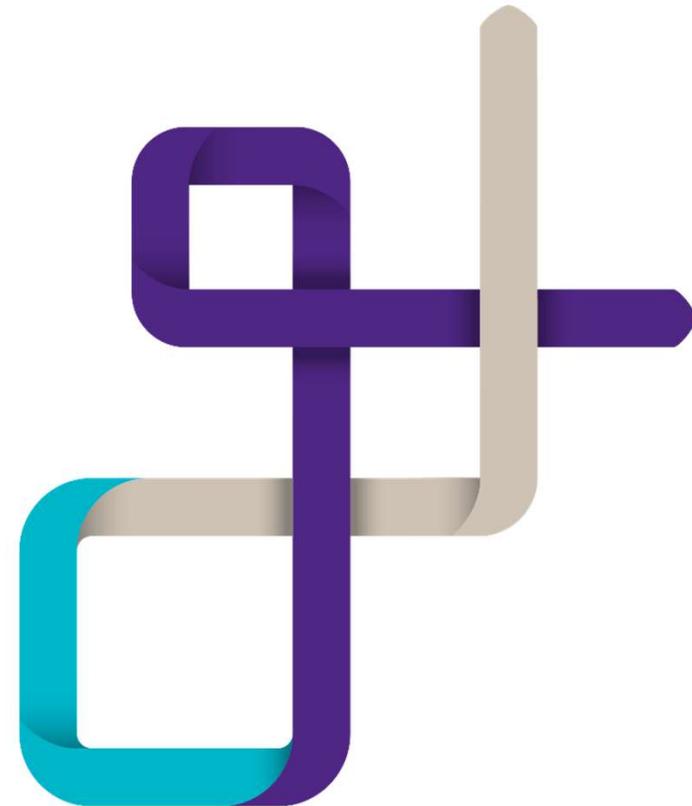


Audit Findings

Year ending 31 March 2018

Shropshire County Pension Fund
24 July 2018



Contents



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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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Shropshire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: <ul style="list-style-type: none">• the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and• have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;	Our audit work was completed on site during June and July 2018. Our findings are summarised on pages 4 to 11. We have not identified any issues requiring an adjustment to the Fund's reported financial position. However, as a function of the earlier reporting deadline in 2017/18, we note two variances between the fund's reported position and that provided by investment managers. Whilst we do not see these as being indicative of a control weakness, we are required to report these to those charged with governance as they are above our trivial threshold. This issue is set out in further detail at the unadjusted misstatements section of the report detailed in Appendix A. Subject to obtaining two outstanding bridging letters (in relation to the controls reports provided by the Fund's investment managers), we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 July 2018
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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. The working papers issued to the audit team were of excellent quality and the finance team were very supportive throughout the audit. This contributed to the audit team being able to complete the audit in line with the 31st July 2018 national deadline.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding documentation being provided, we anticipate issuing an unqualified audit opinion following the Pensions Committee meeting on 24 July 2018.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Shropshire County Pension Fund.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	18.650m	Based on 1% of net assets as at the interim audit stage (November 2017). This was considered to provide sufficient assurance over account balances without rendering the audit inefficient. Net asset values did not move sufficiently between interim and final audit to warrant recalculation of materiality.
Performance materiality	13.988m	Set at 75% of headline materiality. Performance materiality set lower than headline materiality in order to mitigate the risk of a combination of lower balance issues resulting in a material misstatement.
Trivial matters	0.933m	Set at 5% of headline materiality. Balances below this value are considered to be clearly trivial.
Materiality for specific transactions, balances or disclosures	0.655m	Management fees; owing to a level of sensitivity around these disclosures, a separate materiality was set for these balances of 5% of the total of management fees.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

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

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

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

2

Management override of controls

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

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

Auditor commentary

- The following work was performed in this area:
 - review of accounting estimates, judgements and decisions made by management
 - testing of journal entries
 - review of accounting estimates, judgements and decisions made by management
 - review of unusual significant transactions

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

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

The valuation of Level 3 investments is incorrect

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

We identified the valuation of level 3 investments as a risk requiring special audit consideration.

Auditor commentary

The following work has been performed in this area;

- gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls
- review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.
- consideration of the competence, expertise and objectivity of any management experts used.
- for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2018 with reference to known movements in the intervening period.

During the course of this work, we noted that the fund's holdings managed by Harbour Vest were understated by £3.411m. We believe that this has come about as a result of earlier reporting deadlines meaning that management now utilise capital statements from September 2017 (adjusted for known capital movements) as opposed to utilising those available at a date closer to year end. We feel that this is a reasonable course of action, given that the investment managers report in arrears and management have been required to produce accounts and begin the audit earlier than in previous years.

Ultimately, asset values are understated which suggests that the fund's reported position has a higher level of prudence than if overstated. However, the variance is above trivial and therefore we are required to report this to the Committee as those charged with governance.

Reasonably possible audit risks

Risks identified in our Audit Plan

7

The valuation of Level 2 investments is incorrect

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

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

Commentary

Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls.
- evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.
- reviewed the reconciliation of information provided by the pension fund's/individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances;
- considered the competence, expertise and objectivity of any management experts used.
- for a sample of investments, tested the valuation by obtaining independent information from a third party source on unit prices.

In line with our findings on Level 3 investments, we also noted a £1.3m understatement on assets managed by GIP. The reason behind this is similar to our observations on HarbourVest. Management are obliged to use earlier capital statements adjusted for known capital movements to derive a year end figure resulting in a higher likelihood of variances against the position reported by investment managers.

As with the level 3 findings, this did not result in an overstatement of assets. Whilst we do not see this as a control issue, as the variance is above trivial we are required to report this to the Committee as those charged with governance.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

5

Contributions

Contributions from employers and employees' represents a significant percentage (93%) of the Fund's revenue (excluding returns on investment).

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

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Fund's accounting policy for recognition of contributions for appropriateness;
- gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls;
- tested a sample 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 the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.

We did not find any issues which we wish to draw to your attention during this testing.

6

Pension Benefits Payable

Pension benefits payable represents a significant percentage (91%) of the Fund's expenditure.

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

Auditor commentary

We have undertaken the following work in relation to this risk:

- **evaluated** the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
- gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls;
- tested a sample of individual pensions in payment by reference to member files;
- rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

We did not find any issues which we wish to draw to your attention during this testing.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

The following process was adopted:

- The client's estimate of cash flows and movements on asset values over the next three years:
- These were based on the assumption that both cash flows such as contributions and benefits payable would continue in line with prior periods and that asset values would continue to rise;

Auditor commentary

- Based on the method outlined, management were satisfied that the entity will continue as a going concern for at least the next three accounting periods;
- The audit team are in agreement with this assessment. Whilst it is difficult to make reasonable predictions around certain aspects of this review (such as the future behaviour of asset values), we have satisfied ourselves that the fund is in a sufficiently robust position at present to meet its obligations going forward.

Work performed

Detail audit work performed on management's assessment

Auditor commentary

- The team tested the arithmetical accuracy of management's assessment and performed a reasonableness check of their future predictions against trends based on previous activity;
- There are no factors or events which we consider would cast significant doubt over the pension funds ability to continue as a going concern
- Whilst there are no specific requirements for the fund to comment on this assessment within their financial statements, we feel that management have provided an adequate level of disclosure for users of the accounts and other interested parties.

Concluding comments

Auditor commentary

- Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable
- Based on the above comments, we anticipate being able to issue an unmodified opinion.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> There are two key policies in relation to revenue recognition, in relation to contribution income and investment income. Normal contributions are accounted for in the payroll month to which they relate; Investment income is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments. 	<ul style="list-style-type: none"> The accounting policies are appropriate under relevant accounting framework i.e. CIPFA Code of Practice The accounting policy for revenue recognition has been adequately disclosed in the notes to the accounts The accounting policies adopted are consistent when benchmarked against other similar bodies 	 (Green)
Judgements and estimates	<ul style="list-style-type: none"> Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code. The fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager. 	<ul style="list-style-type: none"> The accounting policies are considered appropriate under the accounting framework in place i.e. CIPFA Code of Practice; and Sufficient assurance has been provided by either the experts used for valuing the fund, or we have been able to agree valuations to third party evidence; 	 (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 not highlighted any issues which we wish to bring to your attention. 	 (Green)

Assessment

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

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of the audit.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed aside from the omission of disclosure of transactions with the pension Fund management team. Further details of this are included at Appendix A.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Pension Fund, which is included within the Committee papers.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the custodian and all investment managers working with the Fund. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, However, we are still awaiting two bridging letters (confirmation that internal controls have not changed between the end of the period covered by the investment manager's internal control report and the end of the Fund's accounting period) as at the time of writing.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
⑦ Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report at the same time as our opinion on the financial statements.

Independence and ethics

Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Audit and Non-audit services

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

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Reason for not adjusting
1 Holdings managed by Harbour Vest understated by £3.411m	CR £3.411m	DR £1.370m	• Value not material either individually or in conjunction with other noted unadjusted misstatements.
2 Holdings managed by GIP understated by £1.370m	CR £1.370m	DR £1.370m	• As above
Overall impact	£4.781m	£4.781m	

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Related Party Transactions	<ul style="list-style-type: none"> Consistent with prior years, the related party transactions disclosure notes that details in respect of the remuneration of senior management are provided within the Shropshire Council financial statements 	<ul style="list-style-type: none"> We consider that pension fund financial statements should be capable of standing alone from the local authority financial statements and therefore our view is that appropriate disclosures should be made within the pension fund accounts in line with section 3.4 of the CIPFA Code of Practice 	X
Various	<ul style="list-style-type: none"> A small number of minor clerical issues were noted in the annual report. This is in line with expectations for a review of a report of this size 	<ul style="list-style-type: none"> Proposed amendments addressed by management 	✓

Fees

We confirm below our final fees charged for the audit:

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£23,427	£23,427
Proposed fee variation	£1,979	£1,979
Total audit fees (excluding VAT)	£25,406	£25,406

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The variation is in respect of additional work which we are asked to do by the auditors of several admitted bodies to provide assurance in relation to the actuarial valuation of the relevant shares of the Fund's assets and liabilities.

Audit opinion

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

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

Opinion

We have audited the pension fund financial statements of Shropshire Council (the 'Authority') for the year ended 31 March 2018 set out on pages *** to ** which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:
 give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
 have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
 have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
 the Head of Finance, Governance and Assurance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
 the Head of Finance, Governance and Assurance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Head of Finance, Governance and Assurance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages [**xx to xx**], other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:
we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Head of Finance, Governance and Assurance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance, Governance and Assurance. The Head of Finance, Governance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Head of Finance, Governance and Assurance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

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

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

[Signature]

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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Date:



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