

The Audit Findings for Shropshire County Pension Fund

Year ended 31 March 2013

September 2013

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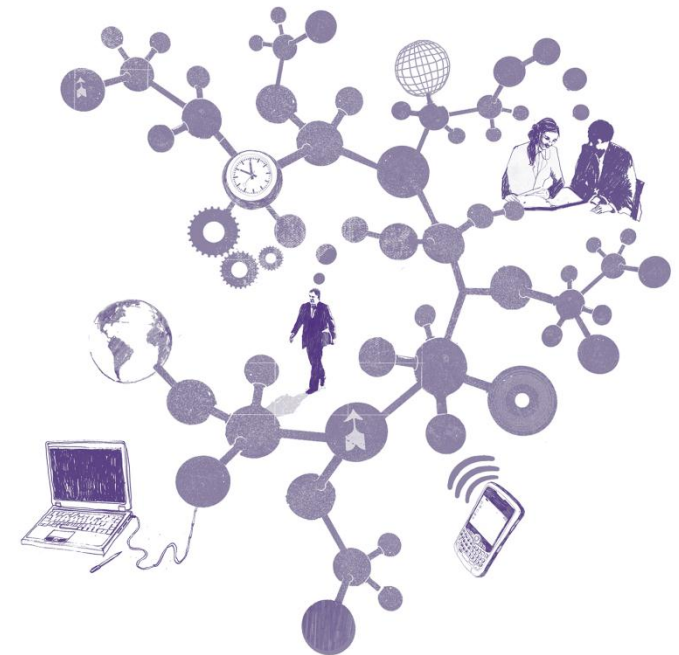
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Shropshire County Pension Fund's (the Fund') financial statements and Annual Report for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in June 2013.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of testing on the investment cycle, primarily in respect of review of the valuations of infrastructure and private equity investments
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- final engagement lead review of the financial statements and work completed.

Key audit and financial reporting issues

Financial statements opinion

As at 9 September 2013, and subject to the completion of the outstanding work described above, we expect to issue an unqualified opinion on the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- The financial statements and associated Annual Report presented for audit were sound.
- The draft and final version of the financial statements recorded net assets carried forward of £1,234.725m. We have not identified any material adjustments affecting the Fund's net assets position.
- We have agreed with officers a number of minor adjustments to the notes to the financial statements.

We have identified one non-trivial adjustment of £0.135m in respect of discrepancies between the values of investments reported by the custodian and fund managers in respect of Global Infrastructure Partners (GIP) and assets managed by Aberdeen. Having given consideration to the matter, officers are not proposing to amend for this in 2012/13. If an amendment were made it would increase both the Fund's reported surplus and net assets by £0.135m.

The Pensions Committee is asked to approve management's proposed treatment and recognition of this and the associated disclosure within the Letter of Representation (further details are on page 11).

Further details of all of the above matters are set out in section 2 of this report.

Acknowledgement

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.

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Pension Committee on 20 September 2013. We also set out the adjustments to the financial statements from our audit work .

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you in June 2013.

Audit opinion

We anticipate that we will provide the Fund with an unqualified opinion. Our draft audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. We did not identify any significant risks other than these.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies, and • testing of material revenue streams. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> • review of the accounting estimates, judgements and decisions made by management • testing of journals entries, and • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	<ul style="list-style-type: none"> • Investments not valid. • Investments activity not valid. • Fair value measurement not correct. • Alternative investments not valid. • Administrative scheme expenses not valid. 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Reviewed the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records. • Tested the value of a sample of individual investments. • Tested the valuations of hard to value investments using our in house valuation team. • Tested a a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers. • Tested a sample of administrative expenses. 	<p>Our audit work has not identified any material issues in relation to the risk identified. However, the Fund's practice is to place reliance upon the custodian's values when constructing the financial statements. We identified two non-trivial issues, in respect of the valuation testing, which result in a net understatement of the fund of £0.135m as detailed below:</p> <ul style="list-style-type: none"> • There is a £1.592m understatement in respect of the Global Infrastructure (GIP) valuation. The custodian, Northern Trust, reported a year end valuation of £6.799m using GIP September 2012 quarter market values as updated when the Fund had specified that the December 2012 quarter market values should be used for this purpose. The GIP statement at 31 March 2013 reported a value of £8.391m. • There is an overstatement of £1.457m in respect of Aberdeen Property as the fund manager devalued (impaired) the securities named CG Mall Europe from £1.457m to nil but the custodian is still reporting them at gross value. The Fund has chosen to include the gross value in the Net Assets Statement. <p>The above items are detailed in the unadjusted misstatements section of this report.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Testing of contributions with employers and used other auditors to test a sample of contributions at an admitted body. • Contributions received have been rationalised to changes in member payrolls and numbers of contributing members. 	Our audit work has not identified any material issues in relation to the risk identified.
Benefit Payments	Benefits improperly computed/claims liability understated.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Testing completed a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds. • Pensions paid have been rationalised to changes in pensioner numbers and increases applied in the year together with a comparison of pensions paid on a monthly basis. • The movements on membership statistics have been compared to transactions in the accounting records. 	Our audit work has not identified any material issues in relation to the risk identified.

Misstatements

We are required to report to you any non-trivial unadjusted misstatements or material adjustments of such a size and nature that, in our view, we need to bring to your attention to help you discharge your responsibilities as those charged with governance. We are pleased to report that there are no material misstatements we wish to bring to your attention.

There is one non-trivial misstatement that was identified during the audit which has not been adjusted for within the final set of financial statements. This is recorded in the table below. The Pension Committee is required to approve management's proposed treatment and recognition of this and the associated disclosure within the Letter of Representation. table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements.

Detail	Pension Fund Revenue account £'000	Net asset statement £'000	Reason for not adjusting
1 DR Pooled Investment Vehicles – other managed funds		£1.592m	Having given consideration to the matter, officers are not proposing to amend for this in 2012/13 as the sums are considered to be immaterial to the results of the Fund and its financial position at the year-end.
CR Profit and losses on disposal of investments and changes in value of investments	(£1.592m)		
2 DR Profit and losses on disposal of investments and changes in value of investments	£1.457m		As above.
CR Pooled Investment Vehicles – other managed funds		(£1.457m)	
Overall impact	(£0.135m)	£0.135m	




Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Investment income £26.368m	Amendment required to note 7 - Investment income relating to interest on cash deposits where the figure of £0.031m was incorrectly reported as £0.31m, hence the other investment income was amended from £11.636m to £11.915m.
2 Disclosure	n/a	Reconciliation of movements in investments and derivatives (prior year) £1,083.953m	Amendment required to note 11 Reconciliation of movements in investments & derivatives - prior year comparative should be provided as per page 20 of the CIPFA Local Government Pension Scheme Fund Accounts 2012/2013 - example accounts and disclosure checklist.
3 Disclosure	n/a	Investment disclosures	<p>A requirement for additional disclosures were identified to ensure compliance with the CIPFA Local Government Pension Scheme Fund Accounts 2012/2013 - example accounts and disclosure checklist.:</p> <ul style="list-style-type: none"> • an analysis of investment assets between 'UK' & 'overseas' and between 'quoted' and 'unquoted' (page 21 of the checklist); • a note to state Net gains & losses on financial instruments (page 28 of the checklist), and • a note to summarise the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values (page 28 of the checklist).

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Fund has adopted an appropriate revenue recognition policy that is relevant to its accounting framework. Revenue contributions are made by direct salary deductions and direct bank transfers from admitted bodies and are supported by separately submitted schedules and are directly attributable to gross pay making any improper recognition unlikely. Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. 	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. The policies are considered appropriate under the accounting framework.	 (Green)
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> pension fund valuations and settlements investment valuation 	The Fund places reliance upon the independent custodian for valuations reported within the financial statements. We have noted weaknesses in the operation of these arrangements this year as reported in the audit findings against other risks section under Investments. There are no other issues which we wish to bring to your attention.	 (Amber)
Other accounting policies	The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting.	We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and there are no issues which we wish to bring to your attention.	 (Green)

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

There are no issues arising which we are required to report to the Pension Committee..

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance. Recommendations, together with management responses are attached at appendix A.

	Issue	Commentary
1.	Matters in relation to fraud	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.
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	A standard letter of representation has been requested from the Fund. This includes a reference to item that officers are not proposing to amend in 2012/13 on the basis that it is not material.
4.	Disclosures	Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	Note 27 of the financial statements details the related party transactions of the Fund. The note provides information of the key management positions, but does not disclose individuals' remuneration and employer pension contributions. However, the details in respect of the Head of Finance, Governance and Assurance are provided within the Shropshire Council financial statements. Pension Fund financial statements must be capable of standing alone from the local authority financial statements and our view is that appropriate disclosures should be made within the pension fund accounts in line with section 3.4 of the Code of Practice.
6.	Going concern	Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

01. Executive summary

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Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Fund audit	23,425	23,425
Total audit fees	23,425	23,425

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Pension Committee is required to approve management's proposed treatment of all unadjusted misstatements.	High	Having given consideration to the matter, officers are not proposing to amend for this in 2012/13 as the sums are considered to be immaterial to the results of the Fund and its financial position at the year-end.	20 September 2013 – Pensions Committee
2	Note 27 of the financial statements details the Related Party Transactions of the Fund. The note provides information of the key management positions, but does not disclose individuals' remuneration and employer pension contributions. The details in respect of the Head of Finance, Governance and Assurance are provided within the Shropshire Council financial statements. Pension Fund financial statements must be capable of standing alone from the local authority financial statements. Our view is that appropriate disclosures should be made within the pension fund accounts in line with section 3.4 of the Code of Practice.	Low	The Pension Fund Accounts have been prepared in accordance with CIPFA's LGPS Fund Accounts 2012/13, paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. The disclosures required by Regulation 7(2) – (4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Shropshire Council.	March 2014 - Head of Finance, Governance and Assurance

Appendix B: Audit opinions – Shropshire Council Financial Statements

We anticipate that we will provide the Fund with an unqualified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Shropshire Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance, Governance and Assurance & Scheme Administrator and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance, Governance & Assurance & Scheme Administrator is responsible for the preparation of the Authority's 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance & Assurance & Scheme Administrator; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

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September 2013



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Appendix B: Audit opinions – Pension Fund Annual Report

We anticipate that we will provide the Fund with an unqualified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNTY PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Shropshire Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance, Governance and Assurance & Scheme Administrator and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance, Governance & Assurance & Scheme Administrator is responsible for the preparation of the Authority's 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance & Assurance & Scheme Administrator; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the pension fund annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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September 2013