

The Audit Findings for Shropshire County Pension Fund

Year ended 31 March 2020

18 September 2020



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**Your key Grant Thornton
team members are:**

Richard Percival
Pensions Engagement Lead
T: 0121 232 5434
E: richard.d.percival@uk.gt.com

Terry Tobin
Pensions Audit Manager
T: 0121 232 5276
E: terry.p.tobin@uk.gt.com

Elliot Baker
In Charge Auditor
T: 0121 232 5225
E: elliot.a.baker@uk.gt.com

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- A. Audit adjustments

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

This table summarises the key findings and other matters 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 2020 for those charged with governance.

Financial Statements	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund and Pensions staff have had to work from home</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 6.</p> <p>We have considered emerging guidance issued by the Financial Reporting Council and actively contributed to audit firm and NAO technical meetings where the impact of the virus on the financial reporting disclosures and audit approach has been discussed.</p> <p>Restrictions resulted in both the Council and audit team introducing new remote access working arrangements including remote accessing financial systems and video calling.</p>
Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed during July and August 2020. Our findings are summarised on the following pages. We have not identified any required adjustments to the financial statements and therefore there is no adjustment to the Pension Fund's reported financial position following our audit. We have agreed a small number of disclosure changes with the team, which are detailed later on in the report.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to some outstanding matters including the receipt of a signed management representation letter and review of the final financial statements and Annual Report. The Pension Fund opinion will be issued at the same time as the Shropshire Council opinion. As the main Council has been delayed, there is a possibility of new issues arising before the opinion is issued such as in relation to the restitution of the McCloud case.</p> <p>Our anticipated audit report opinion will be unmodified. Our audit report will include an Emphasis of Matter paragraph, highlighting material uncertainties in relation to the asset valuations as at 31 March 2020 due Covid-19 pandemic.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the good assistance provided by the Treasury & Pensions team and other staff during our audit.

Summary

Overview of the scope of our audit

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

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

Audit approach

Our audit approach was based on a thorough understanding of the 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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in April and May 2020

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Pensions Committee meeting following 18 September 2020, as detailed in our opinion

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 have been reduced from that reported in our audit plan due to a fall in the value of investments as at 31 March 2020. We detail in the table below our determination of materiality for Shropshire County Pension Fund.

	Pension Fund Amount (£m)	Qualitative factors considered
Materiality for the financial statements	18.3	We determined materiality for the audit of the Fund's financial statements as a whole to be £18.3m, which is approximately 1% of the Fund's net assets as at 31 March 2020. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in security and value of its assets.
Performance materiality	12.81	We have determined £12.81m (70% of materiality) to be an appropriate level for Performance Materiality. The Fund has a stable, experienced team with no history of accounting issues and this continues to be the case.
Trivial matters	0.915	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Committee.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Auditor commentary</p> <p>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:</p> <ul style="list-style-type: none"> • 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 Council as the administering authority, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Shropshire Council Pension Fund. Our work did not find any significant issues relating to improper revenue recognition.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>



Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>3 Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions: and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations. • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence <p>We will include an emphasis of matter paragraph in our audit opinion due to the impact of the pandemic on Level 3 asset valuations (see page 7). The purpose of this is to draw the reader's attention to this issue. It is not a qualification or modification of our audit opinion.</p>





Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<div data-bbox="68 275 99 311">3</div> <p>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.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• gained an understanding of the Fund’s process for valuing level 3 investments and evaluated the design of the associated controls• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.• consideration of the competence, expertise and objectivity of any management experts used.• for a sample of investments, challenged the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period.• independently requested year-end confirmations from investment managers and custodians• where available reviewed investment manager service auditor report on design effectiveness of internal controls. <p>The Pension Fund drew attention to asset values material uncertainties in the sensitivities of estimates note to the accounts. This was after the Fund received year end valuations from fund managers which also included reference to material uncertainties in these valuations due to the Covid-19 pandemic. Our audit report will include an emphasis of matter paragraph highlighting this.</p> <p>As in previous years the Fund estimated the 31 March 2020 value in the accounts for the HarbourVest Fund as the final fund manager statement is not received until after the accounts are closed down. The estimated value was £5.3 million lower than the actual fund manager valuation which was subsequently received.</p> <p>Our work did not find any other significant issues in the valuation of level 3 investments.</p>

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in unquoted investments and pooled investments that in total are valued on the balance sheet as at 31 March 2020 at £307m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by the general partners to the private equity funds which the Fund invests in.	Management determine the value of Level 3 Investments through placing reliance on the expertise of the investment managers. As such we have sought confirmations of year end valuations from all main mandate managers. We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable. Please see our findings on page 7.	 Green
Level 2 investment	The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2020 at £162m. The investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought independent confirmations of year end valuations from all main mandate managers and also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. As in previous years the Fund estimated the year end value of Global Infrastructure Partners as the final 31 March statement is not received when closing accounts down. When the actual statement was received it was £8.7 million lower than the estimate. We have found no other issues with this testing and are satisfied that the estimate is appropriately disclosed in the accounts.	 Green

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

Significant findings - 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

Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditor commentary

- We are satisfied that management’s assessment that the going concern basis is appropriate for the 2019/20 financial statements.

Work performed

We have assessed the judgment made by management as well as the forecasted financial information which they have provided us which supports the assessment that the Fund will continue as a going concern for at least 12 months from the date of our audit opinion.

Auditor commentary

- The Net Assets of the Fund at 31/3/20 were £1.83bn. This is significantly higher than the annual benefit payments due.
- The Fund has more than £1.3bn of Level 1 assets. These assets are liquid and can be accessed quickly for cashflow purposes if required.
- The Local Government Pension Scheme is a statutory scheme and there are no events or conditions that would indicate the winding up of the scheme.
- No issues have been identified from the work performed

Concluding comments

Auditor commentary

We are satisfied that management’s assessment that the going concern basis is appropriate for the 2019/20 financial statements and that we have nothing to report on in relation to going concern.

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 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 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.
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 letter of representation has been requested from the Pension Fund which is included in the Pension Fund Committee papers. At this point in time we will not be requesting additional representations.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers for alternative investments for investment balances. We have received confirmations from managers.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
8	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 along with our opinion on the accounts.

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 are below.

Audit Fees	Proposed fee	Final fee
Pension Fund Audit	£22,289	£22,289
Other Services - Non Audit	3,000	TBC
Total fees (excluding VAT)	£25,289	TBC

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Non Audit

Provision of IAS 19 Assurances to Scheme Employer auditors

We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. Our original estimate for this in the audit plan was £3,000 based on the work required in previous years. The work required has increased this year, particularly in relation to testing of data sent to the Actuary for the 2019 triennial valuation of the Fund. We will inform you shortly of the final fee. `

These services are consistent with the Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees

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

One unadjusted misstatement was noted per the below table which was above our trivial threshold. This is in relation to two of the Fund’s level 2 and 3 holdings, the value of which is lower in the general ledger and financial statements than the valuation provided by the investment manager. This came about as a result of the timing difference between production of the financial statements and provision of valuation information by some investment managers. The misstatement is well below materiality and, given the nature of the valuations as an estimate, we are satisfied that it is reasonable for the Fund not to adjust as these kind of issues are not unexpected owing to the shortened reporting timeframe and issuance of some valuations in arrears, does not constitute a control weakness or risk of material misstatement.

Detail		Pension Fund Account £m	Net Asset Statement £m	Impact on total net assets £m
1	L2 and L3 investment assets overstated in accounts by £14.1m. Fund did not adjust on the basis of materiality.	14.1	14.1	14.1
Overall impact		£14.1	£14.1	£14.1

Misclassification and disclosure changes

The Fund made a few amendments to its disclosures at audit. For example it enhanced Note 5: assumptions made about the future and other major sources of estimation uncertainty in relation to estimation uncertainty for asset values as at 31 March 2020 in light of Covid 19 pandemic and also Note 4: critical judgments in applying accounting policies in relation to the McCloud judgement.

