

The Audit Findings for Buckinghamshire Council Pension Fund

Year ended 31 March 2021

September 2021



Contents



Your key Grant Thornton team members are:

Iain Murray

Director

T +44 (0)20 7728 3328

E Iain.G.Murray@uk.gt.com

Sophia Brown

Senior Manager

T +44 (0)20 7728 3179

E Sophia.Y.Brown@uk.gt.com

Omer Awais

Assistant Manager

T +44 (0)20 7184 4605

E Omer.Awais@uk.gt.com

Section

1. Headlines
2. Financial statements
3. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion
- F. Management Letter of Representation

Page

[3]

[4]

[14]

[17]

[18]

[21]

[25]

[26]

[32]

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Buckinghamshire Council Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- 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/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our findings have been summarised in Appendix A to C. Based on the work completed to date, we have not identified any material adjustments to the financial statements that impact the Fund's net asset position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is in progress and presently there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters;

- receipt of management representation letter {- see appendix F};
- review of the Annual Report;
- conclusion of going concern work; and
- review of the final set of financial statements incorporating audit adjustments.

The Pension Fund provided draft accounts on 30 June and a substantial proportion of requested supporting work papers followed the same week. Consequently, at the time of drafting the AFR, there are a number of outstanding queries to be resolved by the finance team:

- Planning queries – We need to review the completed planning queries template before it is presented at the Audit and Governance Committee for ratification.
- Investments - Requested evidence of managements challenge to fund managers for valuations of level 2 and level 3 investments or rationale why that is not necessary for each fund manager.
- Investments – Confirmation of reason required for difference in Partners investor's statement and custodian confirmation.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified and may include an Emphasis of Matter paragraph highlighting asset valuation material uncertainties in relation to private equity and infrastructure investments. However, this is subject to discussion with the management.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report 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 and will be presented to the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 Fund's business and is risk based, and in particular included:

- An evaluation of the Fund's internal controls environment, including its IT systems and controls;
- Controls testing of the Fund's member data systems; and
- Substantive testing of significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you in July 2021.

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, as detailed in [Appendix E]. These outstanding items are detailed on page 3.

2. Financial Statements



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.

Materiality levels remain the same as reported in our audit plan dated July 2021.

We detail in the table our determination of materiality for Buckinghamshire Council Pension Fund.

Pension Fund Amount (£000) Qualitative factors considered

Materiality for the financial statements	29,137	We considered materiality from the perspective of the users of the financial statements. We considered 0.8% was an appropriate rate to apply to the total assets benchmark. The rationale for using this benchmark is that in a pension scheme the financial statements are dominated by the investment portfolio and therefore the financial statements materiality is normally expected to be based upon total assets. Therefore, this is the most appropriate and significant benchmark for the reader of the accounts and it ensures that contributions and benefits payable are scoped in.
Performance materiality	21,853	The Pension Fund does not have a history of significant deficiencies or a large number of misstatements.
Trivial matters	1,457	The threshold above which we are required to report errors or uncertainties to those charged with governance, calculated as 5% of materiality.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

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. The Fund faces external scrutiny of its spending and stewardship of funds, and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.

We have:

- evaluated the design effectiveness of management controls over journals.
- analysed the journals listing and determined the criteria for selecting high risk unusual journals.
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Fraudulent revenue recognition

Under ISA (UK) 240 there is a rebuttable 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.

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; and
- the culture and ethical frameworks of local authorities, including Buckinghamshire Council and Buckinghamshire Council 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 Council Pension Fund.

As communicated in our audit plan, we have rebutted this risk. We have made no changes to this assessment.

Fraudulent expenditure recognition

We have considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition.

We were satisfied that this did not present a significant risk of material misstatement in the 2020/21 accounts as:

- The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong;
- We have not found significant issues, errors or fraud in expenditure recognition in the prior years audits; and
- Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.

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

As communicated in our audit plan, we have rebutted this risk. We have made no changes to this assessment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Level 3 investments

You revalue your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.

By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (**PY: £154m**) and the sensitivity of this estimate to changes in key assumptions.

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.

Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2021.

We therefore identified valuation of Level 3 investments as a significant risk.

Commentary

We have:

- evaluated management's processes for valuing Level 3 investments.
- 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; to ensure that the requirements of the Code are met.
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period.
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert.
- tested revaluations made during the year to see if they had been input correctly into the Fund's asset register.
- where available, reviewed investment manager service auditor reports on the design effectiveness of internal controls.

Our audit work to date has not identified any other issues in respect of the valuation of Level 3 investments. We will provide an update to Audit and Governance Committee when the work is complete.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £167m	<p>The Fund has investments in private equity, infrastructure and property that in total are valued on the balance sheet as at 31 March 2021 at £167m (£154m as at 31 March 2020).</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs.</p> <p>In order to determine the value, management use fund managers to determine valuations using recognised techniques for the particular investment type (private equity, infrastructure and property). The value of these investment has increased by £13m in 2020/21, which is not a significant variance.</p> <p>Management has considered alternative estimates and disclosed an estimation uncertainty in the financial statements disclosing there is a risk that the private equity investments may be under or overstated in the accounts by £34m.</p>	<p>Our assessment of the estimate comprised:</p> <ul style="list-style-type: none"> • evaluating the audit opinion relating to the funds within which the investments are held. • evaluating impact of any material uncertainty disclosed by the fund managers in the Fund accounts. • testing the key assumptions used to determine the estimate. • the appropriateness of the underlying information and techniques used to determine the estimate. • adequacy of disclosure of the estimate in the financial statements. 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Level 2 Investments – £3,410m	<p>The Fund has investments in a range of bonds, pooled investment vehicles and property unit trusts that in total are valued in the net assets statement as at 31 March 2021 at £3,410m (£2,679m as at 31 March 2020).</p> <p>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management use fund managers to determine valuations using recognised pricing techniques (such as for the equities and bonds held within pooled investment vehicles) and where appropriate use qualified external providers (for property unit trusts).</p> <p>The value of the investment has increased by £731m in 2020/21, mainly due to unrealised profits amounting to £581m. The realised profits contributing to the increase in valuation amount to £102m.</p>	<p>Our assessment of the estimate comprised:</p> <ul style="list-style-type: none"> • the controls employed by the fund managers engaged by management to determine the valuation of these investments. • agreeing investment unit prices or valuations to reports from the custodian and fund managers. • the appropriateness of the underlying information and techniques used to determine the estimate. • adequacy of disclosure of the estimate in the financial statements. 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation will be requested from the Fund prior to issuing the audit opinion.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Fund's custodian, fund managers and bank. This permission was granted, and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. At the start of the audit transaction listings contained many contra entries, which ultimately reverse out and do not form part of year end balances. We worked with management to ensure that transactions listings were cleansed before we selected our samples. This caused some delay to audit progress and we have raised a recommendation in Appendix A.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates; the Pension Fund's financial reporting framework; the Pension Fund's system of internal control for identifying events or conditions relevant to going concern; and management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified; and management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	<p>A number of inconsistencies have been identified. These pertain to the following disclosures:</p> <ul style="list-style-type: none"> • Accounting Policies • Critical Judgements • Events after the Reporting Date • Estimation Uncertainty • Key Management Personnel • Accounting Standards that have been issued but not yet adopted • Investment Disclosures (note 11 and 12) • Actuarial Position and Actuarial Present Value of Promised Retirement Benefits Disclosures (note 17 and 18) <p>Though these have been adequately rectified by management, we expect fewer omissions and errors in the notes accompanying the Pension Fund's financial statements. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>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 Fund's Annual Report at the same time as issuing the audit opinion.</p>



3. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

3. Independence and ethics

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. The following audit-related service was identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	7,000	Self-interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £38,000 and in particular relative to Grant Thornton UK LLP's turnover overall. This mitigates the perceived self-interest threat to an acceptable level.

No non-audit services were identified which were charged from the beginning of the financial year.

Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendations for the Fund as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on the recommendation during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p>Transaction listings</p> <p>At the start of the audit transaction listings contained many contra entries, which ultimately reverse out and do not form part of year end balances. We worked with management to ensure that transactions listings were cleansed before we selected our samples. This caused some delay to audit progress.</p> <p>The risk is that if transaction listings are not cleansed, we will select sample items that ultimately need to be replaced as they do not exist at year end and/or our sample sizes are significantly inflated increasing audit input and the demand on management.</p>	<p>Transaction listings provided to audit should be cleansed of significant contra entries.</p> <p>Management response</p> <p>We will complete a review and data cleanse before transaction listings are sent through going forward</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Buckinghamshire Pension Fund's 2019/20 financial statements, which resulted in 5 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Investment Valuation: As part of our testing of investments we reconciled the year end valuations as per the custodian reports with the fund manager statements. In doing so, we discovered that a variance amounting to £10,059k was attributable to the fact that State Street (the Custodian) had used the 31st December valuation data (latest available at the time) to value the 31st of March positions. The client also used the custodian figures in preparation of their accounts.	<p>Response as per prior year AFR: Client confirmed that they will liaise with State Street to discuss if they are able to provide the information needed in a timelier manner.</p> <p>20/21 Update: Majority of the funds are valued at 31.03.2021. For the small amounts that are valued at 31.12.2020, this will not have a material impact on the accounts. The reason for using some data from the 31.12.2020 is due to the timing of the information being provided to us from the fund managers.</p>
✓	Scheme Contributions: The reconciliation of monthly returns for scheme contributions from scheduled and admitted bodies had a total difference of £3,808k We could not obtain a clean reconciliation between the accounts and employer contribution records; the total difference was £3,808k. Auditor sought an explanation for this variance; however this could not be provided by the client at a macro level. Auditor thus performed an employer-by-employer reconciliation to determine why this difference occurred and reconciled this down to a trivial difference of £11k. There were also several insignificant differences noted in relation to several other employers. Whilst the accuracy and completeness of the reconciliation has been improved since this issue was first identified, we consider that there remains a need to improve further these aspects of the reconciliation.	<p>Response as per prior year AFR: We are in the process of improving the reconciliation. Including monthly reports to Management.</p> <p>2020/21 update: The reconciliation process has been improved further this year, with officers fully reconciling returns to SAP on quarterly basis by employer.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

We identified the following issues in the audit of Buckinghamshire Pension Fund's 2019/20 financial statements, which resulted in 5 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Investments - Challenge to assumptions: We made inquiries regarding the assumptions that are used by the fund managers for valuations of level 2 and level 3 investments and concluded that client does not challenge them. Furthermore, management failed to demonstrate any challenge to the classification methodology for the different hierarchy of investments.</p>	<p>Response as per prior year AFR: We will ensure to review and challenge the fund managers and custodians where we can.</p> <p>2020/21 update: Where appropriate we have challenged the assumptions of custodian. This is documented in our audit</p>
✓	<p>Management challenge of actuary: During our review of the actuarial PV of Promised Retirement Benefits, as required, we sought to obtain management's review and challenge of the actuary's estimate.</p> <p>There was no evidence of management's formal challenge to the actuary's estimate.</p> <p>Management are responsible for the judgements within the financial statements. They are required to retain evidence of their challenge and correspondences with the experts while making their judgments and decisions regarding accounting estimates.</p>	<p>Response as per prior year AFR: We will ensure to review and challenge the Actuary where we can.</p> <p>2020/21 update: Where appropriate we have challenged the assumptions of Barnett Waddingham</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

We identified the following issues in the audit of Buckinghamshire Pension Fund's 2019/20 financial statements, which resulted in 5 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>IAS 19: Digital filing System: As part of our IAS 19 testing, we noted several instances of version control issues. Multiple email exchanges between the Pension Fund and the employers for confirmation of data to be sent to the actuary, were initially sent as final evidence to our audit team.</p> <p>It proved extremely cumbersome to obtain the final source data from employers which agreed to that sent to the actuary. An appropriate system of version control regarding source data is needed.</p> <p>This will ensure that the audit is more efficient, and less time is spent going through several emails which are not supporting the source data sent to the actuary.</p>	<p>Response as per prior year AFR: We will ensure we keep the final versions of all data submitted to the actuary by the individual employers</p> <p>2020/21 update:</p> <p>We have created a sperate file in our audit papers which includes a folder per employer. Within this folder is the final data submission</p>
✓	<p>IAS 19: Milton Keynes Council: As part of our IAS 19 testing, we noted that Milton Keynes Council, did not respond to efforts by the Pension Fund to obtain their data to be sent to the actuary.</p> <p>Similarly, it was also noted that up to August 2020, the March 2020 employer return was not submitted despite several attempts to obtain this information.</p> <p>Consideration should be given by management to identify ways in which data can be obtained from Milton Keynes Council ahead of year end closedown and audit.</p>	<p>Response as per prior year AFR: We have been liaising with MK ongoing and have now obtained the data required</p> <p>2020/21 update:</p> <p>We continue to work with all our employers in order to obtain the data we require in order to be able to prepare our accounts</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. 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	Auditor recommendations	Adjusted?
Critical Judgements	<p>We noted that within critical judgements in applying accounting policies, the disclosure in relation 'pension fund liability' is an estimation uncertainty rather than critical judgement and should not be included.</p> <p>Management response Agreed to changes. To be reflected in revised financial statements.</p>	✓
Material Uncertainty	<p>We noted that the Pension Fund had disclosed a material uncertainty in their draft accounts pertaining to the valuation of level 3 investments. Since none of the fund managers had disclosed the same in their financial statements, it is not appropriate for the Pension Fund to have a material uncertainty disclosure.</p> <p>Management response Agreed to changes. To be reflected in updated draft accounts.</p>	✓
Other Formatting Issues	<p>We noted that there were a number of minor formatting issues in the notes to the Pension Fund financial statements section. These comprise of the adjustments communicated to the client via A1a along with other minor issues discussed and agreed directly by the audit team.</p> <p>Management response Agreed to changes. To be reflected in updated draft accounts.</p>	✓

C. 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	Auditor recommendations	Adjusted?
Notes 17 and 18	We noted financial assumption percentages were misstated in Note 17, and CPI and RPI percentages were misstated in Note 18. Management response Agreed to changes. To be reflected in revised financial statements.	✓
Accounting Policies – Financial Instruments Note 12	Financial instruments policy did not reflect IFRS 9. For example, assets and liabilities are classified under different models in IFRS 9; the term Loans and Receivables is no longer applicable, it should be 'Assets at amortised cost'. Also the definition is different to that of held at amortised cost under IFRS 9, therefore should be updated in line with CIPFA Code. Note 12 categories are also not in line with IFRS 9. Management response Agreed to changes. To be reflected in revised financial statements.	✓
Accounting Standards that have been issued but not yet adopted.	Accounting Standards that have been issued but not yet adopted should disclose the expected impact on the accounts. We asked management to add the following narrative to this disclosure in the revised financial statements; 'None of the Accounting Standards that have been issued but not yet adopted will have a significant impact the financial statements.' Management response Agreed to changes. To be reflected in revised financial statements.	✓

C. 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	Auditor recommendations	Adjusted?
Key Management Personnel disclosures	Key management personnel disclosures in the draft accounts, required per Code 3.9.4.2, referred to disclosures within the Buckinghamshire Council financial statements. The required disclosures must be made in full within the Fund's financial statements as they are a standalone Statement of Accounts. Management response Agreed to changes. To be reflected in revised financial statements.	✓

C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	2019-20 Pension Fund Account £'000	2019-20 Net Asset Statement £' 000	2019-20 Impact on total net assets £'000	Reason for not adjusting
As part of our testing of investments we reconciled the 2019-20 valuations as per the custodian reports with the fund manager statements. In doing so, we discovered that a variance amounting to £10,059k was attributable to the fact that the fund managers (Partners Group and Pantheon) data was lagged so the Custodian (State Street) had used the 31 December valuation data (latest available at the time) to value the 31 March positions. Management used the Custodian's figures in preparation of the financial statements. The use of Custodian figures for accounts preparation introduces the potential overstatement of the investments in question as they are valued as at 31 December 2019 whereas the fund manager statements include the more up-to-date figures.	10,059	(10,059)	(10,059)	The overstatement of investment was below materiality and hence it was not adjusted in the accounts.
Overall impact	£10,059	(£10,059)	(£10,059)	

D. Fees

We confirm below our final fees charged for the audit and that there are no fees relating to the provision of non-audit services

Audit fees	Proposed fee	Final fee
Buckinghamshire Council Pension Fund Audit	£38,000	£38,000
Provision of IAS 19 Assurances to Scheme Employer auditors	£7,000	£7,000
Total audit fees (excluding VAT)	£45,000	£45,000

E. Audit opinion – Draft

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor’s report to the members of Buckinghamshire Council on the pension fund financial statements of Buckinghamshire Council Pension Fund

Opinion

We have audited the financial statements of Buckinghamshire Council Pension Fund (the ‘Pension Fund’) administered by Buckinghamshire Council (the ‘Authority’) for the year ended 31 March 2021 which comprise the 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund’s assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. 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 Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund’s 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Service Director-Corporate finance’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

E. Audit opinion – Draft

In our evaluation of the Service Director- Corporate finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Service Director- Corporate finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Service Director- Corporate finance with respect to going concern are described in the 'Responsibilities of the Authority, Service Director- Corporate finance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Service Director- Corporate finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's 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's 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's financial statements or our knowledge of the Pension Fund obtained in the audit 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

E. Audit opinion – Draft

Opinion on other matter required by the Code of Audit Practice (2020) 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's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Service Director- Corporate finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], 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 Service Director- Corporate finance. The Service Director- Corporate finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Service Director- Corporate finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Service Director- Corporate finance 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 there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

E. Audit opinion – Draft

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund’s 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 financial statements.

A further description of our responsibilities for the audit of the 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit and Governance Committee, concerning the Authority’s policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund’s financial statements to material misstatement, including how fraud might occur, by evaluating officers’ incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

E. Audit opinion – Draft

- The pressure on management in terms of how they report performance. The Fund faces external scrutiny of its spending and stewardship of funds, and this could potentially place management under undue pressure. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk. Therefore, the journals we selected for testing were identified based on the risk assessment configuration and the weighted risk calculation. For this purpose, we used our judgement to assign a numerical value (score) to each transaction. Transactions which are analysed as being higher risk were assigned a higher score. These higher risk transactions were then tested to identify any potential management bias. We found no instances of management bias as a result of our testing .
 - Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Service Director- Corporate finance has in place to prevent and detect fraud;
 - journal entry testing, with a focus on journals having characteristics which indicate potential management bias;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
 - These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and
 - Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
 - In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework .

E. Audit opinion – Draft

Use of our report

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.

Iain Murray

Iain Murray, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

F. Management Letter of Representation – To Follow

To Follow

To Follow