



The Audit Plan for Surrey 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.

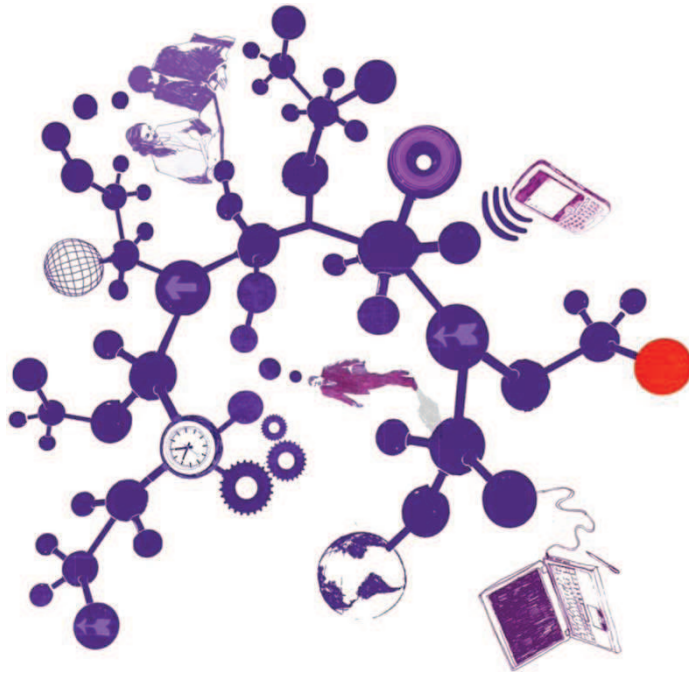
Year ended 31 March 2013

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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 Fund 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.

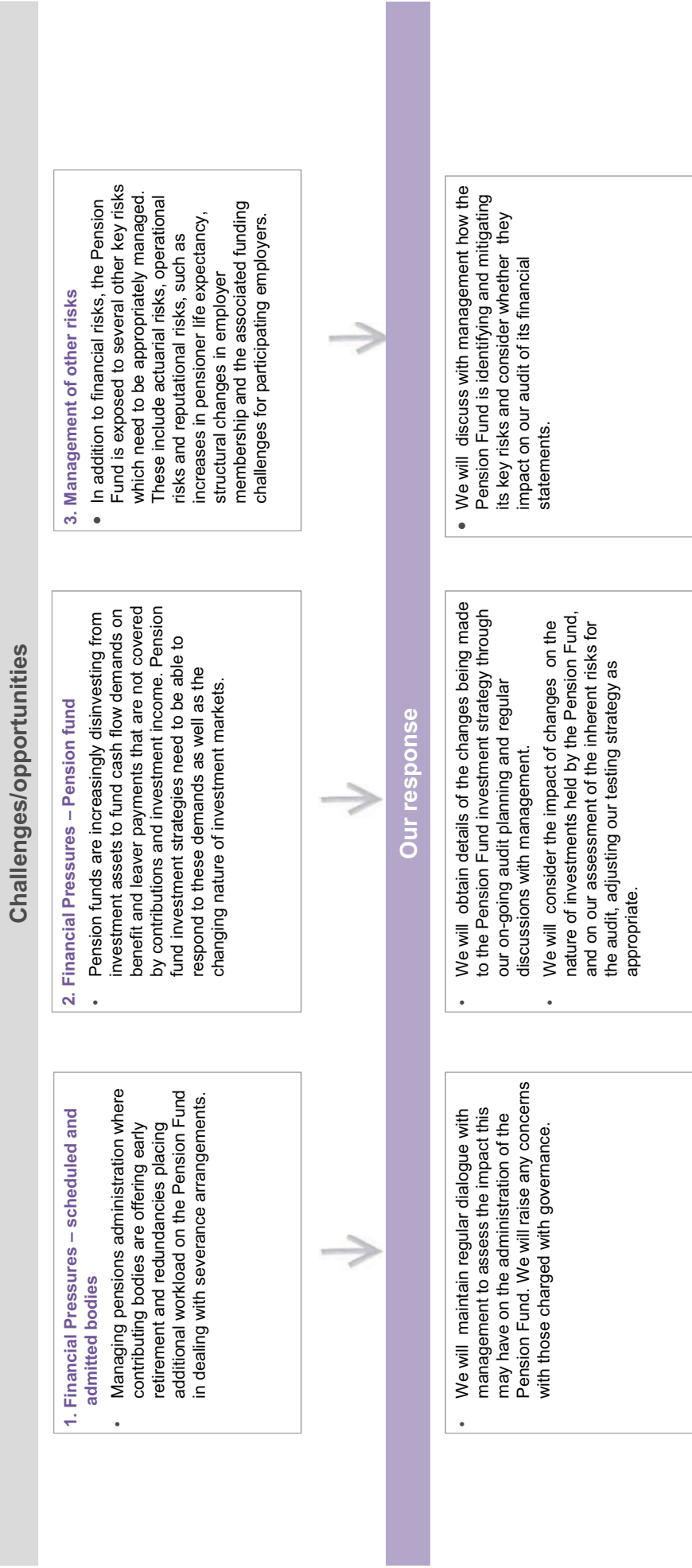
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1. Understanding your fund

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.



2. 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

1. Financial reporting

- CIPFA published a revised set of example accounts for pension funds in 2013.

2. LGPS 2014

- The Pension Fund needs to consider the impact of the implementation of the career average re-valued earnings scheme (CARE) from 1 April 2014.

3. Triennial valuation

- The triennial valuation will place demands on the Pension Fund's resources in terms of administration and providing the necessary data and other information required by the actuary.

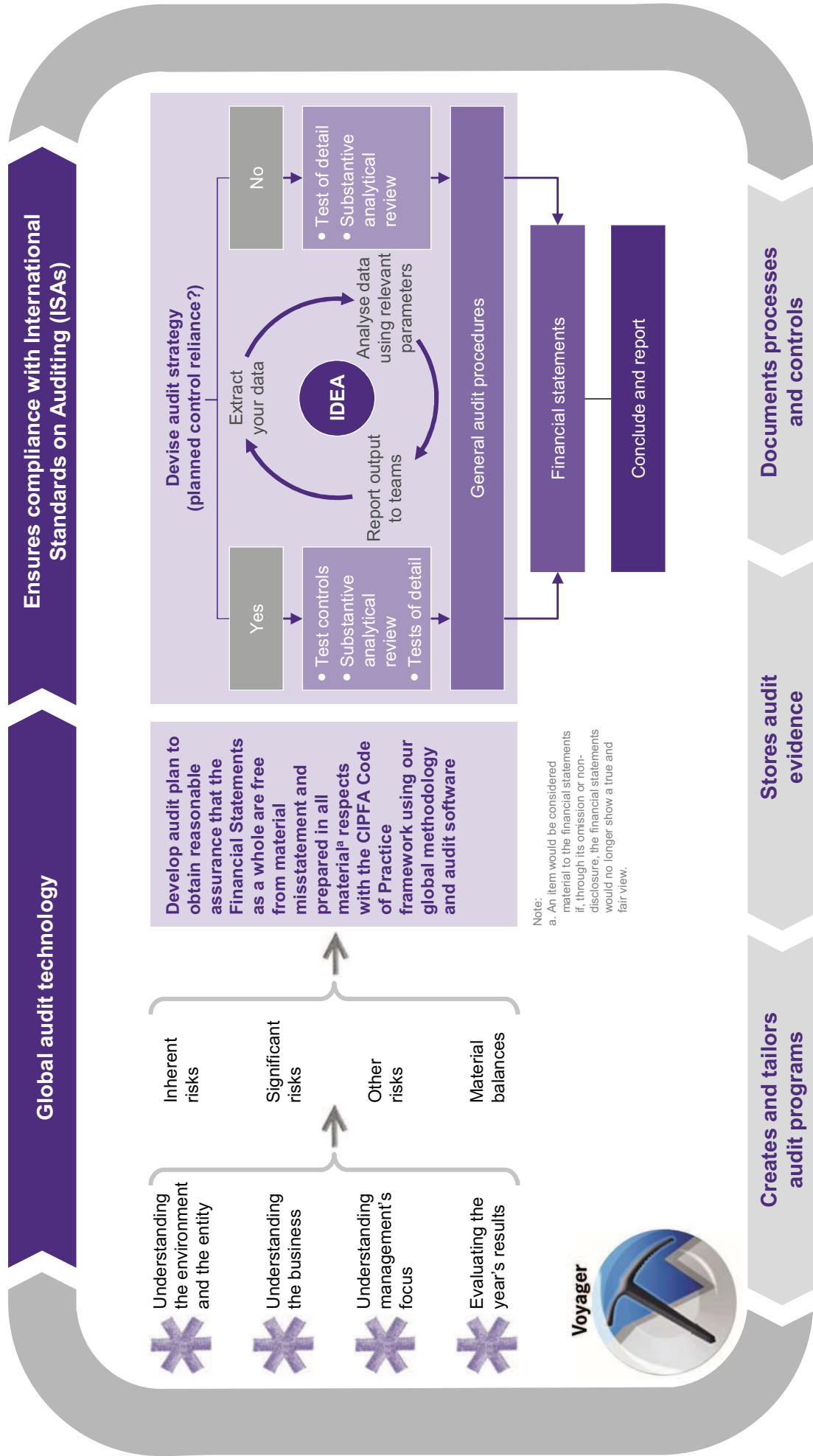
Our response

- We will carry out work to test if the Pension Fund complies with the material requirements of the CIPFA Code of Practice.

- We will discuss the impact of the changes through our regular meetings with management. We will report any observations we have from our work, where appropriate.

- We will maintain regular dialogue with management on the progress of the valuation process and any significant issues arising. We will report any observations arising from our work.

3. Our audit approach



4. An audit focused on risk

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can gain assurance from testing controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned control reliance?	Substantive testing?
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct	Yes	✓
Transfers in	Yes	Transfers in to the scheme	Low	Remote		No	✓
Pensions payable – lump sums and on retirement	Yes	Benefit payments	Medium	Other	Benefits improperly computed/claims liability understated	Yes	✓
Transfers out - payments to and on account of leavers	Yes	Benefit payments	Medium	Other	Transfers improperly computed/liability understated	Yes	✓
Administrative expenses	No	Administrative expenses	Low	N/A		No	×
Investment income	Yes	Investments	Medium	Other	Investment activity not valid – income not complete	No	✓

4. An audit focused on risk (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Changes in market value of investments	Yes	Investments	Medium	Other	Investment activity not valid – investments not valued at fair value	No	✓
Taxes on income	No	Investments	Low	N/A		No	×
Investment management expenses	Yes	Investments	Low	Remote		No	✓
Investments	Yes	Investments	Medium	Other	Investments not valid Fair value measurement not correct	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	N/A		No	×
Current liabilities	No	Benefit payments, investments	Low	N/A		No	×

5. 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
<p>Revenue</p>	<p>Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Surrey 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>	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Surrey Pension Fund since:</p> <ul style="list-style-type: none"> • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted bodies and are supported by separately sent schedules. They are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. They are subject to agreement between the transferring and receiving funds.
<p>Management over-ride of controls</p>	<p>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions

6. 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</p> <p>Investments activity not valid</p> <ul style="list-style-type: none"> - Income not complete - Investments not valued at fair value <p>Fair value measurement not correct</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 and transfers on account of leavers	Benefits improperly computed/claims liability understated	<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>
Contributions	Recorded contributions not correct	<p>We will test the controls the Pension Fund operates to ensure that it receives all expected contributions from member bodies.</p> <p>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.</p>

7. Results of interim audit work

Scope

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

- a review of Information Technology (IT) controls
- journal entry controls
- 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

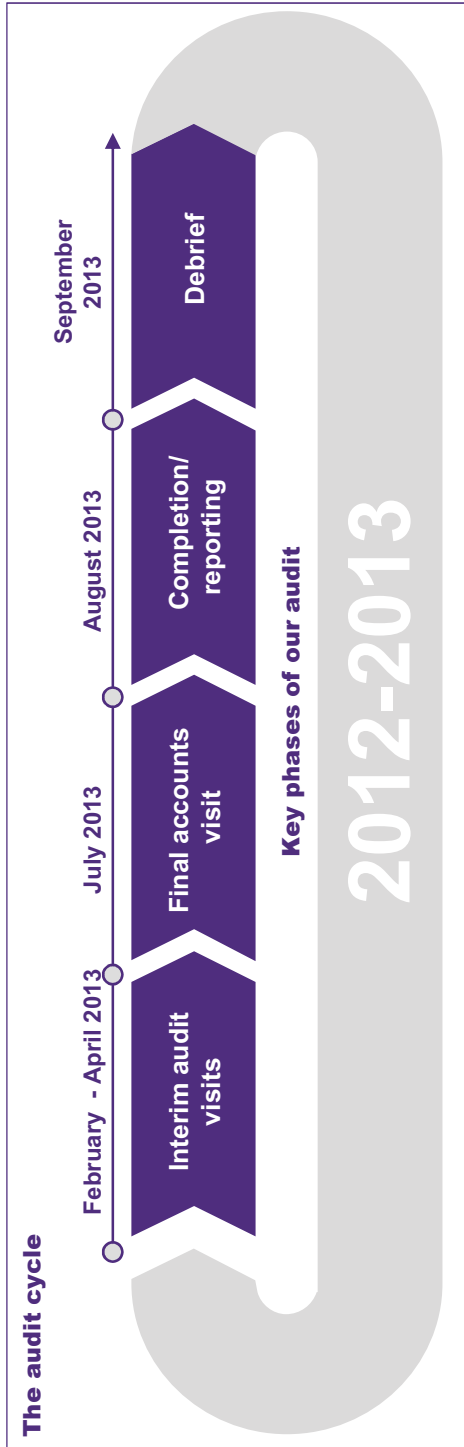
The first three areas have been considered in conjunction with the Surrey County Council audit.

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	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.	This work is scheduled for completion in May 2013, after the SWAN network upgrade has been completed.
Journal entry controls	We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We will undertake detailed testing on journal transactions, by extracting 'unusual' entries for further review.	Journal testing will be completed during the year end audit in July 2013.

7. Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Internal audit	<p>We will review internal audit's overall arrangements against the CIPFA Code of Practice and the new Public Sector Internal Audit Standards (PSIAS) which come into effect on 1 April 2013. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Pension Fund.</p>	<p>This work is scheduled for completion prior to the year end audit visit.</p>
Walkthrough testing	<p>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.</p>	<p>No significant issues were noted for any of the transaction cycles reviewed. In-year internal controls were observed to have been implemented in accordance with our documented understanding.</p>

8. Logistics and our team



Date	Activity
25 Feb 2013	Planning meeting
25 Feb 2013	Interim audit work commences
24 June 2013	Audit plan presented to Audit and Governance Committee
8 July 2013	Year end fieldwork commences
Jul/Aug	Audit findings clearance meetings
4 Sept 2013	Audit and Governance Committee meeting to report our findings
Sept 2013	Issue opinion of the financial statement and annual report

Our team

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9. Fees and independence

Fees

	£
Pension fund audit	26,459

Fees for other services

Service	Fees £
No other services have been requested	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- The Fund will have strong key financial systems of internal control throughout the financial year
- 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.

10. 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 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).

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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