
Date:	Wednesday 25 July 2018
Author:	Richard Ambrose – Director of Finance and Procurement (S151)
Contact officer:	Maggie Gibb – Head of Business Assurance (and Chief Auditor) Tel: 01296 387327
Local members affected:	

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

This report contains the Draft Annual Governance Statement for 2017/18. The Annual Governance Statement (AGS) has been drafted by giving due consideration to the Council's sources of assurance on internal control and is structured in accordance with CIPFA guidance. The role of the Regulatory and Audit Committee is to review the AGS to provide assurance that it reflects the evidence considered by the Committee over the year, and that the actions identified are appropriate. Once the Committee has approved the statement it will be presented to the Chief Executive and Leader of the Council for signing, and be published on the Buckinghamshire County Council website.

Recommendation

The Committee is **RECOMMENDED** to approve the Annual Governance Statement 2017/18.

Supporting information to include the following if a decision is being requested:

Resource implications

None

Legal implications

There are no new legal implications. The Accounts and Audit Regulations 2015 refer to the requirements for an Annual Governance Statement.

Other implications/issues

None

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

Not relevant

Background Papers

Annual Governance Statement 2016/17

BUCKINGHAMSHIRE COUNTY COUNCIL DRAFT Annual Governance Statement 2017/2018

Introduction

We are responsible for making sure that our business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically and efficiently.

We also have a duty under the [Local Government Act 1999](#) to put in place proper arrangements for:

- the continuous improvement of our functions
- the governance of our affairs, including those of the Local Government Pension Scheme, which includes arrangements for the management of risk.

The Annual Governance Statement explains how the County Council has complied with the Governance Framework. It also meets the requirements of [Regulation 6 of the Accounts and Audit Regulations 2015](#) in relation to the publication of the statement of internal control.

Executive Summary

The Annual Governance Statement (AGS) provides an account of the processes, systems and records which demonstrate assurance for the effectiveness of the framework of governance of the County Council's discharge of its responsibilities. This principally covers the period April 2017 to March 2018, as well as covering the period to July 2018, when the accounts are signed.

Scope of Responsibility

The County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically and efficiently.

The County Council is also responsible for putting in place proper arrangements for the governance of its affairs (including as pension fund administrator), the effective exercise of its functions and the management of risk. The Council has approved and adopted a Constitution, and has a number of internal documents, which set out the corporate governance framework for the Council consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". The Buckinghamshire County Council Constitution is on the BCC website, www.buckscc.gov.uk.

This statement explains how the County Council has complied with the Governance Framework and also meets the requirements of the Accounts and Audit Regulations 2015.

How we demonstrate good governance



The purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. The framework enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of not achieving policies, aims and objectives and can therefore only provide a reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the Council of not meeting its policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically. BCC has the following arrangements in place regarding its key systems and processes which comprise the authority's governance framework:

Policy, Planning and Decision Making

The current (published) Strategic Plan 2017-2020 is focussed on delivery of three themes:

- Safeguarding our Vulnerable
- Creating Opportunities and Building Self Resilience
- Keeping Buckinghamshire Thriving and Attractive

The Strategic Plan provides the focus for the improvements and changes in service delivery that are being made in all areas of the Council. Underpinning the Strategic Plan are four Business Unit Plans which act as action plans, bringing together budget, performance, and project and risk data under several objectives.

<https://www.buckscc.gov.uk/services/council-and-democracy/our-plans/our-strategic-plan/>

Policy and decision making is undertaken via a Leader and Cabinet Structure with Cabinet Member portfolios. All key policies are equality impact assessed. In addition to the Council and Cabinet, there are six standing committees and 19 established Local Area Forums/Local Community Partnerships. The local area forums/local community partnerships have a remit to discuss and propose local issues to the Cabinet through local area planning arrangements and to advise on council expenditure. Members of the public can raise issues of local concern and discuss these with their councillors. Every Committee report is subject to a review by the Director (Legal); the Council's Monitoring Officer; and, the Director of Finance (S151), to ensure that the Council is acting lawfully and that the risk implications of reports requiring a decision have been identified. Cross-organisation joint committees are established where it is appropriate.

The Council has a statutory Regulatory and Audit Committee which oversees the regulatory and governance functions of the Council such as reviewing the work of

the Business Assurance Team (including Internal Audit and Risk Management) and External Audit. This Committee are the custodians of the Council's Constitution and provide independent assurance to the Council on risk management and internal control, and the effectiveness of the arrangements the Council has for these matters. This Committee also provides overview to the financial reporting process. The Committee meets at least quarterly and seeks to strengthen the assurance framework of the Council and also receives quarterly progress reports on internal control and risk management. There is a Risk Management Group which operates under the direction of the Committee, chaired by the Chairman of the Regulatory and Audit Committee and comprises of members of the Committee, the Chief Internal Auditor, S151 Officer and Monitoring Officer. This Group is responsible for monitoring and reviewing the adequacy and effectiveness of the risk management strategy and processes. The Group routinely reports to the Regulatory and Audit Committee.

The Council operates a Code of Conduct. The Regulatory and Audit Committee has the responsibility for ensuring that the Council continues to uphold high standards of behaviour and oversee standards policy and strategy development and member training, while hearings relating to standards complaints will be heard by members of the Appeal and Complaints Committee, that will be formed as required from the group of members on the Regulatory and Audit Committee.

The Council operates a scrutiny function through four Select Committees: Children's Social Care and Learning Select Committee; Transport, Environment and Communities Select Committee; Finance, Performance and Resources Select Committee; and, the Health and Adult Social Care Select Committee.

The Council obtains stakeholder views through a number of different ways, as outlined on the public website, coordinated by Strategy and Policy. Stakeholder views are considered as part of standard reporting that underpins decision-making.

Monitoring of Performance and Compliance

The Council has a duty to ensure that it acts in accordance with the law and various regulations, including European Commission Directives, in the performance of its functions. The Council has developed policies and procedures for its members and staff to ensure that, as far as possible, all understand their responsibilities both to the authority and the public. These procedures and policies are laid down in the Constitution, Standing Orders, Financial Regulations, Local Management in Schools Handbook and service procedure documentation.

The Council has adopted Codes of Conduct for its Members and staff and provides training in these areas as part of induction programmes. The Council's Monitoring Officer is responsible for monitoring and reporting on significant breaches of the Member code to the Regulatory and Audit Committee. Member training events are frequently held and attendance is recorded. The Council's Anti-Fraud and Corruption Framework (which includes whistle blowing) applies to all stakeholders, and is reviewed annually by the Regulatory and Audit Committee.

A joint finance and performance monitoring report is discussed quarterly at Cabinet and monthly by the Corporate Management Team Budget Board. This also includes the key financial risks identified by the Finance Directors within each of the Business Units

The CMT have executive responsibilities for overview in ensuring that services are delivered in accordance with Council policy and procedures.

The Council has a duty to manage its risks effectively. This is achieved through various mechanisms. The key corporate risks are reviewed on a quarterly basis by the CMT. The Risk Management Group considers significant service, contract and project risks to the authority, and reviews the consistency with which the risk management process is being applied across the Council. The Chief Executive, via the Director for Finance and the Chief Auditor, is responsible for Officer and Member awareness and providing guidance and training to enhance understanding of how to implement risk management in accordance with responsibility.

The Business Assurance Team includes the Internal Audit Service, and provides assurance to the Council and the Director of Finance (S151 Officer) as to the adequacy of the Council's financial and operational systems.

The Internal Audit Annual Report was presented to the Regulatory and Audit Committee on 25 July 2018. The Chief Auditor concluded providing reasonable assurance on the system of internal control has been unqualified for 2017/18.

There were four "limited assurance" reports issued by Internal Audit during the year, concluding that there were not the necessary controls in place to give assurance that the system's objectives will be met:

- Carrington Junior School
- Downley School
- Hannah Ball School (Follow Up)
- Highworth Combined School and Nursery

Actions plans are in place to address the issues raised by the audits.

Financial Management of the Council

The Council has a statutory responsibility under the Accounts and Audit Regulations 2015 for ensuring that the financial management arrangements are adequate and effective and that there is a sound system of internal control that facilitates the effective exercise of the Council's functions. The Director of Finance has the statutory responsibility under Section 151 of the Local Government Act 1972 for the proper administration of the Council's financial affairs and specifically to:

- Maintain accounts and financial records to meet the requirements of Statutes, Regulations, Accounting Conventions and Codes of Practice.
- Be responsible for maintaining an independent audit function to carry out an examination of accounting, financial and other operations of the Council.
- Put in place financial standards across the Council to deliver a framework for financial control, provide accurate, timely and consistent monitoring information and sound advice on financial decisions to be made by officers and members.

In 2010 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Statement on the “Role of the Chief Financial Officer in Local Government”. This outlines the principles that define the core activities and behaviours that belong to the role of Chief Financial Officer and the governance requirements needed to support them. The Director of Finance undertakes the role of the Chief Finance Officer, conforming with the governance requirements of the CIPFA statement as outlined below:

- The Director of Finance is a member of the Corporate Management Team, helping it to develop and implement strategy and to resource and deliver the County Council’s strategic objectives.
- The Director of Finance is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and aligned with the Medium Term Financial Strategy.
- The Director of Finance leads the promotion and delivery by the County Council of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- The Director of Finance leads and directs a finance function that is adequately resourced to be fit for purpose.
- The Director of Finance is professionally qualified and suitably experienced.

The Council currently has a four year medium term financial strategy, under which it plans its finances. This is considered by the Cabinet and CMT and approved by the Council. The Council sets annual revenue and capital budgets that are reviewed by the Finance, Performance and Resources Select Committee. Budgets are monitored throughout the year.

The Council has a set of Financial Regulations and Standing Orders which form part of the Constitution. Executive Directors are required to maintain systems and processes within their Business Unit ensure they keep accurate financial records, comply with the financial control framework and take timely actions to keep spend within budget. There is a Finance Director within each Business Unit with responsibility for ensuring that financial management and financial control is operating effectively.

Under the management structures within each Business Unit, accountable to the Executive Directors, Service Managers have considerable responsibility with respect to finance. These responsibilities include maintaining a proper system of budgetary control, maximising income and ensuring grant claims are submitted on time and ensuring that adequate financial controls are in place. Each service operates a Scheme of Financial Delegation that sets out the type and level of financial delegation given to named officers within the service. The Schemes of Financial Delegation are approved by the Executive Director and by the Director of Finance (S151 Officer).

The Council’s external auditors provide independent scrutiny of the control mechanisms and the accuracy and legitimacy of the Council’s financial transactions. The external auditors also consider the Financial Management arrangements, and provide an opinion on value for money systems.

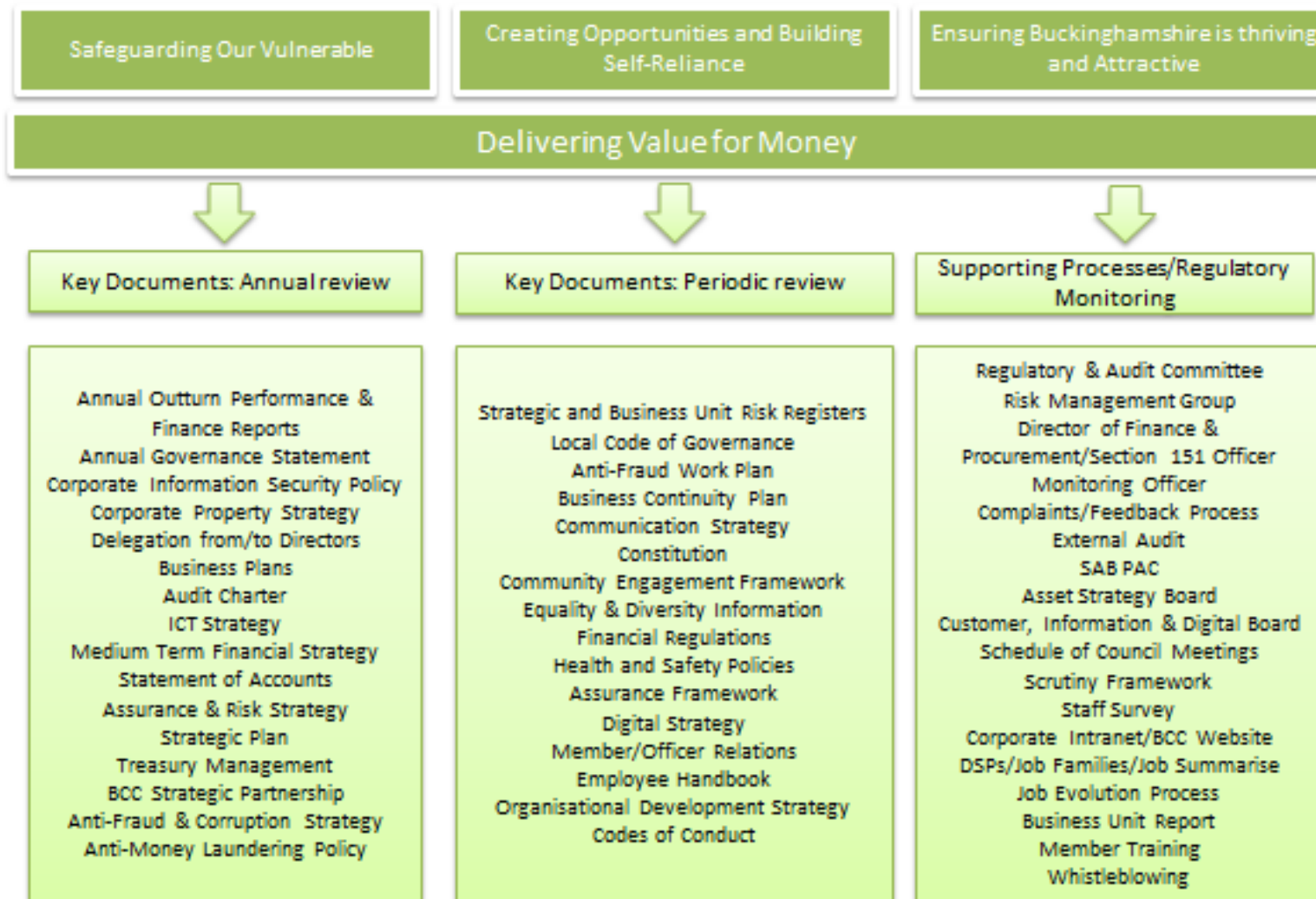
A Scheme of Delegation that sets out the powers delegated to officers, the Financial Regulations and Contract Standing Orders form part of the Constitution.

Economic, Effective and Efficient Use of Resources and Continuous Improvement

Service Managers are responsible for ensuring that they adopt the principles of continuous improvement and value for money. Finance Directors in each Business Unit provide monitoring and scrutiny of the financial management processes. The Procurement Team work with all Business Units to ensure purchasing decisions maximise the economic, effective and efficient use of resources.

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Buckinghamshire County Council Corporate Governance Framework



4. Review of effectiveness

BCC has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The Council's review of effectiveness is an on-going process, using outcomes from many of the procedures described above. All outcomes are considered by the officers responsible for developing the Annual Governance Statement.

The review which has been undertaken for the purposes of this statement has relied upon the work of the Chief Executive, Director of Finance (S151 Officer), the Monitoring Officer, Professional Leads and the Business Assurance Team.

The Council:

- Agrees our annual budget in accordance with the Council Plan priorities;
- Receives the Treasury Management Strategy and an annual report;
- Has agreed the Constitution that sets out the decision making structure, delegated authority and Financial Regulations which underpin the internal control framework.

The Cabinet:

- Monitors performance against the Corporate Objectives;
- Makes key decisions subject to inclusion on the forward plan;
- Considers and reviews budget monitoring reports on a quarterly basis;

The Regulatory and Audit Committee:

- Consider external auditor reports;
- Consider annual and quarterly reports from Internal Audit;
- Review and agree this Statement;
- Review and agree the final accounts;
- Consider issues of key risk identified by the Corporate Risk Register or specifically raised by the Chief Auditor
- Reviews the Treasury Management Strategy and Annual Report

Select Committees:

- Oversees and scrutinises decisions made by the Cabinet.

Pension Fund Committee:

- Oversees all matters relating to the BCC Pension Fund.

Management Teams:

- CMT receive regular reports in relation to assurance (e.g. financial, risk, audit, performance).

Internal Audit and Risk Management (Business Assurance Team):

- Provide objective and independent assurance to the Council on operational and financial controls via delivery of an agreed audit plan;
- Where identified as a result of audit work, significant internal control weaknesses have been reported to Executive Directors and Service Directors at the conclusion of each audit. A quarterly report of significant findings is made to the Regulatory and Audit Committee.

Professional Leads

- Responsible for ensuring policies and procedures are maintained and complied with across the Council, providing an evidence based assurance opinion; and

External Audit and Inspectorates:

- The Director of Finance meets the External Auditors on a monthly basis and any concerns they have regarding the internal control environment are raised. These meetings become more frequent during the closing of the accounts process when any material weaknesses or issues are raised;
- The External Auditor's reports are considered by the Regulatory and Audit Committee.
- The External Auditor, Director of Finance, and the Chief Auditor meet regularly to discuss areas of risk and to agree work plans to ensure good co-ordination of resources.
- The outputs from the various Inspectorates are used by Service Directors where applicable to inform their certificate of assurance self- assessment.

5. Significant governance issues

It should be noted that governance issues facing the organisation are not necessarily always a result of weaknesses within the internal control framework. The following are the key matters arising from the review of 2017/18 including the outcome of the actions set out in last year's AGS. The 2017/18 AGS Action Plan is set out in appendix 1:

Contract Management Framework

Areas of non-compliance with the use of the Contract Management Application (CMA) software were identified towards the end of 2017/18 resulting in a loss of confidence in the routine management reporting established to provide assurance over the performance and effectiveness of contract management arrangements for all major contracts.

The Commissioning and Supplier Management Group (chaired by the Executive Director for Transport, Economy and Environment) has developed an improvement programme to address a number of weaknesses embedded across the organisation relating to commissioning and contract management. This was presented to the Corporate Management Team in May and the Risk Management Group in May, and will be monitored on a regular basis. Actions being implemented to address these weaknesses include:

- Development of the Supplier Relationship Management (SRM) Improvement Plan which will restore confidence in the performance and effectiveness of contract management arrangements for all major contracts.
- Revision of training, skills, development material and user reference points.
- Investigation of technical integration between Management Information systems.
- Adoption of common mandatory information in CMA set up.
- Designated resourcing from each BU to own and deliver against revised management instructions.

Technology Services

The Director of Technology Services left the Council in October 2017, and interim arrangements were put in place for the service which led to a delay implementing the existing ICT Strategy. The new Interim Director of Technology Services joined the Council in May 2018 and following his review of the Strategy the priorities have been revised to reflect recent issues with the stability of the Council's network.

Children's Services

The OFSTED report published in January 2018 rated Children's Services as 'inadequate' overall despite acknowledging a number of improvements since the previous inspection.

The report noted positive improvements in the political leadership, with a stronger focus on the priority of children's services, and through a new Chief Executive, Director of Children's Services (DCS) and complete new leadership team, that BCC had started to make substantial inroads on performance and leadership issues.

In July 2018 the report of the Commissioner for the Department for Education (DfE) concerning the position and future of Children's Services in Buckinghamshire County Council was published. The report notes the continued positive direction of travel and stated that "*clear political commitment backed as it is now is by an exceptionally strong core of senior officer leadership, Chief Executive, DCS and Assistant Director, I can see no valid case for the introduction of an Alternative Delivery Model in Buckinghamshire*".

Despite the improved leadership drive, commitment and capability to pursue the improvement journey without external support, the Council has opted to engage with an Improvement Partner to chair the Improvement Board and provide oversight and challenge throughout the journey.

A detailed Improvement Programme has been developed to respond to the weaknesses identified, and a robust governance structure is in place to monitor and challenge delivery of the programme.

2016/17 AGS Action Plan

Significant progress has been made to address the weaknesses identified in the 2016/17 AGS. The updates are provided in Appendix 2.

Declaration

We have been advised on the implications of the result of the review of effectiveness by the Regulatory and Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Signed
Chief Executive

Signed
Leader of the Council

25 July 2018

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Appendix 1 – 2017/18 AGS ACTION PLAN

Governance Issue	Action to be taken	Responsible Officer	Timescale
Contract Management	Develop and implement improvement programme to deliver the lessons learnt from recent contract failures and alternative delivery vehicle governance issues	Supplier Relationship Manager	March 2019
Technology Services	Production of revised ICT Strategy including timescales for delivering key priorities.	Executive Director of Resources	November 2018
Children's Services	<p>The following required improvements were noted in the July 2018 DfE report and will be embedded within the Improvement Programme:</p> <ul style="list-style-type: none"> • A revised early help offer that links much more closely with social care activity and an improved MASH and includes close attention to the content and understanding internally and externally of thresholds for intervention. • Investing specifically in leadership and management development for the SLT and, as already planned, for team managers. • Embedding a new organisational culture that will support social work practice. • This should include re-balancing a performance and audit framework in order to place an equivalent focus on the content as well as the metrics of case work performance. • To support this there needs to be a systematic approach to engagement with front line managers and practitioners to ensure they take full accountability for their own performance but also have a sense of transparency and ownership for the direction of the improvement work. • Reviewing the role and structure of the child protection conference chairs and Independent Reviewing Officers. • Developing a fully realised transformation plan that will set out a vision for how the service will deliver high quality social work and related services 	Executive Director of Children's Services	Update to be provided November 2018 (specific timescales to be detailed in the Improvement Programme Action Plan)

Appendix 2 – 2016/17 AGS ACTION PLAN

Governance Issue	Action to be taken	Responsible Officer	Timescale for completion	Status
Business Continuity Plans	Business Continuity Plans to be maintained with reasonable assurance over completeness and application, including through the supply chain.	Resilience Manager	March 2018	There is still ongoing work with the supply chain, however progress has been made in some areas.
Embedding the Operating Framework and system of assurance	Review the effectiveness of Operating Framework and update to reflect current structures. Routine reporting to the CMT and the Regulatory and Audit Committee on the three lines of assurance	Director of Finance and Assets/Chief Auditor	Sept 2017 March 2018	The Operating Framework is being replaced by the Local Code of Governance due to be launched September 2018.
Data Quality for the management of cyclical maintenance and inspection of plant and equipment.	Actions identified by the Professional Lead to be implemented and tested to ensure confidence in their application and effectiveness following embedding of new contract arrangements.	Head of Strategic Assets	March 2018	Completed
Contract Management	Develop and implement improvement programme to deliver the lessons learnt from recent contract failures and alternative delivery vehicle governance issues	Commercial Director	March 2018	Carried forward to 18/19 AGS Action Plan

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Regulatory and Audit Committee

Title: Head of Audit Annual Opinion

Date: Wednesday 25 July 2018

Author: Maggie Gibb – Head of Business Assurance (and Chief Auditor)

Contact officer: Maggie Gibb – 01296 387327

Local members affected:

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

This report sets out the Chief Auditors opinion on the Council's system of internal control, based on the internal audits undertaken, and other available assurance mechanisms. The Chief Auditor's conclusion on whether the Council's overall system of internal control facilitates the effective exercise of the Council's functions and provides a reasonable assurance regarding the effective, efficient and economic exercise of the Council's functions has been to be unqualified for 2017/18.

The report summarises the conclusions from all the internal audits completed, including the four audits that have concluded only "limited" assurance.

Recommendation

The Committee is **RECOMMENDED** to note the report.

Supporting information to include the following if a decision is being requested:

Resource implications

None

Legal implications

None



Other implications/issues

None

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

Not relevant

Background Papers

17/18 Business Assurance Strategy
17/18 Business Assurance Strategy Updates

Buckinghamshire County Council

Annual Report of the Chief Internal Auditor 2017/18



Regulatory and Audit Committee

July 2018

1. Introduction

- 1.1 This report outlines the Internal Audit work undertaken by the Business Assurance Team for the year ending 31 March 2018, and seeks to provide an opinion on the adequacy of the control environment detailing the incidence of any significant control failings or weaknesses. The overall report will then feed into the Annual Governance Statement included in the Statement of Accounts.
- 1.2 The Account and Audit Regulations 2015 require the Council to maintain an adequate and effective Internal Audit Service in accordance with proper internal audit practices. The Public Sector Internal Audit Standards (PSIAs) require the Chief Auditor to provide an annual opinion, based upon and limited to the work performed, and on the overall adequacy and effectiveness of the organisation's systems of internal control which consist of a framework of governance, risk management and control.

2. Responsibilities

- 2.1 The PSIAs define internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 2.2 Internal Audit is not responsible for the control system. This responsibility sits with management who are to develop, maintain and ensure compliance against the internal control framework.

3. Basis of Audit Opinion

- 3.1 With effect from 1 April 2013, the Public Sector Internal Audit Standards were introduced as mandatory guidance that constitutes the principles of the fundamental requirements for the professional practice of internal auditing within the public sector.
- 3.2 Our Internal Audit Service operated in accordance with these standards; however during 2017/18 there were areas of non-conformance with those standards:
 - The Chief Auditor had operational management responsibility for the Risk Management function, so is not wholly independent. The risk of conflict of interest is managed through the Risk Management Group who under the direction of the Chairman of the Regulatory and Audit Committee, monitors and reviews the adequacy and effectiveness of the risk management strategy and process; and, where audit activity is undertaken in areas where the Chief Auditor has operational responsibility, reports are sent directly to the Director of Finance and Procurement (S151 Officer) or Monitoring Officer.

- A Quality Assurance and Improvement Programme has been drafted and will be presented to the Audit Board and Regulatory and Audit Committee in Q3 following the completion of the PSIA's compliance assessment being performed by an independent assessor. This assessment has been delayed from 2017/18 to 2018/19 as the original assessment agreed with another authority was cancelled due to capacity issues. In the interim the Business Assurance Team has carried out a review of its processes to ensure continuous improvement within the Internal Audit function, and the outcomes of these reviews will feed into the team's business improvement plan. The self-assessment of 118 standards confirmed general compliance with 111 and partial compliance with six.

3.3 The overall opinion is based on the following:

- The results of all audits undertaken during the year.
- Any follow-up action taken in respect of audits from previous periods.
- Whether or not management actions have been agreed for all material areas of weakness identified.
- The effects of any material changes in the Authority's objectives or activities or risk profile.
- Whether any limitations have been placed on the scope of audit.
- The scope of internal control environment - which comprises the whole network of systems and controls established to manage BCC to ensure that its objectives are met.
- Consideration of third party assurances.

3.4 The Chief Internal Auditor opinion does not imply that Internal Audit has reviewed all risks relating to the organisation. The most that the Internal Audit Service can provide to the Accountable Officers and Regulatory and Audit Committee is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.


4. Chief Internal Auditor Opinion

My opinion on whether the Council's overall system of internal control facilitates the effective exercise of the Council's functions and provides a **reasonable assurance** regarding the effective, efficient and economic exercise of the Council's functions is unqualified for 2017/18.

The system of governance has continued to be strengthened with collaboration and accountable values demonstrated by the Business Units across the council; however, the improved governance, and the enhanced accountability culture has exposed some legacy weaknesses in key systems of control. That includes the contract management framework, where areas of non-compliance and weak processes and procedures have been identified.

There is however no doubt that the Senior Officers in the organisation take governance and internal control very seriously, and the Corporate Management Team reviews all limited assurance audit reports. The development of an assurance framework, with clearly defined three lines of assurance, is not yet fully embedded across the organisation as capacity has been concentrated on developing a tailored risk reporting and escalation framework for each Business Unit to improve the robustness of the Council's risk management, which is critical for an effective assurance framework. The next step is to embed the three lines of assurance approach consistently across all Business Units, although this has already provided some evidence of management and corporate oversight and monitoring which is essential in maintaining good governance.

The unqualified opinion is evidenced by the outcomes of internal audits, including investigations into financial irregularity; the Professional Lead's assurance frameworks; the implementation of audit actions and the robustness of the Risk Management Framework.

	No/ Qualified	Limited	Reasonable	Substantial
Audit Opinion and Direction of Travel				

5. Commentary on My Opinion

5.1 Key areas which have informed the overall **reasonable** conclusion are as follows:

5.2 **Internal Audit:** Based on the work completed by Internal Audit; the systems and processes for governance, risk management and control in relation to business critical areas appear to be in place. Examples of good practices were noted through audit work performed this year; however there are some areas of weakness and non-compliance in the framework of governance, risk management and control which could potentially impact the achievement of the Council's objectives.

In the year ending 31 March 2018, a total of 35 reviews were undertaken by the Business Assurance Team. 25 reviews resulted in an Internal Audit opinion on the effectiveness of the control environment. The remaining ten were "other" assurance type reviews such as grant validations where an opinion was not provided but control weaknesses/management actions may have been raised. The Business Assurance Team saw an increase in demand for ad-hoc assurance reviews which has demonstrated how the team can add value to the organisation through non-standard audit activity. The team also provide the Internal Audit service to Buckinghamshire and Milton Keynes Fire Authority.





The table below provides a summary comparison of the 2017/18 report ratings with those of 2016/17.

Overall Conclusion	2016/17		2017/18	
	No	%	No.	%
Substantial	2	5%	1	3%
Reasonable	24	65%	20	57%
Limited	7	19%	4	11%
N/A Management Letter	4	11%	10	29%
Total	37	100%	35	100%

A benchmarking exercise will be carried out in Q2 and reported to the Corporate Management Team and Regulatory and Audit Committee to provide some comparison of audit opinions to other County Councils.

5.3 In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented in a timely manner. The action tracking system is now embedded as a business management tool, maintained by the Business Assurance Team and reviewed periodically by Business Units and the Corporate Management Team through the Budget Board. The implementation of management actions is tracked by Internal Audit and reported to the Regulatory and Audit Committee. Appendix 2 is a summary of audit actions that are currently in progress.

5.4 **Key Financial Systems:** A review of the Council's financial systems is undertaken to ensure that financial controls are robust and adequately support an effective control environment. Our review of six financial systems identified areas that require improvement, specifically in the operation of key controls in place. Below is a summary table of results of the Key Financial Systems reviewed:

Audit Title	2016/17 Opinion	2017/18 Opinion	Direction of Travel
Payroll	Limited	Reasonable	
Accounts Payable	Limited	Reasonable	
Pensions	Reasonable	Reasonable	
General Ledger	Limited	Reasonable	
Accounts Receivable	Reasonable	Reasonable	
Capital Programme	Reasonable	N/A	
Purchase Cards	Reasonable	Reasonable	

5.5 **Risk Management:** Reporting and monitoring of risk management is fully embedded into the business management process. A new risk management system has been introduced and the implementation of the system required a comprehensive review and refresh of service and corporate risk registers. The refresh and implementation of the new system led by the Business Assurance Team has been an important exercise that has allowed the organisation to better focus on current risks, develop a consistent systematic escalation mechanism which will ensure that key risks are visible to senior management to enable more effective decision making. The adequacy and effectiveness of the risk management system is overseen by the Regulatory and Audit Committee through the Risk Management Group and the Corporate Management Team review the strategic risks regularly.












5.6 **Governance:** The 2017/18 Internal Audit Plan included a review of Corporate Governance carried out by our Internal Audit partners, Mazars. This was a high level assessment of the governance arrangements currently in place over the following key core principles as set out in the CIPFA Delivering Good Governance in Local Government Framework 2016:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring Openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability

A total of 91 standards were assessed under the core principle headings, of which 85 were found to be met and the other six partly met with some minor actions to address.

5.7 The Business Assurance Team, headed by the Chief Auditor has continued to embed the combined assurance model which is an integral part of the Assurance and Risk Strategy, with Internal Audit operating as the third line of assurance. Professional Leads have been identified for each of the key corporate control areas across the Council, however during 2017/18 we experienced a level of churn of senior officers with Professional Lead responsibility which impacted on the effectiveness of this network. This will be reignited for 2018/19. A reasonable level of compliance has been demonstrated across the key control areas but there are some areas for improvement that have been highlighted.

5.8 Below is a summary of the Professional Leads assessments:

Key Control System	2016/17 Opinion	2017/18 Opinion	Direction of Travel (comments)
Asset Management	Limited	Reasonable	
Business Continuity Planning	Limited	Reasonable	
Commissioning/Contract Management	Reasonable	Limited	
Communications	Reasonable	Reasonable	
Decision Making	Reasonable	Reasonable	
Financial Management	Reasonable	Reasonable	
Health and Safety	Limited	Reasonable	
Human Resources	Reasonable	Reasonable	
ICT	Reasonable	Limited	
Project Management	Limited	Reasonable	
Risk Management	Reasonable	Reasonable	

5.9 Contract Management: Contract management is a key control process and ensuring value through commissioned services is fundamental to the achievement of the Council's strategic objectives. The Professional Lead for this area is the Supplier Relationship Manager. This post was filled by a consultant from August 2015 to July 2017, and during this time he developed the Supplier Management Policy and Framework. The post was vacant from July 2017 to March 2018 and was covered by temporary arrangements to oversee the framework. The post is now filled by a suitably skilled and qualified individual to drive the necessary improvements. The Contract Management Application (CMA) and the required management instructions are being reviewed and rationalised to improve the data that is held in the application and its use, these improvements are being implemented as part of the Supplier Relationship Management Improvement Plan, which brings the supplier relationship and contract management activities together based on the National Audit Office best practice framework.

Internal Audit has completed contract audit reviews of Fremantle, Action for Children and NSL. We identified some significant areas of weakness which are being addressed, including the Council's mechanisms for obtaining assurance over performance information presented by the contractor, financial viability, contract governance and risk management. These revised actions form a much more robust management response with nearly one third of key contracts now financially validated.

5.10 Schools: Five school audits were carried out this year, including a follow-up review of the schools S151 Officer Assurance Framework. Whilst the S151 Officer Assurance Framework review confirmed that the key areas of weakness previously identified have been significantly improved, the work carried out at the schools highlighted numerous issues where the systems of internal control are weak and risks are not being managed effectively. Progress is being made to address these weaknesses and Internal Audit will continue to review a sample of schools identified through the risk based annual audit planning process.

5.11 Information Technology: There have been three IT audit reviews during the year; IT Business Continuity and Disaster Recover, Data Security and PCI Compliance. The work performed highlighted a number of significant issues which were known to Council; however additional audit activity is planned in this area which will focus on network and data security.

5.12 **Counter Fraud:** The Business Assurance Team procedures alone cannot guarantee the detection of fraud and corruption, therefore management have responsibility for ensuring that there are adequate controls in place to manage the risk of fraud and corruption. A number of referrals were received during the year of suspected financial irregularity or fraud, and based on the nature of the case we monitored the outcomes or investigated the irregularity. Any control issues identified from the investigation were highlighted to management and action plans agreed to address any weaknesses.

6. Overall Conclusion

6.1 Overall the direction of travel in respect of governance has been positive. The Council, through the leadership of the Corporate Management Team actively promotes a strong culture of accountability, good governance, and has established a robust process for monitoring the implementation of actions. There have been a number of control failures during the year, but the Corporate Management Team has reacted very quickly to put actions in place to mitigate the risks.

Maggie Gibb

Chief Internal Auditor

July 2018

Appendix 1: Summary of Audits Performed Informing the Annual Opinion

Business Unit	Audit Title	Audit Opinion	Number of Audit Actions	Report Status
Resources	Medium Term Financial Planning	Reasonable	3	Final
Resources	IR35 Direct Vendor Compliance Readiness Assurance Review	Assurance Management Letter	10	Management Letter issued
Resources	IT Data Security	Reasonable	5	Final
Resources	IT Business Continuity Management (BCM)	Reasonable	6	Final
Resources	PCI DSS Compliance	Reasonable	4	Final
Resources	Corporate Debt Management	Reasonable	11	Final
Resources	Contract Management Audit – Carter Jonas	In progress	-	Report in 18/19
Resources	Pensions	Reasonable	5	Final
Resources	Key Financial Systems	Reasonable	8	Final
Resources	Health and Safety	Reasonable	6	Final

Resources	Business Continuity Management	Reasonable	3	Final
Resources	Payroll Follow Up	Reasonable	9	Final
ACES	Complaints	Reasonable	4	Final
ACES	Corporate Governance	Assurance Management Letter	3	Final
ACES	Contract Management Audit – Harrow Barnet Public Law (Phase 1)	In progress	-	Report in 18/19
TEE	Transport for Bucks TfB – Street Lantern Replacement Scheme Follow Up	Reasonable	5	Final
TEE	Contract Management Audit – NSL	Reasonable	3	Draft
TEE	Waste Management	Reasonable	6	Final
TEE	LEP Growth Hub Grant 16-17	Grant validated	N/A	Grant validation letter issued
TEE	LEP Local Growth Fund Grant 16-17	Grant validated	N/A	Grant validation letter issued
TEE	Bus Subsidy Grant 16-17	Grant validated	N/A	Grant validation letter issued

TEE	One Transport Project Grant 15-17	Grant validated	N/A	Grant validation letter issued
CS	S151 Schools Assurance Follow Up	Reasonable	6	Final
CS	Elmhurst School Follow Up	Reasonable	5	Final
CS	Hannah Ball Follow Up	Limited	14	Final
CS	Mandeville School Follow Up	Reasonable	12	Final
CS	The Downley School	Limited	21	Final
CS	Families First Grant Phase 1	Grant validated	N/A	Grant validation letter issued
CS	Commissioning Residential Placements Follow Up	Reasonable	8	Final
CS	Highworth Combined School and Nursery (Schools Audit Programme – Contracts and Procurement)	Limited	7	Final
CS	Carrington Junior School (Schools Audit Programme – Contracts and Procurement)	Limited	11	Final
CS	NCTL Grant	Grant validated	N/A	Grant validation letter issued

CS	Contract Management Audit – Action for Children	Reasonable	4	Final
CS	Families First Grant Phase 2	Grant validated	N/A	Grant validation letter issued
CHASC	Client Charging 16-17	Reasonable	4	Final
CHASC	Bucks Care Follow Up	Substantial	0	Final
CHASC	Contract Management Audit - Freemantle	In progress	-	Report in 18/19
CHASC	Direct Payments Follow Up	Reasonable	4	Final

Appendix 2

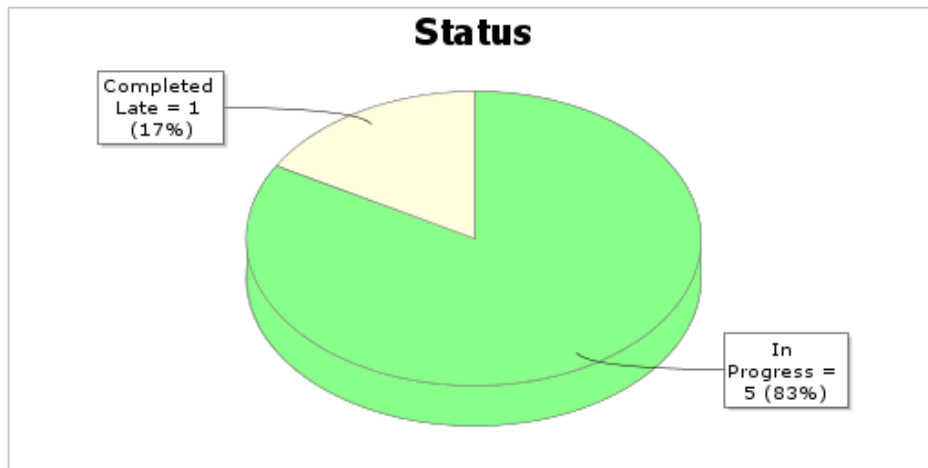
Audit Management Actions

The status of management actions per Business Unit is shown below. This includes management actions raised in previous year as well as current actions.

The new audit action tracker system, Pentana, went live during 2017/18, and action owners now receive automatic notifications to update the system with progress of implementation against each action. Schools do not have access to the system at present, and so the Internal Audit team will follow up the actions during Q2 of 2018/19.

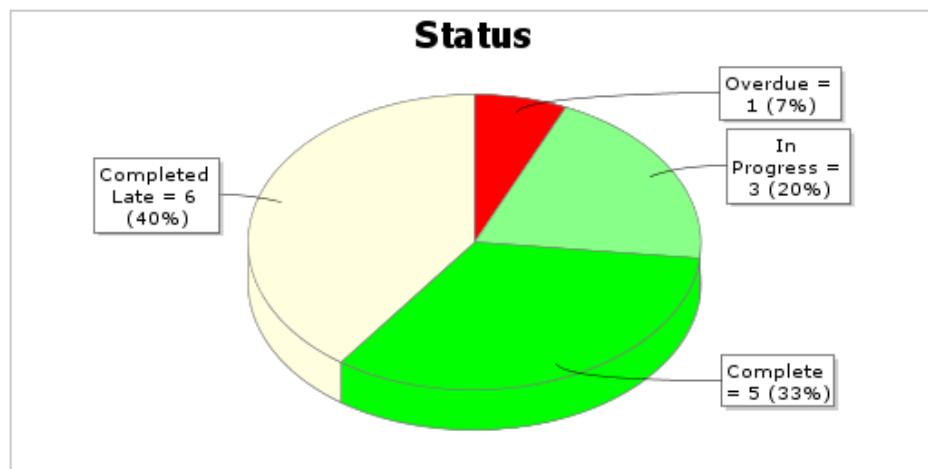
A total of 289 audit actions have been followed up through the Pentana system, of which 149 (52%) have been fully completed, 99 (34%) are in progress and 41 (14%) are overdue (including the schools actions as above). This demonstrates a high level of commitment by the Business Units to implementing the audit actions and we have experienced good engagement and accountability through the follow up process.

ACES



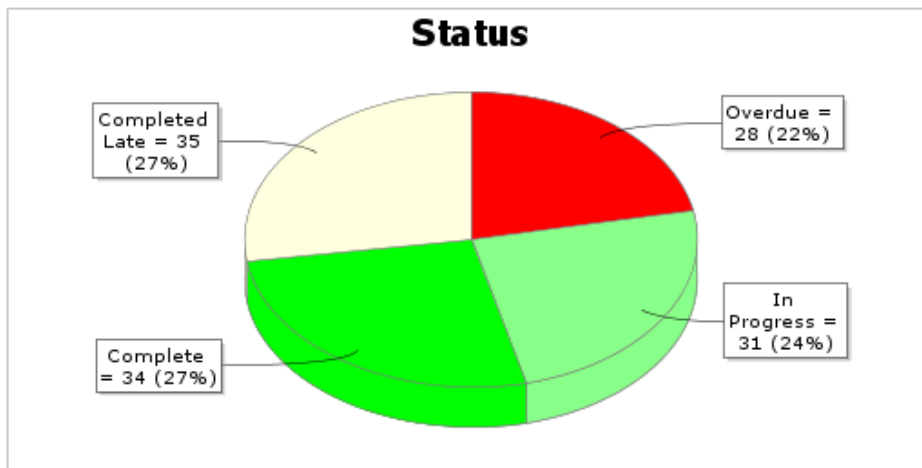
Total Number of Management Actions	Completed	Completed Late	In Progress	Overdue
6	-	1	5	-

CHASC



Total Number of Management Actions	Completed	Completed Late	In Progress	Overdue
15	5	6	3	1

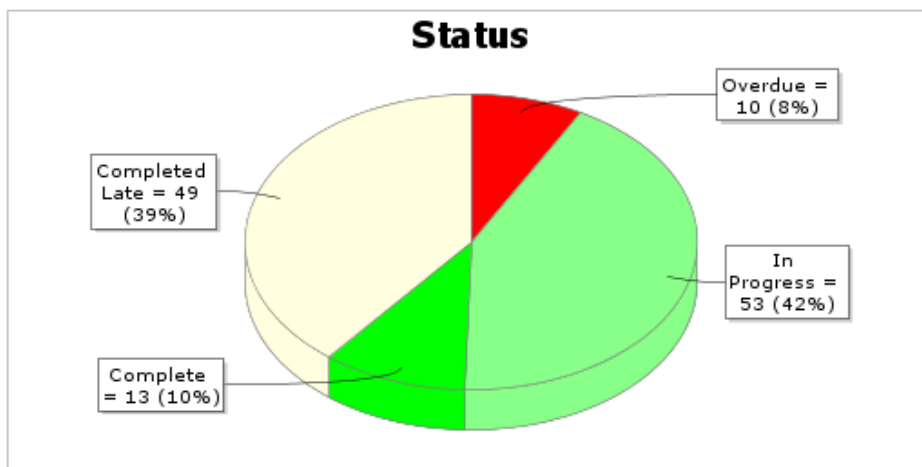
Children's Services



Total Number of Management Actions	Completed	Completed Late	In Progress	Overdue
128	34	35	31	28*

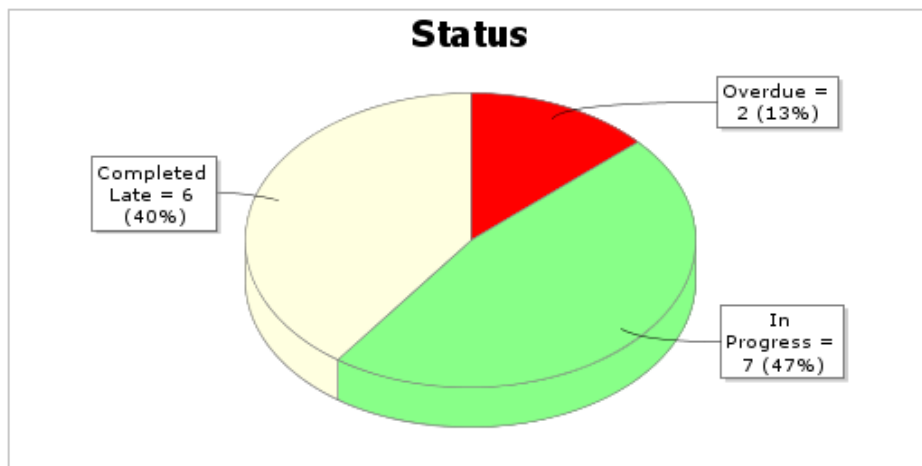
* - the overdue actions relate to school audits and will be followed up in Q2 18/19

Resources



Total Number of Management Actions	Completed	Completed Late	In Progress	Overdue
125	13	49	53	10

TEE



Total Number of Management Actions	Completed	Completed Late	In Progress	Overdue
15	-	6	7	2

Regulatory and Audit Committee

Title: 2018/19 Draft Business Assurance Strategy

Date: Wednesday 25 July 2018

Author: Maggie Gibb – Head of Business Assurance

Contact officer: Maggie Gibb – 01296 387327

Local members affected:

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

This paper details the Business Assurance Strategy, including Internal Audit and Risk Management Plans, the resources available and how we will be delivering our service in 2018/19.

The Business Assurance Team delivers the Council's Risk Management, Assurance and Internal Audit services. The team operates under the Director of Finance and Procurement within the Resources Business Unit.

The Business Assurance Strategy was presented to the Corporate Management Team in March 2018, and the work for Q1 has progressed following their agreement.

Recommendation

The committee are **RECOMMENDED** to **APPROVE** the report.

Supporting information to include the following if a decision is being requested:

Resource implications

Contained within 18/19 budget.

Legal implications

None



Other implications/issues

None

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

Not relevant

Background Papers

BUCKINGHAMSHIRE COUNTY COUNCIL

BUSINESS ASSURANCE STRATEGY

INTERNAL AUDIT AND RISK MANAGEMENT PLAN 2018/19

101

Maggie Gibb
Head of Business Assurance (Chief Internal Auditor)

July 2018

1. Introduction

- 1.1 This paper details the Business Assurance Strategy, including Internal Audit and Risk Management Plans, the resources available and how we will be delivering our service in 2018/19.
- 1.2 The Business Assurance Team delivers the Council's Risk Management, Assurance and Internal Audit services. The team operates under the Director of Finance and Procurement within the Resources Business Unit.
- 1.3 The outline Risk Management, Internal Audit and Assurance work plan for 2018/19 is attached as Appendix 2. The work plan will remain flexible and evolve during the year as the assurance framework continues to mature and to meet the needs of unplanned demands.

2. Internal Audit Strategy

- 2.1 The Accounts and Audit Regulations 2015 (S5) state that the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance; these are defined as the Public Sector Internal Auditing Standards 2017.
- 2.2 The Public Sector Internal Auditing Standards defines "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 2.3 The Chief Internal Auditor is required to provide an annual report on the System of Internal Control which is used to inform the Council's Annual Governance Statement. In providing this opinion, we are required to review annually the financial management, risk management and governance processes operating within the Council. This includes reviewing internal control systems for key processes on a risk basis.
- 2.4 Under its Operating Framework, the Council has adopted a combined assurance model, with Internal Audit operating as the third line of assurance. The first line of assurance is achieved by the management controls and systems, and the second line of assurance from the Professional Leads monitoring the key governance frameworks. The effectiveness and relevance of the Operating Framework has recently been reviewed and will be replaced by a Local Code of Governance from September 2018.
- 2.5 The combined assurance model is an integral part of the Council's Assurance and Risk Strategy. The model will continue to become embedded into the governance reporting process during 2018/19, which will include to the Corporate Management Team and the Regulatory and Audit Committee.

- 2.6 A priority in the first quarter is to complete the audit activity which has been “carried forward” from the 2017/18 Internal Audit Plan due to a number of unplanned investigations and urgent audit activity placing constraints on the Business Assurance Team. The number of days of Internal Audit activity carried forward from 2017/18 is approximately 65 days.
- 2.7 To provide an opinion on the System of Internal Control, the Chief Internal Auditor will use the work undertaken by the Business Assurance Team:
- The Senior Business Assurance Officers focus on the system of risk management, and the performance risks within the key services, including the major contracts and projects. It is also the responsibility of this team to co-ordinate the combined assurance reporting which includes monitoring and reviewing the completeness of the management control, (first line of assurance) and the professional lead statements, (second line of assurance). Quarterly updates and a year-end combined assurance report have been produced for each of the Business Units.
 - The Internal Audit team reviews the key control processes across the organisation, including those supporting critical service areas. The activity focusses on governance, and internal control, including financial management and fraud risk. As the third line of assurance, it is the role of Internal Audit to consider the adequacy and effectiveness of the first two lines of assurance.
- 2.8 The Business Assurance Team will continue to support the Professional Leads and Executive Directors in developing their assurance frameworks, by providing advice and guidance.

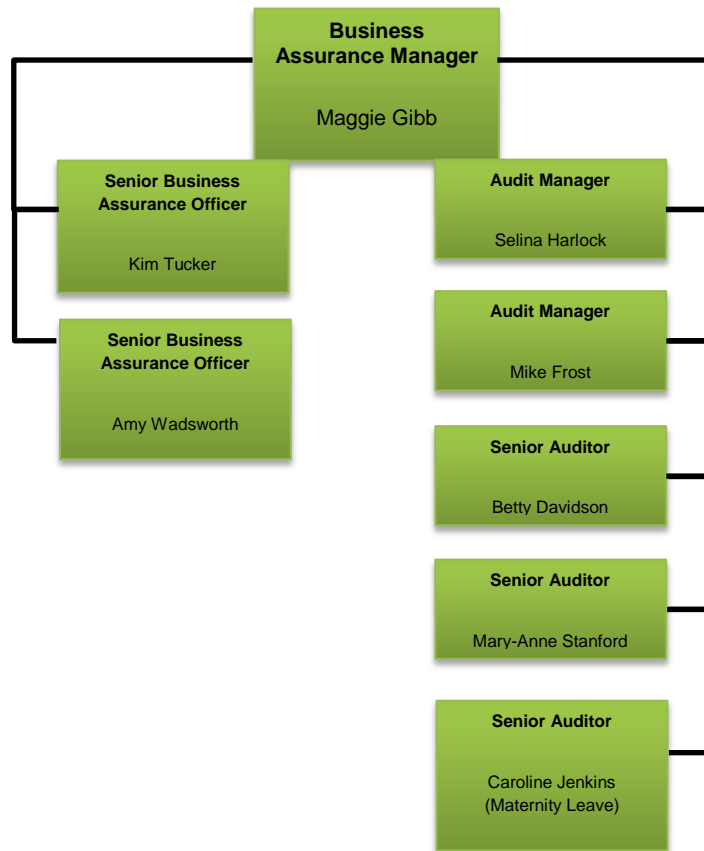
3 Audit Planning Methodology

- 3.1 The Internal Audit and Risk Management Plans are produced with reference to the Strategic and Business Unit Risk Registers. The plan is also informed through discussion with the Senior Leadership Teams for each Business Unit, Finance Directors, Director of Finance and Procurement and the Assistant Chief Executive. Quarterly meetings with the Executive Directors, and the Statutory Officers Group are scheduled to ensure the plan is kept under continuous review.
- 3.2 The plan will also be reviewed quarterly in conjunction with the combined assurance reports and strategic risk register, and presented to the Audit Board and Regulatory and Audit Committee for consideration and comment.
- 3.3 The Audit Plans will continue to be influenced by external organisations and statutory bodies we work with and provide assurance to.
- 3.4 Counter-fraud remains a key responsibility for the Business Assurance Team to lead on, and in 2018/19 this will continue to be focussed on overseeing the investigation of NFI data matches, and responding to referrals of suspected fraud and financial irregularity, as well as a programme of pro-active activity. The audit planning will include a review of the fraud risks with the Finance Directors and contract risks with the Commissioning and Supplier Management Group..
- 3.5 Improving the robustness of contract management across the Council is a priority, and is being driven by the Commissioning and Supplier Management Group. The audit activity in relation to contracts will support this programme of improvement and focus on a sample of major contracts and the overall management control in particular the refresh of the Contract Management Application as a key assurance tool, and the key financial processes including procurement of goods and services and payments to providers.

4. Resources

- 4.1 The Business Assurance Team is currently resourced with a mix of in-house staff and a partnership arrangement with the London Audit Framework. The framework is hosted by the London Borough of Croydon and the audit service is currently provided by Mazars. This arrangement allows for a flexible approach, and enables us to respond swiftly to urgent requests for resource such as for investigations. The framework also enables us to request specialist resource such as IT auditors and contract auditors where the in-house team do not have the appropriate technical skills.

Current Business Assurance Structure:



4.3 The number of days available for the Business Assurance activity can be broken down as follows:

Resource	Available days*
Head of Business Assurance (& Chief Auditor)	200
Internal Audit Managers	330
Senior Auditors	390
Senior Business Assurance Officers	330
Specialist/Outsourced	130
Contingency	100
Total	1480

*including training and development, DSP, team meetings etc

Overall the total planned days on Business Assurance activity is 1090 days, of which 100 days is delivering an Internal Audit service to Buckinghamshire and Milton Keynes Fire Authority.

4.4 A number of contingency days have been set aside for unplanned events / issues that inevitably arise.

5 Performance Monitoring / Reporting

5.1 The proposed Business Assurance performance indicators for 2018/19 are attached as appendix 1 to this report, and will form part of the Resources Business Plan monitoring.

5.2 The Regulatory and Audit Committee will receive a quarterly report, including the next quarters plan for approval, a status update on the approved work plans, and a summary of the outcomes of completed audits.

Appendix 1 – Business Assurance Team Key Performance Indicators

No.	Key Performance Indicator (KPI)	2018/19 Target
1	Draft internal audit reports issued within 15 working days of exit meeting (monthly)	90%
2	Final internal audit reports issued within 10 working days of management responses (monthly)	100%
3	Internal audits completed to the satisfaction of the client (quarterly)	95%
4	Audit actions in the draft internal audit report that are accepted by the client (monthly)	90%
5	Delivery of Internal Audit Plan (annual measure)	95%
6	Delivery of Risk Management plan (annual measure)	95%
7	Corporate Reporting Timelines being met (CMT/RMG/R&A) (monthly)	95%

KPI 1 Is monitored from the date of exit meeting.

KPI 2 is monitored from the date of which the last management response(s) is/are received

KPI 3 Is a Quality assessment of work done by internal audit.

KPI 4 Quality assessment which confirms the relevance and appropriateness of the work done by internal audit through the recommendations made.

KPI 4 Combined measure which requires collaboration to agree the importance of the work of internal audit and how it strengthens the whole control framework of the Council.

KPI 5 Is a performance control which confirms the annual audit plan is completed within year.

KPI 6 as per KPI 5 but for the risk management activity

KPI 7 is monitored through the forward plans/reporting deadlines as set corporately

Appendix 2 - Planned Risk Management and Internal Audit Activity 2018/19

Directorate	Audit	Objective/Risks/Concerns	Qtrs	Planned Days
General Risk/Business Assurance	Business Improvement		N/A	12.0
	Pentana Administration		N/A	12.0
	Reporting to Regulatory and Audit Committee		N/A	12.0
	Reporting to Risk Management Group		N/A	12.0
	Reporting to Corporate Management Team		N/A	12.0
	Reporting Audit Board		N/A	5.0
	Reporting to Business Unit SLT's 1/4ly		N/A	8.0
	Assurance Framework		N/A	50.0
	Compliance with Local Code of Corporate Governance		N/A	20.0
	Corporate Risk Management		N/A	20.0
	BU Specific Risk Management		N/A	80.0
	Contract Risk Training		N/A	10.0
	Corporate Risk Management Training		N/A	20.0
	Annual Governance Statement		N/A	10.0

Corporate	National Fraud Initiative			10.0
Corporate	Counter Fraud			50.0
Corporate	Grant Validation (Over and above what is specified in the plan)			TBC
Corporate	Contract Commissioning	Recent focus has been on the management of contracts once they are live, however there are concerns around the commissioning of the service length of the contract, level of reliance on one provider for a large proportion of the service provision, and the sustainability of the agreed costs.	Q1-4	40.0
Corporate	Savings/Efficiency Targets Rationalisation and Achievement	Lack of robust processes to support the identification and monitoring of savings targets across Business Units leading to unrealistic targets being set resulting in savings not being realised which impacts on the Councils financial pressures.	Q4	20.0

Resources	Feeder Systems	2/3s of transactions are done outside of SAP and we need to understand why SAP is not the primary financial transaction systems and ensure that there are adequate systems of control in place in the feeder system to enable accurate reporting of financial position.	Q1	20.0
Resources	IR35	To ensure that the council is compliant with the IR35 legislation and that the Agency and Direct Vendor sourcing routes are established across the organisation including schools.	Q3	10.0
Resources	Pensions	To ensure that the correct employer and employee contributions are received; retirees are paid the right amount at the right time, and the Pension Fund is managed effectively and in line with legislative requirements. This includes the governance arrangement in place for the Brunel Pool.	Q3	10.0
Resources	Key Financial Systems	To ensure that key risks are being appropriately mitigated to provide a level of assurance that financial transactions are properly authorised, financial records are properly maintained, assets are safeguarded, and that applicable legislation and BCC policies and practices are complied with.	Q3	20.0
Resources	ICT - Delivery of Technology Strategy	To ensure that the Council's digital agenda is being progressed and that there are set tasks in place that enable the realisation and delivery of the objectives set out in the strategy.	Q3	10.0
Resources	Information Governance including application management and Cyber Security	Increased risk in cyber-attacks and change in Service leadership, need to ensure that there are adequate arrangements in place for identification, response and management of threats. To confirm that there are adequate processes and arrangements that will ensure that key applications used by the business units are managed effectively and enable appropriate management and handling of information.	Q2	15.0
Resources	Income Generation	To ensure that there is an effective strategy in place that allows for the identification and maximisation of income generation opportunities.	Q1	12.0

Resources	Property - Governance and Decision Making	Due to the restructure of this function, a review will ensure that there are established decision making and governance arrangements in place that enable effective and efficient management of the property portfolio.	Q4	10.0
Resources	HR - DBS Checks	Recent investigations highlighted concerns regarding the identification of roles that require DBS checks and the level of check that is required based on the responsibilities. There is a risk that BUs are performing incorrect/ inappropriate DBS checks. Concerns about the procedures that are followed when a positive DBS return - risks assessments are not performed and the required approval not sought.	Q2	10.0
Resources	Procurement	Due to the contract breaches reported this year, we need to ensure that there are mechanisms in place that enable proactive identification of contract/ commissioning activities that maybe breaching BCC policies and legislation.	Q4	10.0
ACES	GDPR	To ensure that the Council is compliant with the new legislation. There are mechanisms in place to ensure continued compliance and identification on non-compliance to enable prompt and appropriate rectification.	Q2	10.0
ACES	Consultation Strategy	Concerns have been raised regarding the transparency and adequacy of the call-in process, this includes the information that is made available to decision makers.	Q4	10.0
ACES	HBPL - Contract Management Audit Phase 2	To ensure that the contract is being effectively managed to enable the achievement of the savings identified in the business case, whilst offering a more resilient service offering to the councils.	Q2	15.0
ACES	Partnerships, including Framework Review	To ensure that there are robust governance arrangements to support BCC partnerships, that enables efficient and effective delivery of services/ partnership objectives.	Q4	10.0
ACES	Respond - System audit (go-live April 2018)	New system that will log all complaint, FOI and Data protection requests.	Q4	10.0

TEE	Safer Roads Fund Grant	Grant Verification requiring IA sign off.	Q2	3.0
TEE	LEP Growth Hub (Due 25/5)	Grant Verification requiring IA sign off.	Q1	3.0
TEE	LEP Local Growth Fund (Due 29/07)	Grant Verification requiring IA sign off.	Q2	3.0
TEE	Bus Subsidy Grants Due 30/9)	Grant Verification requiring IA sign off.	Q2	3.0
TEE	TfB Financial Management (Open Book Accounting, including insurance)	TBC	Q2	15.0
TEE	Buckinghamshire Pot Hole Grant Fund (Due 30/9)	Grant Verification requiring IA sign off.	Q2	3.0
TEE	Client Transport Deep Dive Review	TBC	Q2	15.0
TEE	Highway Infrastructure Projects/Growth Strategy	TBC	Q1	15.0
TEE	Ringway Jacobs - Themed Audit	TBC	Q3	15.0

CHASC	Use of Direct Payments	Inadequate, inefficient and/or complicated processes in place for the management and control of Direct Payments which can lead to inappropriate use, overprovision, fewer take ups of DP resulting in additional budget pressures, value for money not being achieved and fewer people being supported to live independently.	Q3	15.0
CHASC	Continuing Health Care (CHC) - Application of Criteria	CHC criteria not correctly or consistently applied and CHC decisions not adequately scrutinised by BCC which could lead to inappropriate funding resulting in additional pressure on the Councils Budget.	Q1	15.0
CHASC	Financial Processes - end to end	Scope being developed with Corporate BII and Audit	Q4	10.0
CHASC	Financial Controls and Forecasting	Inadequate financial processes and forecasting practices can lead to a lack of control over current spend within CHASC resulting in continued overspend by the service and financial pressure on the Councils Budget, impacting on the delivery of its Strategic Plan.	Q2	15.0
CHASC	Debt Recovery	A lack of robust and/or improved debt recovery practices and debt values higher than expected within the service continues to pose a concern regarding the ability to reduce the accumulation of debt by an individual, resulting in additional pressure on the CHASC budget and other areas of the Councils spend.	Q1	15.0
CHASC	ASC Audit Processes	A lack of robust and embedded audit processes across the Service could lead to poor assurance against the quality standards and inability to challenge and improve poor practice resulting in poor CQC ratings, increased complaints and a reputational impact on the Councils Services.	Q2	15.0
CHASC	Medications Policy	Medications Policy is not consistently applied or adhered to by providers, could potentially lead to clients being inappropriately cared or in a lack of safeguarding of vulnerable clients.	Q2	10.0

CSC&L	Children's Services Panel Processes (Children's Care Planning and Resources Panel and Complex Needs Panel)	Wholesale review of the decision making processes, specifically Children's Care Planning and Resources Panel and Complex Needs Panel, that inform placements across education, health and social care. In scope of this review are: the TOR, membership and referral routes for the decision making panels, the funding mechanisms applied and how stringently and transparently they are applied, the evidence of a genuinely needs led approach, congruence with relevant legislation, QA processes etc.	Q3	15.0
CSC&L	Financial Controls and Forecasting	Inadequate financial management and forecasting practices; including poor budget monitoring can lead to a lack of control over current spend within Children's Services resulting in continued overspend and impact on the ability to deliver services and meet our statutory responsibilities safely.	Q2	25.0
CSC&L	LADO	The scope of this audit will include, key risk areas of the Local Authority Designated Officer function, as identified at the audit planning stage:	Q1	15.0
CSC&L	NCTL Grant (Due 26/01/19)	Grant Verification requiring IA sign off. Ashmead Combined & Bedgrove Infant	Q4	8.0
CSC&L	Families First - Claim 1, 2 and 3	Grant Verification requiring IA sign off.	Q2	12.0
CSC&L	School Audits Follow Up	Limited Opinion Reports in 17/18	Q3	20.0
CSC&L	Commissioning Placements Follow Up	Limited Opinion Report in 17/18	Q4	5.0
BMKFA	Audit Plan		Q1-4	100.0
			Total Days	1025.0

Approved Quarter 1 Audit Activity

The table below sets out the audit activity commenced during Quarter 1, as agreed by the Audit Board.

C/Fwd 17/18			
CHASC	Direct Payments Follow Up	Q1	10.0
Resources	Payroll Follow Up	Q1	10.0
ACES	HBPL	Q1	15.0
Resources	Carter Jonas Contract	Q1	10.0
CHASC	Freemantle Contract	Q1	10.0
TEE	NSL Contract	Q1	10.0
			65.0

Rolling List of Audit Activity 2018/19

We have adopted a more fluid approach to the development of our Internal Audit activity which will be continuously reviewed and amended as required. The plan needs to remain flexible to react to emerging issues/risks and meet any urgent demands on the Internal Audit resource, such as investigations or ad-hoc assurance work. Internal audit activity will be subject to review by the Audit Board who has a responsibility to direct and oversee the activities and management of the Internal Audit function and to achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities.

The table below sets out a rolling list (which can be added to) of proposed audit activity which can be drawn upon during 2018/19 to utilise any contingency resources as and when required. This proposed list along with the agreed Annual Plan 2018/19 will be continuously reviewed and subject to changes agreed by the Audit Board and Regulatory and Committee.

Proposed Contingency Audit Activity 2018/19	Audit Priority - High (H) Medium (M) <i>Link to Strategic Risk</i>
CORPORATE/CROSS CUTTING THEMES	
Ethics and Conduct Corporate Risk Management Workforce Planning Business Continuity	M <i>CMT – 01 Governance Failure</i>
RESOURCES	
IT - SAP HR	M <i>CMT – 06 Technology breaches/failure</i>
IT - PMO	M <i>CMT – 06 Technology breaches/failure</i>
IT - Project Governance	M <i>CMT – 06 Technology breaches/failure</i>
IT - Change & Release Management	M <i>CMT – 01 Governance Failure</i>

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