

# The Audit Plan for Surrey County Council Pension Fund

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.

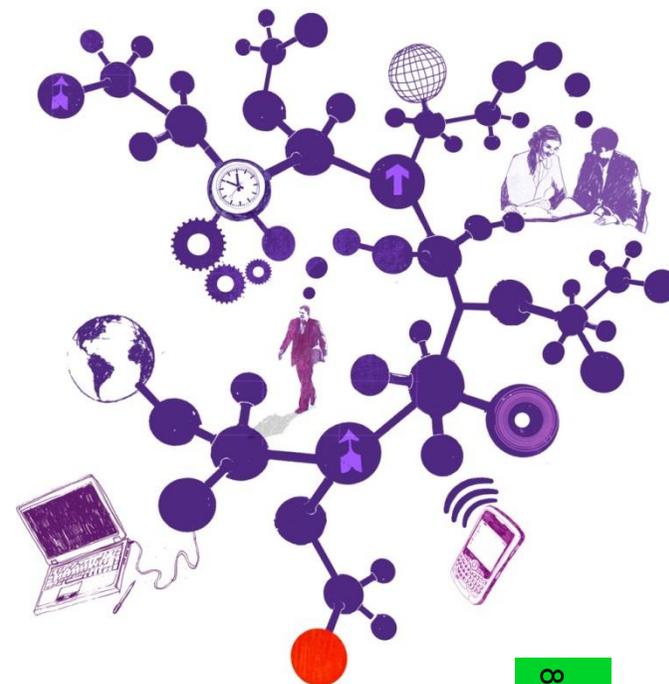
**Year ended 31 March 2015**

March 2015

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**Darren Wells**  
Engagement Lead  
T 01293 554 120  
E [darren.j.wells@uk.gt.com](mailto:darren.j.wells@uk.gt.com)

**Matt Dean**  
Assistant Manager  
T 020 7728 3181  
E [matthew.dean@uk.gt.com](mailto:matthew.dean@uk.gt.com)



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# 1. Understanding your business

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

## Challenges/opportunities

### 1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These boards will work with the administering authority to help ensure compliance and effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap. There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which delivers visible improvements in the governance of the funds.

### 2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

### 3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

### 4. Local government outsourcing

- As many councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.



## Our response

- We will continue our on-going dialogue with officers around their governance arrangements.
- We will share any emerging good practice with officers.

- We will share our experience of working with The Pensions Regulator.
- We will discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

- We will share good practice in reducing administration costs through collaboration or other initiatives.
- We will discuss any proposals for structural change and their impact on the Pension Fund with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

## 2. Developments relevant to your business and the audit

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

### Developments and other requirements

#### 1. LGPS 2014

- Ahead of 2014/15 funds have moved to implement LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

#### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code.

#### 3. Financial Pressures

- 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 the investment markets.

#### 4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

### Our response

- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings 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.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

# 3. Our audit approach

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Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

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

Inherent risks

Significant risks

Other risks

Material balances

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



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

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls



## 4. Significant risks identified

'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 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
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Surrey 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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Surrey County Council who act as the administrators of the Pension Fund, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>
Level 3 Investments – Valuation is incorrect	Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Gain an understanding of the controls which officers have put in place to gain assurance over the valuation of these investments at year end.</li> <li>• For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31<sup>st</sup> March 2015 with reference to known movements in the intervening period.</li> <li>• We will also review the nature and basis of estimated values, as well as the opinions issued on the audited accounts of the specific investments where applicable.</li> </ul>

## 5. Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment values – Level 2 investments	Valuation is incorrect. (Valuation - Net)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any significant variances identified</li> <li>If required, we will test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices to ensure these have been correctly recorded within the Accounts.</li> </ul>
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over occurrence, completeness and accuracy of contributions from member bodies</li> <li>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</li> <li>We will also undertake substantive testing on a sample of contributions received by the Fund during the year to ensure they have been deducted at the correct rates given the changes under LGPS 2014.</li> </ul>

## Other risks identified continued

Other risks	Description	Audit Approach
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any significant variances identified</li> <li>As required, we will then select a sample of purchases and sales incurred during the year and agree these back to supporting documents.</li> </ul>
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over the completeness, accuracy and occurrence of benefit payments</li> <li>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained</li> <li>We will also select a sample of 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</li> <li>We will compare the movements on membership statistics to material transactions in the accounting records</li> </ul>
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over annual/monthly reconciliations and verifications with individual members</li> <li>Sample testing of changes to member data made during the year back to source documentation. We will also ensure the processing of new starters is considered within this testing</li> </ul>

## 6. Results of interim audit work

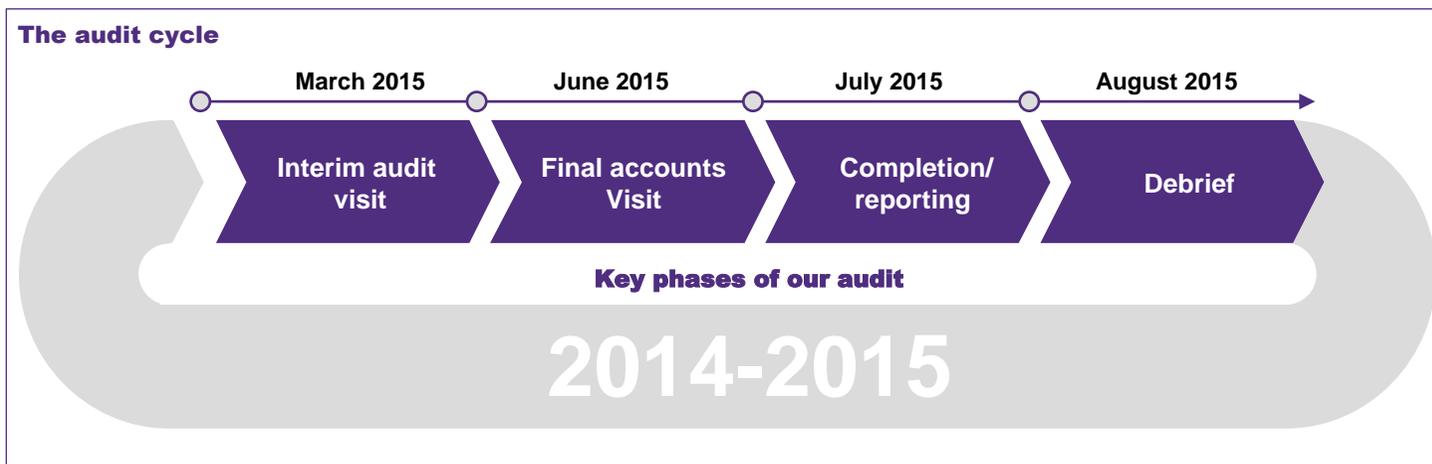
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment at the Administering Authority.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>

# Results of interim audit work cont'd

	<b>Work performed</b>	<b>Conclusion</b>
<b>Review of information technology controls</b>	<p>Our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also be performing a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls in our walkthroughs were observed to have been implemented in accordance with our documented understanding.</p>	<p>The work of our information systems specialists is outstanding at this stage, and the results of this will be included within the Audit Findings Report issued in July 2015</p>
<b>Journal entry controls</b>	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p>	<p>No control deficiencies have been identified. Detailed testing of journals will be performed during our year end visit and reported within the Audit Findings Report mentioned above.</p>

# 7. Key dates



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<b>Date</b>	<b>Activity</b>
<b>w/c 2 March 2015</b>	Planning and interim site visit
<b>w/c 30 March 2015</b>	Early substantive testing visit
<b>9 April 2015</b>	Presentation of audit plan to Audit Committee
<b>June 2015</b>	Year end fieldwork
<b>July 2015</b>	Audit findings clearance meeting with Director of Finance
<b>July 2015</b>	Report audit findings to those charged with governance (Audit and Governance Committee)
<b>by end of July 2015</b>	Sign financial statements opinion

## 8. Fees and independence

### Fees

	£
Pension Fund Scale Fee	27,105
<b>Total fees (excluding VAT)</b>	<b>27,105</b>

### Fees for other services

Service	Fees £
None	Nil

#### Our fee assumptions include:

- 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, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

#### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

#### 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.

# 9. Communication of audit matters with those charged with governance

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

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

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

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## 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'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 Council'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 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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