



The Audit Plan for Shropshire County Pension Fund

Year ended 31 March 2013

June 2013

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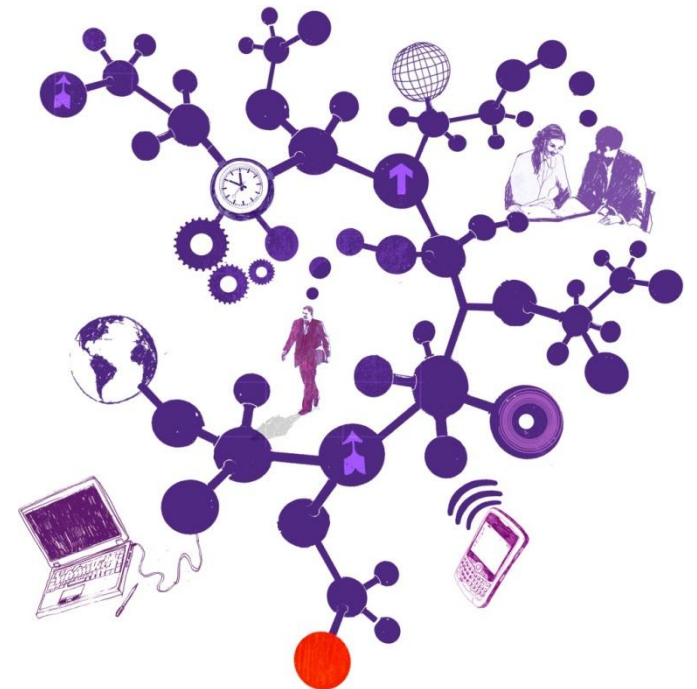
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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Hard to value investments

- The Fund has In 2012/13, invested in infrastructure assets with Global Infrastructure Partners. This represent a 3% allocation of the fund value, increasing its holding in private equity and hedge fund investments to 16% of the fund value.

2. Fund Managers

- Members have determined that a restructuring of fund managers and holdings will be made in 2013/14. Subsequently, there may be some impact on the cash position as sums are received post 31 March 2013.

3. Accuracy of data submitted to Actuary

- The Fund performs a review of annual data of admitted bodies prior to submission to the Actuary. An additional review is to compare the year end outturn data with the data provided by the Actuary to check for significant differences at individual admitted body level.

Our response

We will:

- review and place reliance on reports from the auditors of the fund managers responsible for unlisted investments. (These reports confirm the effectiveness of internal control arrangements for the fund managers).
- agree the value of material investments to fund managers and custodian reports, supported by use of our in house valuations team to inform our view on the reasonableness of the valuations.
- review how management has ensured the valuations for the unlisted investments were prepared in a suitable way.
- review the valuations in accordance with the requirements of the accounting standard IAS 39 (Financial Instruments: Recognition & Measurement).

- We will review the controls and transfers in respect of valuations post 31 March 2013 to ensure transactions are correctly disclosed within the financial statements.

We will review the Actuarial valuations and review:

- the Fund's arrangements to ensure reasonableness of data submitted to the Actuary in respect of admitted body IAS 19 reporting;.
- asset value and membership numbers;
- consistency of treatment of any significant events affecting liability;
- assumptions used in determining valuations;
- funding position information for consistency with other actuarial statements / reports; and
- consider whether there are any material / exceptional events affecting the scheme / valuation.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

- CIPFA publication of a revised set of example accounts for pension funds in 2013.

2. LGPS 2014

- Planning for the impact of the implementation of career average re-valued earnings scheme (CARE) from 1 April 2014.

3. Financial Pressures – scheduled and admitted bodies

- Managing pensions administration where contributing bodies are offering early retirement and redundancies placing additional workload on the pension fund in dealing with severance arrangements.

4. Financial Pressures – Pension fund

- Pension funds are increasingly requiring to withdraw from assets to fund the demand on benefits payable that are not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

5. Triennial valuation

- Demands on pension funds' time in terms of administrating the information to pass to the actuary and regular dialogue with the actuary.

Our response

- We will ensure that the Pension Fund complies with the requirements of the CIPFA Code of Practice through our substantive testing

- We will discuss the impact of the changes with the Pension Fund through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

- We will monitor the changes being made to the pension fund investment strategy through our regular discussions with senior management and those charged with governance.
- We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

Our audit approach

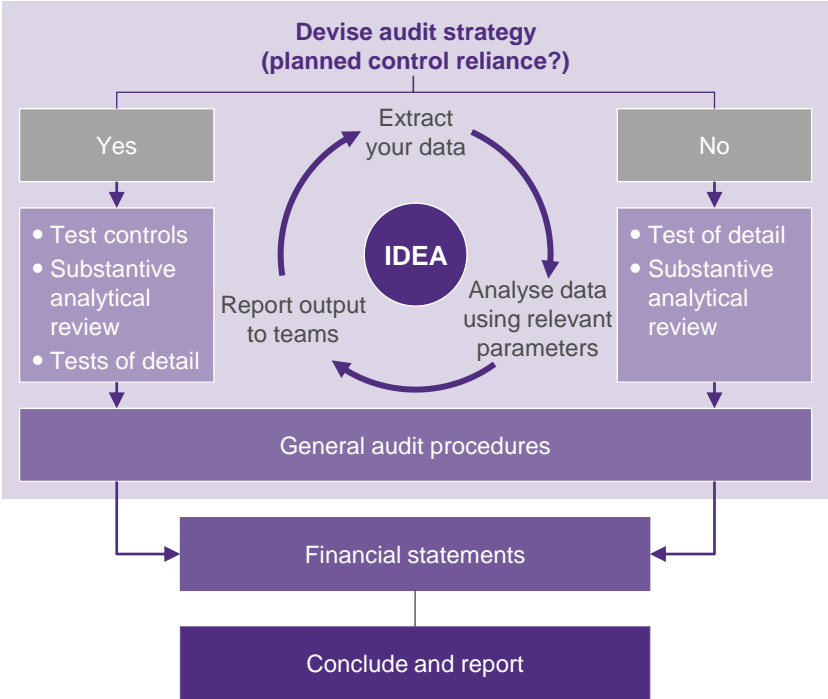
Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- * Understanding the environment and the entity
- * Understanding the business
- * Understanding management's focus
- * Evaluating the year's results

Inherent risks
 Significant risks
 Other risks
 Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software



Note:
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned control reliance?	Substantive testing?
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct	No	✓
Transfers in	Yes	Transfers in to the scheme	Low	None		No	✓ If material
Pensions payable	Yes	Benefit payments	Medium	Other	Benefits improperly computed/claims liability understated	No	✓
Payments to and on account of leavers	Yes	Benefit payments	Medium	Other	Member data not correct,	No	✓ If material
Administrative expenses	Yes	Administrative expenses	Medium	Other	Scheme expenses not valid	No	✓ If material
Investment income	Yes	Investments	Low	None	Investment activity not valid	No	✓

An audit focused on risks (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Profit and loss on disposal of investments and changes in value of investments	Yes	Investments	Medium	Other	Investment activity not valid	No	✓
Taxes on income	No	Investments	Low	None		No	×
Investment management expenses	Yes	Investments	Low	None		No	✓
Investments	Yes	Investments	Medium	Other	Investments not valid Fair value measurement not correct, Alternative investments not valid	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	None		No	✓ If material
Current liabilities	No	Benefit payments, investments	Low	None		No	✓ If material

Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Shropshire County Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Shropshire County Pension Fund since:</p> <ul style="list-style-type: none"> • The nature of the pension fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted bodies and are supported by separately sent 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.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investments	Investments not valid Investments activity not valid Fair value measurement not correct Alternative investments not valid Scheme expenses not valid	<p>We will :</p> <ul style="list-style-type: none"> • review the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records and seek explanations for any variances. • select a sample of the individual investments held by the Scheme at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments). The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation. • test valuations for hard to value investments using our own in house valuation team as appropriate. • test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers. • test a sample of administrative expenses to confirm validity
Benefit Payments	Benefits improperly computed/claims liability understated Member data not correct	<ul style="list-style-type: none"> • We will obtain a schedule of contributions received by source and agree to employer contribution reports and use other auditors to test contributions at an admitted body. • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. • The movements on membership statistics will also be compared to transactions in the accounting records.
Contributions	Recorded contributions not correct	<ul style="list-style-type: none"> • We will test the controls the pension fund operates to ensure that it receives all expected contributions from member bodies and use other auditors to test contributions at a sample of admitted bodies. • We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Pension fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Pension Fund.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Pension fund and that we can take assurance from their work in contributing to an effective internal control environment at the Pension fund.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	<p>The main IT systems relating to the Pension Fund are operated by Shropshire Council. As such we will rely on the work carried out by our information systems specialist on the Council's general IT control environment. In addition, a review of pension fund specific IT systems will be conducted . The work will form part of our overall review of the internal control system.</p>	<p>We will report any significant issues arising to the Pension Committee and Those Charged with Governance, once the work has been completed.</p>
Journal entry controls	<p>We have reviewed the Pension fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Pension fund's control environment or financial statements.</p> <p>To date we have not undertaken detailed testing on journal transactions as the work is planned to be completed at the June 2013 visit.</p>	<p>We will report any significant issues arising to the Pension Committee and Those Charged with Governance, once the work has been completed.</p>

Logistics and our team



Date	Activity
January 2013	Planning meeting
March 2013	Interim site work
June 2013	The audit plan presented to the Pensions Committee
24 June 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
19 September 2013	Audit Committee meeting to report our findings
20 September 2013	Pensions Committee meeting to report our findings
30 September 2013	Issue opinion of the financial statement and annual report

Our team

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Fees and independence

Fees

	£
Pension fund audit	23,425

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension fund and its activities have not changed significantly
- The Pension fund will make available management and accounting staff to help us locate information and to provide explanations
- Work performed by other auditors on contributions testing is presently excluded from the fee as any fee increase is subject to Audit Commission approval.

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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan 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 Council and Pension 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 Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their responsibilities.

	Audit plan	Audit findings
Our communication plan		
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 issue 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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