



Date: Thursday, 17 September 2015
Time: 10.30 am
Venue: Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND
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AUDIT COMMITTEE

TO FOLLOW REPORT (S)

14 External Audit: Shropshire County Pension Fund Audit Findings Report 2014/15 (Pages 1 - 30)

The report of the Engagement Lead is to follow.
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The Audit Findings for Shropshire County Pension Fund

Year ended 31 March 2015

15 September 2015

Page 1

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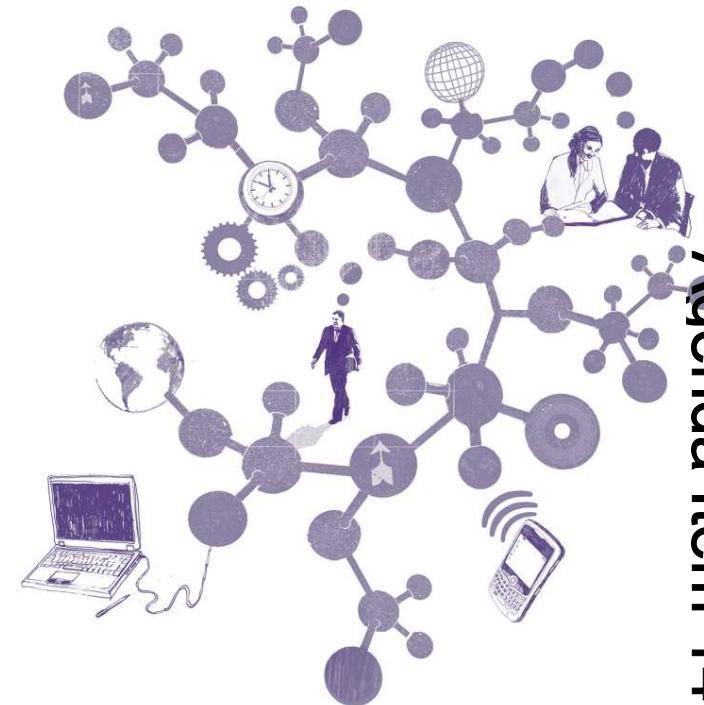
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Agenda Item 14

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15 September 2015

Dear Members of the Pensions Committee

Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance in the case of Shropshire County Pension Fund, the Pensions Committee, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

John Gregory

Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Shropshire County Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 25 February 2015.

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 work in the following areas:

- completion of the final specialist partner review
- review of the final version of the Annual Report
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We cannot formally conclude the audit and issue an audit certificate until we have completed our review of the Final Pension Fund Annual Report. We will review the Annual Report on completion and then issue our separate audit statement on the pension fund annual report together with our audit certificate.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

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

- The draft and final version of the financial statements recorded net assets carried forward of £1,512,730,000. 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 adjustments that net to £0.7m in respect of discrepancies between the values of investments reported by the custodian and fund managers.

Officers are not proposing to amend for this in 2014/15, as the values are not materially different. If an amendment were made it would increase both the Fund's reported surplus and net assets by £0.7m. 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 17).

Controls

Roles and responsibilities

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council as the administering authority.

Findings

Our work has identified one control weaknesses which we wish to highlight for your attention in relation to obtaining audited control reports for all fund managers.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of Treasury & Pensions and the finance team.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Head of Treasury & Pensions and the finance team.

Acknowledgment

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.

Grant Thornton UK LLP
September 2015

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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Pensions Committee on 20 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 25 February 2015.

Audit opinion

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

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

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

We also propose to give an unqualified consistency opinion on the financial statements in the Annual Report as 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 (UK&I) 315). In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members of the Pensions Committee as part of the audit plan.</p>	<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 (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgments and decisions made by management, • completed testing of journal entries, • reviewed 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 significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315). In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 10	<p>3. Level 3 Investments – Valuation is incorrect</p> <p>Level 3 investment are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the cycle with relevant personnel from the team during the interim audit, • performed walkthrough tests of key controls identified for this cycle, • sample tested investments to ensure the valuations are materially correct, by reference to the audited accounts of the holding company, reviewing fund manager reports at that date and completing a reconciliation of those values to the values at 31 March 2015 with reference to known movements in the intervening period, • completed a reconciliation of information provided by the fund managers to the independent custodian report and the Pension Fund's own records, obtaining explanations for variances, • confirmed the existence of investments with the independent custodian and reviewed the nature and basis of estimated values. 	<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 one non-trivial issues in respect of the valuation testing as detailed below:</p> <ul style="list-style-type: none"> • There is a £0.7m misstatement in respect of the HarbourVest valuation. The custodian, Northern Trust, reported a year end valuation of £64.3m using HarbourVest's December 2014 market values to estimate the year end position. HarbourVest's final 31 March 2015 statement provided to us was for a value of £63.6m. <p>The above item is detailed in the unadjusted misstatements section of this report on page 17</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
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have <ul style="list-style-type: none"> updated our understanding of the cycle with relevant personnel from the finance team during the interim audit, performed walkthrough tests of key controls identified for this cycle, completed a reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances where needed, the existence of investments was confirmed directly with independent custodian. 	Our audit work has not identified any significant issues in relation to the risks identified
Contributions	Recorded contributions not correct (Occurrence)	We have <ul style="list-style-type: none"> updated our understanding of the cycle with relevant personnel from the finance team during the interim audit, performed walkthrough tests of key controls identified for this cycle, Considered any internal audit reported in this area completed sample tests of controls over the contributions made to the fund. completed sample tests of contributions to source data to gain assurance over their accuracy and occurrence. rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified




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Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Benefits payable</p>	<p>Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • updated our understanding of the cycle with relevant personnel from the pension team during the interim audit, • performed walkthrough tests of key controls identified for this cycle, • completed controls testing over the completeness, accuracy and occurrence of benefit payments, • Carried out a sample test of individual pensions in payment by reference to member files, • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured, where needed, that any unusual trends are satisfactorily explained. 	<p>Our audit work has not identified any material issues in relation to the risk identified.</p>
<p>Member Data</p>	<p>Member data not correct. (Rights and Obligations)</p>	<p>We have</p> <ul style="list-style-type: none"> • updated our understanding of the cycle with relevant personnel from the pension team during the interim audit, • performed walkthrough tests of key controls identified for this cycle, • reviewed and tested the controls over new enrolments into the pension scheme and over reconciliations in place to validate the accuracy of contributions, • Completed testing of changes in member data made during the year. 	<p>Our audit work has not identified any material issues in relation to the risk identified.</p>

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition Page 19	In summary the main income recognition policies are in relation to: <ul style="list-style-type: none"> interest income which is recognised in the Fund accounts as it accrues, using the effective rate of interest of the financial instrument as at the date of acquisition dividend income is recognised on the date the shares are quoted ex-dividend distributions from pooled funds are recognised at the date of issue changes in the net market value of investments are recognised as income and comprise all realised and unrealised profit or losses during the year. 	<ul style="list-style-type: none"> The revenue recognition policy was reviewed and considered appropriate for your Pension Fund, and the judgements involved were also suitable The disclosure of accounting policies is considered adequate. 	 Green
Judgements and estimates	Key estimates and judgements include: <ul style="list-style-type: none"> investment valuation, particularly the subjective nature of determining the fair value of private equity, and the pension fund liability is calculated every three years by the Fund Actuary. This estimate is subject to significant variances based on changes to the underlying assumptions. 	<ul style="list-style-type: none"> The results from our review and testing of the valuation of investments is covered on pages 10-11 of this report above. The fair value of private equity is based on the judgement of your custodian and is not materially different to the fund manager's view. We have concluded that the valuation in your accounts is based on a reasonable estimate of the available information. The pension liability is based on your actuary's (Mercer) estimate. We have been provided with assurance that Mercer's can be relied upon for the purpose of valuing the liability and have reviewed the assumptions. The Pension Fund has reflected the valuation as given to them by the Actuary in their accounts. The accounts have disclosed the nature of the valuation and the fact that the estimate is subject to significant variances based on changes to the underlying assumptions. 	 Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	<ul style="list-style-type: none"> Our review of accounting policies has confirmed they consistent with the CIPFA code and reporting requirements with the exception of the issues highlighted in the table below "Misclassifications & disclosure changes " (page 19). 	 Amber

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

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Pensions 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.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund. This includes a reference to items that officers are not proposing to amend in 2014/15 on the basis that it is not material and a request that the letter includes an appendix detailing the items not adjusted.
4.	Disclosures	<ul style="list-style-type: none"> Our review noted some omissions which are limited to the issues noted in the table above, "Misclassifications & disclosure changes" on page 19.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> Note 23 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. We have included a recommendation in the Action Plan.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from Majedie, Harris Associates, Legal & General, Majedie Asset Management, Pimco Europe Ltd, MFS, Harbour Vest Partners Ltd, Aberdeen Property Investors, Blackrock, Global Infrastructure Partners, Legal & General, Investec, and Brevan Howard for investment balances and requested from management permission to send confirmation requests to these organisation and NatWest and Handelsbanken for bank and investment balances. This permission was granted and the requests were sent. All of these of these requests were returned with positive confirmation.
7.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.


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Internal controls



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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for investments as set out on pages 8-9 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1. Page 15		We noted that two fund manager organizations, Global infrastructure Partners and Majedie, do not produce independently audited control reports to enable the governance of these funds to be assessed by the Pensions Committee. This is mitigated to some extent by self assessments completed in response to requests by your Pension Team and the reliance we can place on your custodian. However, best practice is for pension funds to require independently audited controls reports from organizations where funds are invested.	<ul style="list-style-type: none"> The Pensions Fund Committee should consider if they wish to alter their investment policy to make the provision of an independently audited controls report part of the decision on where to place investment funds.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

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.

Adjusted misstatements

There have been no amendments made to the to the draft financial statements identified during the audit process that impact on the Fund Account or Net Asset Statement. We are required to report all material misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There are no such matters to report.

Unadjusted misstatements 2014/15

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Pensions Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Fund Account £'000	Net Asset Statement £'000	Reason for not adjusting
1 Investments The custodian, Northern Trust, reported a year end valuation of £64.3m using HarbourVest's December 2014 market values to estimate the year end position. HarbourVest final 31 March 2015 statement provided to us was for a value of £63.6m. Therefore the valuation is overstated by £0.7m	700	700	Having given consideration to the matter, officers are not proposing to amend for this in 2014/15 as the sums are considered to be immaterial to the results of the Fund and its financial position at the year-end.
Overall impact	700	700	

Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	-	Note 23, Related Party Transactions	As in prior years, Note 23 on related party transactions notes that 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. We have included a recommendation in the Action Plan.
Misclassification	-	Note 13b, Analysis of Investments.	The Pooled Funds - additional analysis of £461,9m has been reanalysed to ensure it can be linked to the total of pooled funds of £1,241.9m used in note 13a and 17a. The overall value of the note is unaltered, as the amounts previously included under fixed interest securities are now within The Pooled Funds - additional analysis within Note 13b. No impact on pension fund value as a misclassification disclosure only.

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Section 3: Fees, non-audit services and independence

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04. Communication of audit matters

Fees and independence

Fees

	£
Pension Fund Scale Fee	23,427
Fee variation – IAS 19 Assurances	1,979
Total fees (excluding VAT)	25,406

Fees for other services

Service	Fees £
None	Nil

Proposed fee variation – IAS 19 Assurances

In line with Audit Commission standing guidance we are required to provide assurance to admitted body auditors over the reliability of the information provided by the Pension Fund to the actuary for the purposes of their making their IAS 19 estimates..

Independence and ethics

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

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

Section 4: Communication of audit matters

01. Executive summary

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Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Appendices

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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 Pensions 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 2014/15 as the sums are considered to be immaterial to the results of the Fund and its financial position at the year-end.	25 September 2015 – Pensions Committee
2	Note 23 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 2014/15, 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.	Head of Finance, Governance and Assurance to consider for future financial statement.

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Appendix A: Action plan (continued)

Priority

High - Significant effect on control system, **Medium** - Effect on control system, **Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	The Pensions Fund Committee consider if they wish to alter their investment policy to make the provision of an independently audited controls report part of the decision on where to place investment funds.	Med	We have previously requested that the two managers who do not complete a control report do so but they have both stated that it is not their company policy to do so and are therefore not willing to agree. They are both required to complete a questionnaire which has been agreed with internal Audit and the Fund is happy with the responses received and that it satisfies all the areas covered in the control reports provided by other managers. A further report is also received and reviewed from Majedie for the services which they outsource which provides additional independent confirmation.	Noted, but do not wish to alter the current investment policy.

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Appendix B: Audit opinion

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

Local Government Pension Fund in Statement of accounts

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have audited the pension fund financial statements of Shropshire Council for the year ended 31 March 2015 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 2014/15.

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

Respective responsibilities of Head of Finance, Governance & Assurance and auditor

As explained more fully in the Statement of the Head of Finance, Governance & Assurance's Responsibilities, the Head of Finance, Governance & Assurance is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

Opinion on the pension fund financial statements

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

Opinion on other matters

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

John Gregory

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza 20 Colmore Circus Birmingham West Midlands B4 6AT

25 September 2015

Appendix B: Audit opinion

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

Local Government Pension Fund in annual report of the pensions fund.

Independent auditor's statement to the members of Shropshire Council on the pension fund financial statements included in the pension fund annual report

We have examined the pension fund financial statements of Shropshire Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Shropshire Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement 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 work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator) and auditor

As explained more fully in the Statement of the Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator)'s Responsibilities, the Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator) is responsible for the preparation of the Statement of Accounts of Shropshire Council which include the pension fund's financial statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Shropshire Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of the: Introduction, Management and Financial Performance, Investment Policy and Performance, Scheme Administration Report, Actuarial Report on Funds, Governance Arrangements, Pensions Administration Strategy Report, Funding Strategy Statement, Statement of Investment Principles, Communications, Further information, Governance Compliance Statement, Administration Strategy Statement, Funding Strategy Statement, Statement of Investment Principles, and the Communications Policy statement.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Shropshire Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Grant Thornton UK LLP
Chartered Accountants

Colmore Plaza 20 Colmore Circus Birmingham West Midlands B4 6AT
25 September 2015

Appendix C: Impact of uncorrected misstatements in the prior year 2013/14

The amendments below were reported in the prior year, but are still relevant in terms of the prior year comparators and how gains have been recognised in the 2014/15 reporting period.

	Detail	Fund Account £'000	Net Asset Statement £'000	Reason for not adjusting
1	<p>Investments</p> <p>There is a £2m understatement in respect of the HarbourVest valuation. The custodian, Northern Trust, reported a year end valuation of £57.3m using HarbourVest's December 2013 market values to estimate the year end position. HarbourVest final 31 March 2014 statement provided to us was for a value of £59.3m.</p>	2,000	2,000	Having given consideration to the matter, officers are not proposing to amend for this in 2014/15 as the sums are considered to be immaterial to the results of the Fund and its financial position at the year-end.
2	<p>Investments</p> <p>There is an overstatement of £1.6m in respect of Aberdeen Asset Management valuation and the value provided by the Custodian. Aberdeen Asset Management as the fund manager devalued (impaired) the securities named CG Mall Europe from £1.34m 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. There is also a difference in relation to Corestate German Residential £0.98m as explained on page 9 of this report. Other trivial difference reduce the overall difference to £1.6m</p>	-1,600	-1,600	Having given consideration to the matter, officers are not proposing to amend for this in 2014/15 as the sums are considered to be immaterial to the results of the Fund and its financial position at the year-end.
	<p>Overall impact</p> <p>The Impact for 2014/15 of these issues is not considered material, but does mean there has been a £400,000 recognition of gains in 2014/15 that relates to the prior financial year.</p>	400	400	Having given consideration to the matter, officers are not proposing to amend for this in 2014/15 as the sums are considered to be immaterial to the results of the Fund and its financial position at the year-end.

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