



# The Audit Plan for Surrey County Council Pension Fund

# DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

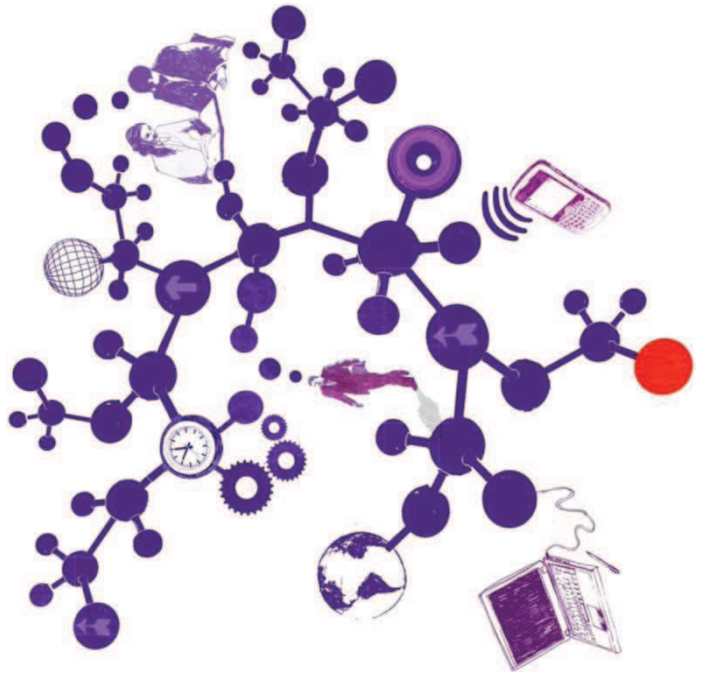
**Year ended 31 March 2014**

May 2014

**Darren Wells**  
Engagement Lead  
T 01293 554120  
E [darren.j.wells@uk.gt.com](mailto:darren.j.wells@uk.gt.com)

**Kathryn Sharp**  
Manager  
T 01293 554086  
E [kathryn.e.sharp@uk.gt.com](mailto:kathryn.e.sharp@uk.gt.com)

**Gillian Cottrell**  
Executive  
T 01293 554050  
E [gillian.cottrell@uk.gt.com](mailto:gillian.cottrell@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. 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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# Introduction

## **Purpose**

This Audit Plan highlights the key elements of our 2013/14 external audit strategy for the Surrey County Council Pension fund. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to the Audit and Governance Committee for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

## **Our responsibilities**

As external auditors we are responsible for performing the audit in accordance with ISAs (UK & Ireland), and to give an opinion on the Pension Fund 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.

## **Communicating the results of audit work**

The findings from our interim work are communicated in this plan, and any findings from the final accounts audit will be reported following the completion of the final accounts work. Page 11 of this plan includes the timescale for the audit and audit reporting.

We look forward to working with the Pension Fund officers during this year's audit.

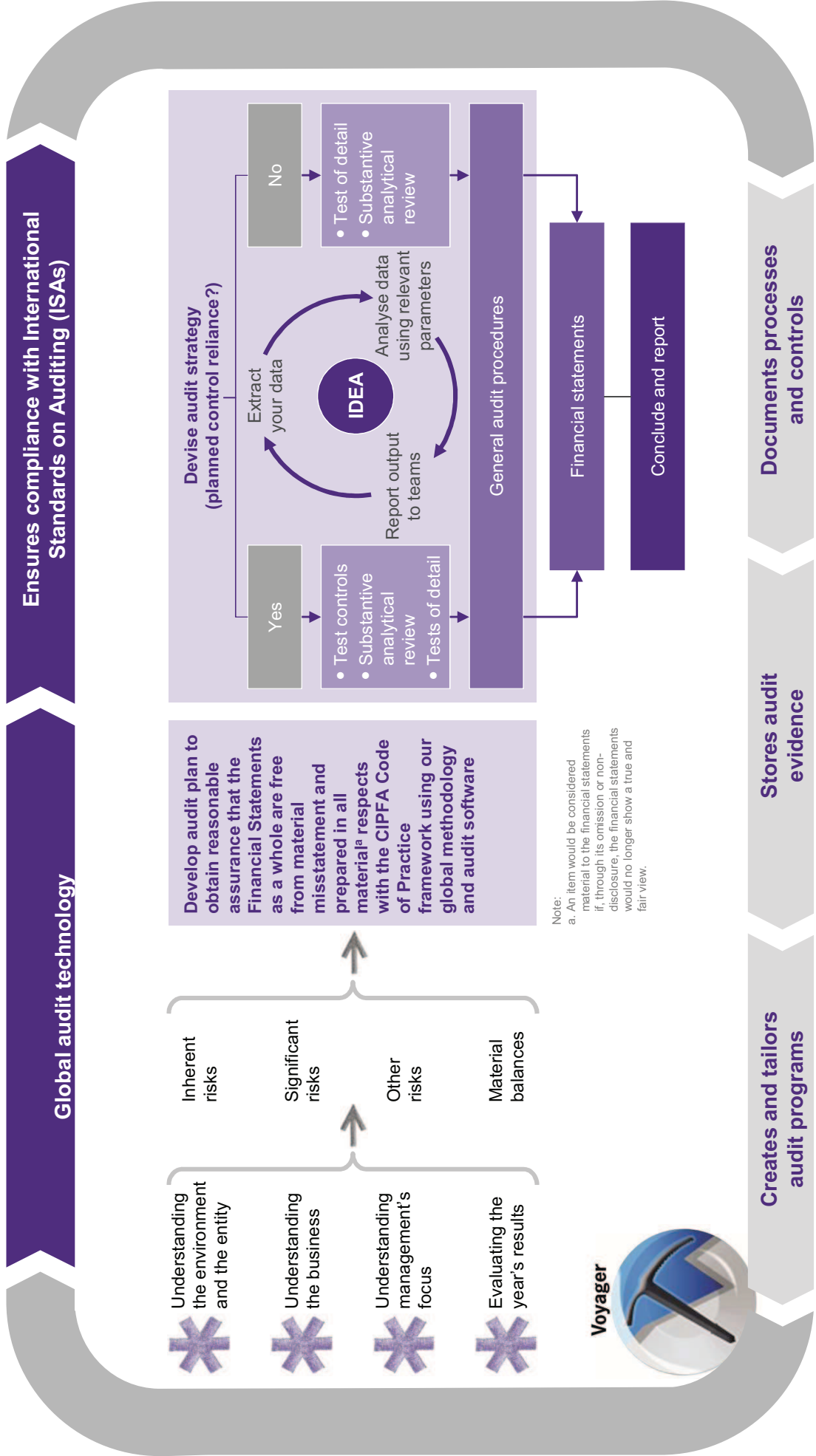
# Developments relevant to your fund and the audit

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

Developments and other requirements		Our response
<p><b>1. Financial reporting</b> There are no significant emerging issues affecting the Pension Fund expected for the year ending 31 March 2014 although PRAG has formed a working party to update the Pensions SORP. An updated version is expected later in 2014.</p>	<p><b>2. LGPS 2014</b> Planning for the impact of the implementation of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014.</p>	<p>We will carry out our usual substantive testing to ensure that the pension fund complies with the requirements of the CIPFA Code of Practice.</p>
<p><b>3. Triennial valuation</b> Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of additional employer deficit contributions required and how to fund them.</p>	<p><b>4. Financial Pressures</b> Pension Funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension Fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.</p>	<p>We will maintain regular dialogue with management to assess the impact this has on the administration of the Pension Fund and any required disclosures in the 2013/14 pension fund financial statements.</p>
<p>We will discuss the impact of the changes through our regular meetings with management. Where appropriate, we will report any observations we have from our work and the implementation of new administration systems software to successfully process benefit payments under both the old and new schemes from 1 April 2014.</p>	<p>We will monitor the changes being made to the Pension Fund investment strategy through our regular discussions with management. We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.</p>	<p>We will carry out our usual substantive testing to ensure that the pension fund complies with the requirements of the CIPFA Code of Practice.</p>



# Our audit approach



## Significant risks identified

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

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

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

## Other risks

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

Other reasonably possible risks	Description	Planned audit procedure
Investments	<p>Investments not valid (existence)</p> <p>Investments activity not valid (valuation gross)</p> <p>Alternative investments not valid (existence)</p> <p>Fair value measurements not correct (valuation net)</p>	<p>We will review the reconciliation between information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any material variances.</p> <p>We will select a sample of the individual investments held by the Fund at the year end and test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments).</p> <p>We will confirm the existence of investments directly with independent custodians and/or fund managers or by agreement to legal documentation.</p> <p>We will test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.</p>
Benefit Payments	Benefits improperly computed/claims liability understated (completeness)	<p>We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to the benefit calculation on the respective member file. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by the Fund have been followed.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year and compare pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. We will compare the number of transfer out payments and lump sums on retirement to recorded member transfers/retirements in the year.</p> <p>We will compare the movements on membership statistics to material transactions in the accounting records.</p>



## Other risks

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

Other reasonably possible risks	Description	Planned audit procedure
Contributions	Recorded contributions not correct (occurrence)	We will test the controls the Pension Fund operates to ensure that it receives all expected contributions from member bodies. We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Member data	Member data not correct (rights / obligations)	We will confirm the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. With a view to reducing the level of substantive testing required, we will then test the key controls identified in these areas.

## Interim audit work

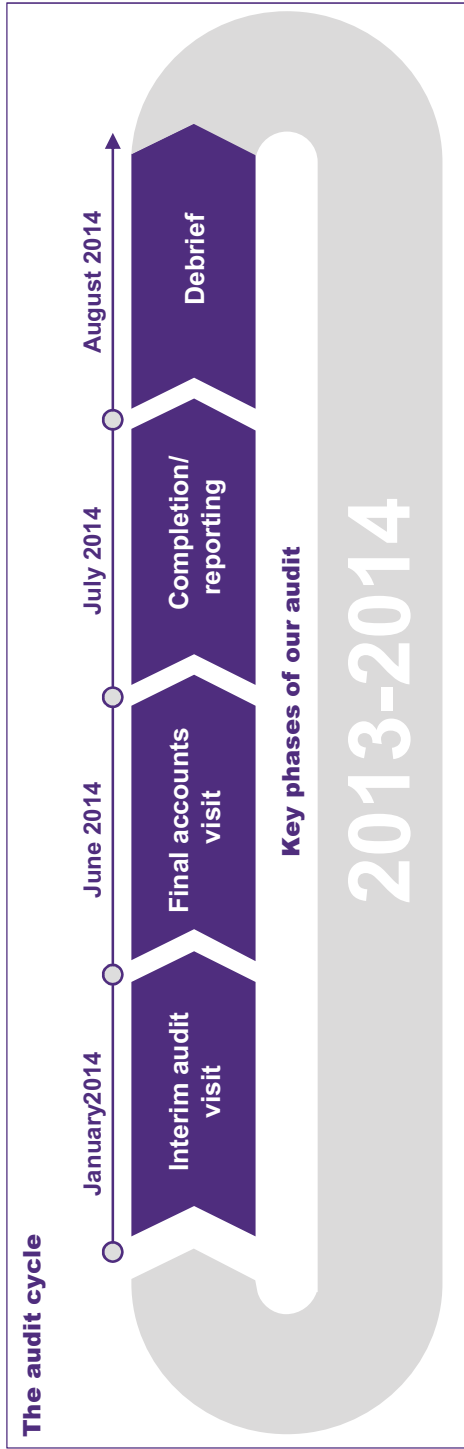
### Scope

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

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

	Work performed	Conclusion/ Summary
<b>Internal audit</b>	We have reviewed internal audit's overall arrangements with a view to gaining assurance from the work it has undertaken during 2013/14.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Pension Fund and that we can take assurance from their work in contributing to an effective internal control environment at the Pension Fund.
<b>Walkthrough testing</b>	We have completed walkthrough tests in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No issues were identified from our walkthrough tests . Internal controls were observed to have been implemented in accordance with our documented understanding. We will review the controls at the fund managers upon receipt of the ISAE3402 Internal Control Reports as part of our year end testing.
<b>Journal entry controls</b>	We will review the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy. We will then review all pension fund journals raised during 2013/14. We will extract and test any 'unusual' and large journal entries.	This testing will be undertaken as part of our post statements testing, the results of which will be reported to the Audit and Governance Committee in July 2014.
<b>Review of information technology (IT) controls</b>	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	<b>This work is scheduled for completion in X. Results will be reported to the Audit and Governance Committee in July 2014.</b>

# Logistics and our team



Date	Activity
12 December 2013	Planning meeting
6 January 2014	Interim site work
29 May 2014	The audit plan presented to Audit and Governance Committee
16 June 2014	Year end fieldwork commences
July 2014	Audit findings clearance meeting
31 July 2014	Findings reported to Audit and Governance Committee

### Our team

<p><b>Darren Wells</b> Engagement Lead T 01293 554120 E darren.j.wells@uk.gt.com</p>
<p><b>Kathryn Sharp</b> Manager T 01293 554086 E kathryn.e.sharp@uk.gt.com</p>
<p><b>Gillian Cottrell</b> Executive T 01293 554050 E gillian.cottrell@uk.gt.com</p>

# Fees and independence

## Fees

	£
Pension fund audit	27,105

## Fees for other services

Service	£
None	Nil

### Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension Fund and its activities have not changed significantly
- The Pension Fund will make available management and accounting staff to help us locate information and to provide explanations

### Independence and ethics

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

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

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

# Communication of audit matters with those charged with governance

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

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

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

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

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

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

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 issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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