

The Audit Findings for Surrey Pension Fund

Year ended 31 March 2013

27 August 2013

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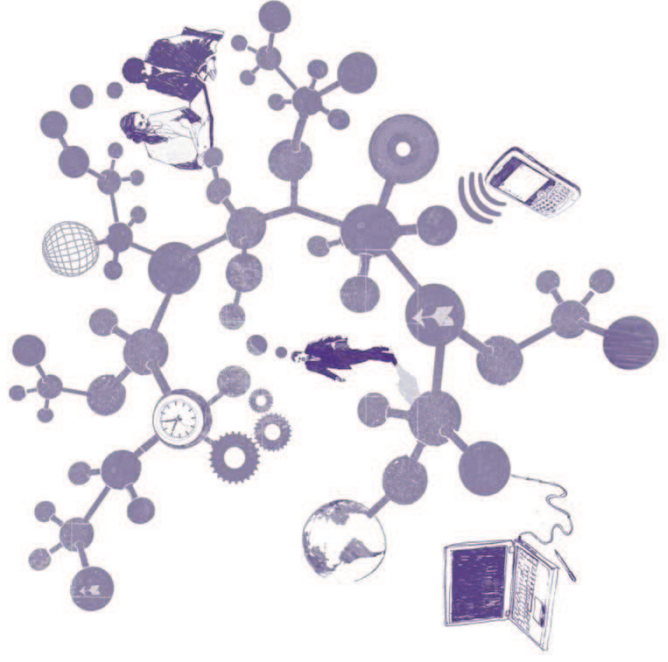
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	6
3. Fees, non audit services and independence	16
4. Future developments	18
5. Communication of audit matters	20
Appendices	
A Draft audit opinion	23

Section 1: Executive summary

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
04. Future developments
05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of the Surrey Pension Fund ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

We received draft financial statements at the end of June and commenced the audit on site on 8 July, in accordance with the dates agreed with management.

We have not altered or changed our audit approach, which we communicated to you in our Audit Plan in June 2013.

Our audit is substantially complete, although we are finalising our procedures in the following areas:

- obtaining and reviewing one independent bank confirmation
- obtaining and reviewing the final management letter of representation following the Audit and Governance Committee meeting
- updating our post balance sheet events review, to the date of signing the opinion and confirming there are no further amendments to the financial statements.

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments on audit which affect the Fund's reported financial position. The draft financial statements recorded net assets at 31 March 2013 of £2,559 million, and this remains the same in the audited financial statements. However, we highlighted a number of best practice adjustments to disclosures during the audit to enhance the presentation of the financial statements.

We anticipate providing an unqualified opinion on the Fund's financial statements after completion of our final audit procedures.

The key messages arising from our audit of the Fund's financial statements are:

- the financial statements provided for audit were complete and compiled in accordance with the CIPFA Code of Practice for Local Authority Accounting.

- the Fund produced good working papers to support the figures in the financial statements.
- management agreed to amend the financial statements for all the recommended disclosure changes.

Acknowledgement

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.

Grant Thornton UK LLP
August 2013

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Fees, non audit services and independence
- 04. Future developments
- 04. Communication of audit matters

Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to alter or change our Audit Plan as previously communicated to you in June 2013.

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Contributions receivable	Scheme Contributions	Other	Recorded contributions not correct	No	No significant audit findings. However, the Committee should note that the £18.15m deficit funding contribution agreed by the Ministry of Justice in 2012/13 has been reclassified on audit from transfers in to contributions based on guidance circulated to auditors by the Audit Commission.
Transfers in	Transfers in to the scheme	Remote		No	
Pensions payable – lump sums and on retirement	Benefit payments	Other	Benefits improperly computed/claims liability understated	No	None
Transfers out - Payments to and on account of leavers	Benefit payments	Other	Transfers improperly computed/liability understated	No	None
Administrative expenses	Administrative expenses	N/A		No	None
Investment income	Investments	Other	Investment activity not valid – income not complete	No	None

Audit findings

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Changes in value of investments	Investments	Other	Investment activity not valid- investments not valued at fair value	No	None
Taxes on income	Investments	N/A		No	None
Investment management expenses	Investments	Remote		No	None
Investments	Investments	Other	Investments not valid. Fair value measurement not correct	No	None
Current assets	Scheme Contributions, investments and cash	N/A		No	None
Current liabilities	Benefit payments, investments	N/A		No	None

We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance on 24 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our draft audit opinion is set out in Appendix A.

Audit findings against significant risks

"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 detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, this includes a presumed significant risk of management override of controls, which is applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls</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 	<p>Our audit work has not identified any evidence of management override of controls. In particular, we did not identify any issued from our review of journal controls and testing of journal entries.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
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>Work completed</p> <ul style="list-style-type: none"> • We reconciled investments between information provided by the fund managers, the custodian and the Fund's accounting records. • We selected a sample of the individual investments held by the Fund at the year end and tested 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). • We confirmed the existence of investments directly with the fund managers. • We tested a sample of sales and purchases during the year back to detailed information provided by the custodian and fund managers. • We reviewed the Fund's compliance with its Statement of Investment Principles. 	<p>Assurance gained & issues arising</p> <p>Our audit work confirmed that the investment values, classifications and movements in the Net Assets Statement and supporting notes are not materially misstated.</p> <p>During our review we highlighted one non trivial error in relation to the outstanding commitment disclosures in note 19. The Fund has amended the disclosure to correct this error.</p>




Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit Payments	Benefits improperly computed/claims liability understated	<ul style="list-style-type: none"> We reviewed controls around benefit payments to ensure key controls over new starters, leavers, deferrals, changes of circumstances and new pensioners were operating effectively. We selected a sample of individual transfers, pensions in payment (new and existing) and lump sum benefits and tested them by reference to the benefit calculations on the respective member file. 	<p>Our testing confirmed that key controls over benefit payments are operating as designed.</p> <p>Our audit work confirmed that benefits payments and payments on account of leavers are not materially misstated.</p> <p>We did not identify any issues or amendments to benefit payments in the financial statements as a result of our audit procedures.</p>
Contributions	Recorded contributions not correct	<ul style="list-style-type: none"> We reviewed controls used by the Fund to ensure it all expected contributions from member bodies. We select a sample of contributions and confirmed that they had been correctly calculated. We rationalised contributions received with reference to changes in contributor numbers. 	<p>Our testing confirmed that key controls over contributions are operating as designed.</p> <p>Our audit work confirmed that contributions receivable from employers and employees are not materially misstated.</p> <p>We recommended one amendment to the contributions receivable in the financial statements to reclassify the deficit funding received from the Ministry of Justice in contributions rather than transfers in, based on guidance circulated to auditors by the Audit Commission.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income to the Fund is accounted for on an accruals basis. 	<ul style="list-style-type: none"> The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. Accounting policies are adequately disclosed in the financial statements. We recommended one minor amendment to the taxation policy, to more accurately describe the accounting policy adopted in practice. Note 3e to the financial statements has been amended accordingly. 	 Green
Other accounting policies	<ul style="list-style-type: none"> The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting 	<ul style="list-style-type: none"> We have reviewed the Fund's accounting policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's accounting policies comply with the Code 	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include; <ul style="list-style-type: none"> Actuarial present value of promised retirement benefits investment valuation of private equity 	<ul style="list-style-type: none"> The policies adopted for accounting estimates are appropriate under the Fund's accounting framework Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best information available when the financial statements were prepared in June 2013. The level of judgement required by the Fund is low. Estimates used are supported by adequate working papers. Disclosure of accounting policies in the financial statements is in line with the recommended disclosures. 	 Green

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

We noted one classification issue and a couple of non trivial disclosure errors only in the notes to the financial statements during the audit. The table below provides details. No adjustments were required to the net assets statement or the total movements in the fund account.

All the amendments identified during the audit have been discussed and agreed with management and included within the final financial statements. There are no unadjusted misstatements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Classification	£18,150	Transfers in and contributions receivable	Deficit funding received from the Ministry of Justice reclassified as contributions rather than transfers in, based on guidance circulated to auditors by the Audit Commission.
2 Disclosure	N/A	Taxation accounting policy	The policy has been revised to clarify that the irrecoverable tax is accounted for as a deduction from investment income (as it is not individually material) rather than as separate expense.
3 Disclosure	£2,417,457	Investments analysed by fund manager	The Legal & General figure and the total figure have both been reduced by £5,856,000 to consistently include foreign exchange derivative investments in this note.
4 Disclosure	£89,639 assets and £4,305 liabilities	Notes 18b Financial Assets and liabilities	In note 18b the entries for loans and receivables and financial liabilities at amortised cost have been removed as this notes should only include financial instruments valued at fair value.
5 Disclosure	£101,599	Outstanding commitment disclosure	This disclosure has been amended to correct some errors identified in the individual private equity commitments included in the calculation.

During the audit we also identified a number of narrative presentations and notes in the financial statements where disclosure could be improved in line with best practice. This included some enhancements to the price risk and credit risk disclosures in note 20 to improve the clarity of the investment and cash values which were subject to these risks and sensitivities.

The majority of the recommended amendments have been agreed and applied by the Fund.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

We have not identified any significant weaknesses in internal controls from our work.

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents of fraud. No issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We have not identified any incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund and is included on the committee agenda.
4.	Disclosures	<ul style="list-style-type: none"> Our review confirmed that the financial statements were prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting. During the audit we suggested a number of enhancements to disclosures in the financial statements, which the Fund has implemented.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed in the financial statements.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

01. Executive summary
02. Audit findings
- 03. Fees, non audit services and independence**
04. Future developments
05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees	Per Audit plan £	Actual fees £
Fund audit	26,459	26,459
Total audit fees	26,459	26,459

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

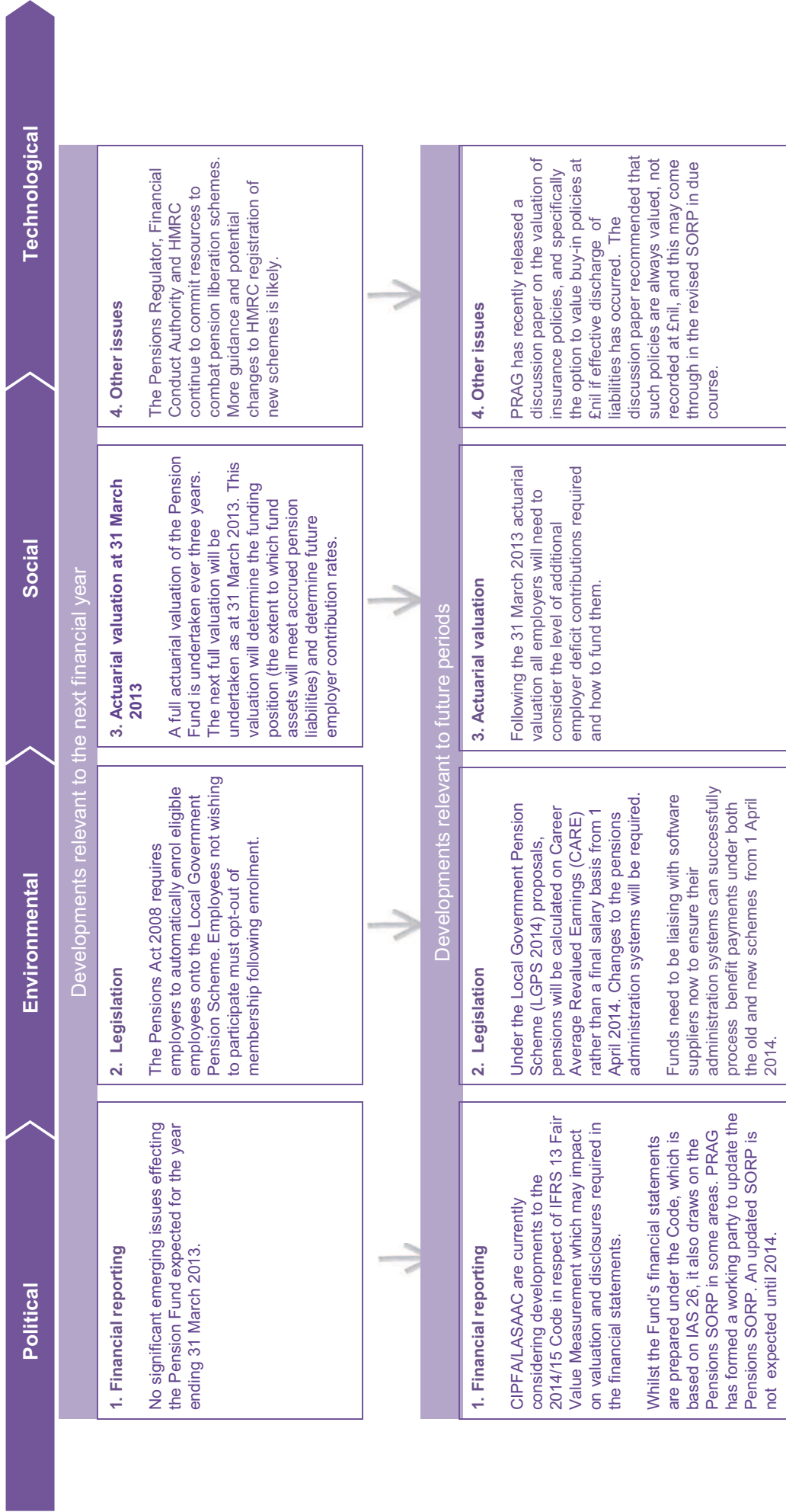
We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express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

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

Section 5: Future developments

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
- 04. Future developments**
05. Communication of audit matters

Future developments relevant to your Fund and the audit



Section 5: Communication of audit matters

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
04. Future developments
- 05. Communication of audit matters**

Communication of audit matters to 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 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 Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund 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 Fund 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 issues 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		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Surrey County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2012/13.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Chief Finance Officer and Deputy Director for Business Services and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer and Deputy Director for Business Services is responsible for the preparation of the Authority's 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer and Deputy Director for Business Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:

give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Paul Creasey
Director

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

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September 2013



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