



The Audit Plan for the Avon Pension Fund

Year ended 31 March 2014

10 June 2014

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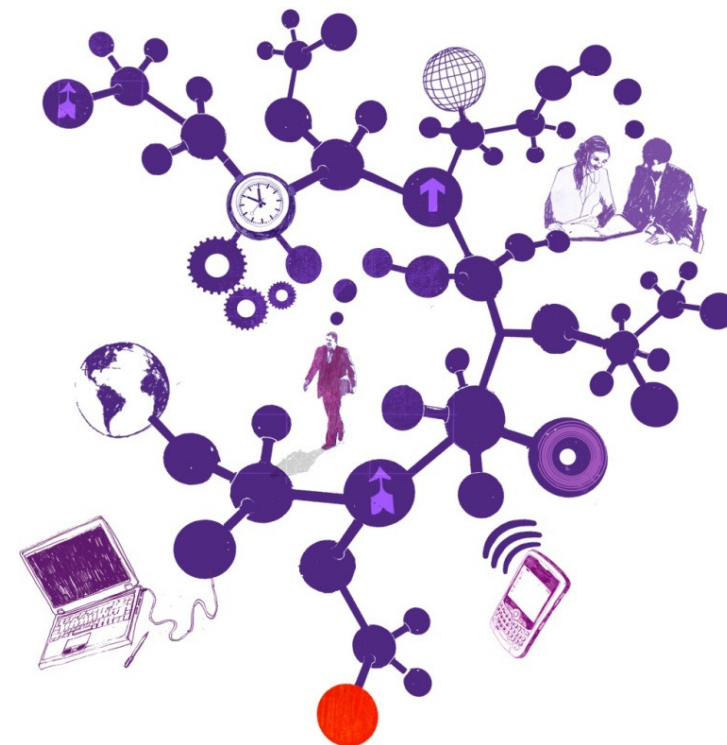
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the 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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1. Understanding your scheme

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.

Changes to the Local Government Pension Scheme

The Public Service Pensions Act 2013 ('the Act') and consequent regulations make changes to the LGPS from 1st April 2014 including:

- changing from a final salary to career average scheme
- allowing members the option to reduce their contributions by 50% to receive 50% less benefit
- changing the way contributions are based on salary
- changing employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014

These changes require all employers involved in the LGPS to change the way their payroll systems calculate pension contributions. Administering authorities need to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions which are based on more complex calculations and less predictable outputs.

Pension administration and payment systems will need to deal with much more detailed processes affecting each individual pension account to ensure the correct payment of future pensions.

The Act will also require changes to the governance arrangements with implementation expected from 1 April 2015.

1. Understanding your scheme (cont'd)

Governance in the LGPS

The "Coming of Age; development of the LGPS" report is based on a detailed survey of almost 30% of the funds in the UK.

Pension committees vary widely. Some focus only on investments, others on in-year performance of investment managers, and some maintain a continuous review of their investment strategies. Over half have changed strategies significantly in recent years. Investment strategies need both long-term focus and continuous review. Important areas of fund management such as benefits administration, collection of contributions and ensuring effective and efficient operation of the fund also require review.

Every public sector pension scheme should have a properly constituted, trained and competent pensions board. To this end, the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on public sector pensions finance knowledge came into effect from 1 April 2012. The majority of funds have adopted the CIPFA framework but only 22% of the funds are implementing action plans as a result.

Pension funds would benefit from completing their own separate annual governance statement to give their governance arrangements the same depth of consideration that the administering authority gives to its other activities.

Administrative costs are relatively small compared to the size of the pension funds and their deficits. However, it is still important that funds understand their costs and take action to reduce them. Sixty per cent of funds benchmark their costs and have reduced them in recent years. But reporting this to pension committees is still under-developed.

Local Government Pension Scheme

The Department for Communities and Local Government has launched a 'Call for Evidence' on the future structure of the Local Government Pension Scheme. The consultation is asking for feedback on the objectives for structural reform and how the Local Government Pension Scheme can best achieve accountability to local taxpayers through the availability of transparent and comparable data while adapting to become more efficient and to promote stronger investment performance.

2. Developments relevant to your scheme 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

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 2014.

2. LGPS 2014

Planning and implementation of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014, will impact on the workload of the pensions administration team. This alongside, further developments in relation to governance may impact on their capacity to respond to audit queries.

3. Financial Pressures – scheduled and admitted bodies

Managing pensions administration where contributing bodies are offering early retirement and redundancies place additional workload on the staff administering pension fund in dealing with severance arrangements.

4. Financial Pressures – Pension fund

Pension funds are increasingly requiring to withdraw from assets to fund the demand on benefits payable that are not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

5. Increasing number of member bodies

The growth in the number of academy schools and the outsourcing of functions by existing member bodies is continuing to increase the number of member bodies. This requires officers to administer and value transfers between admitted bodies.

6. Triennial valuation

Following the 31 March 2013 actuarial valuation the Fund is in the process of considering the level of additional employer deficit contributions required and how to fund them.

Our response

We will ensure that the Pension Fund financial statements comply with the requirements of the Code

We will discuss the impact of the changes with management and agree timetables with officers.

We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

We will monitor the changes being made to the pension fund investment strategy through our regular discussions with senior management and those charged with governance.

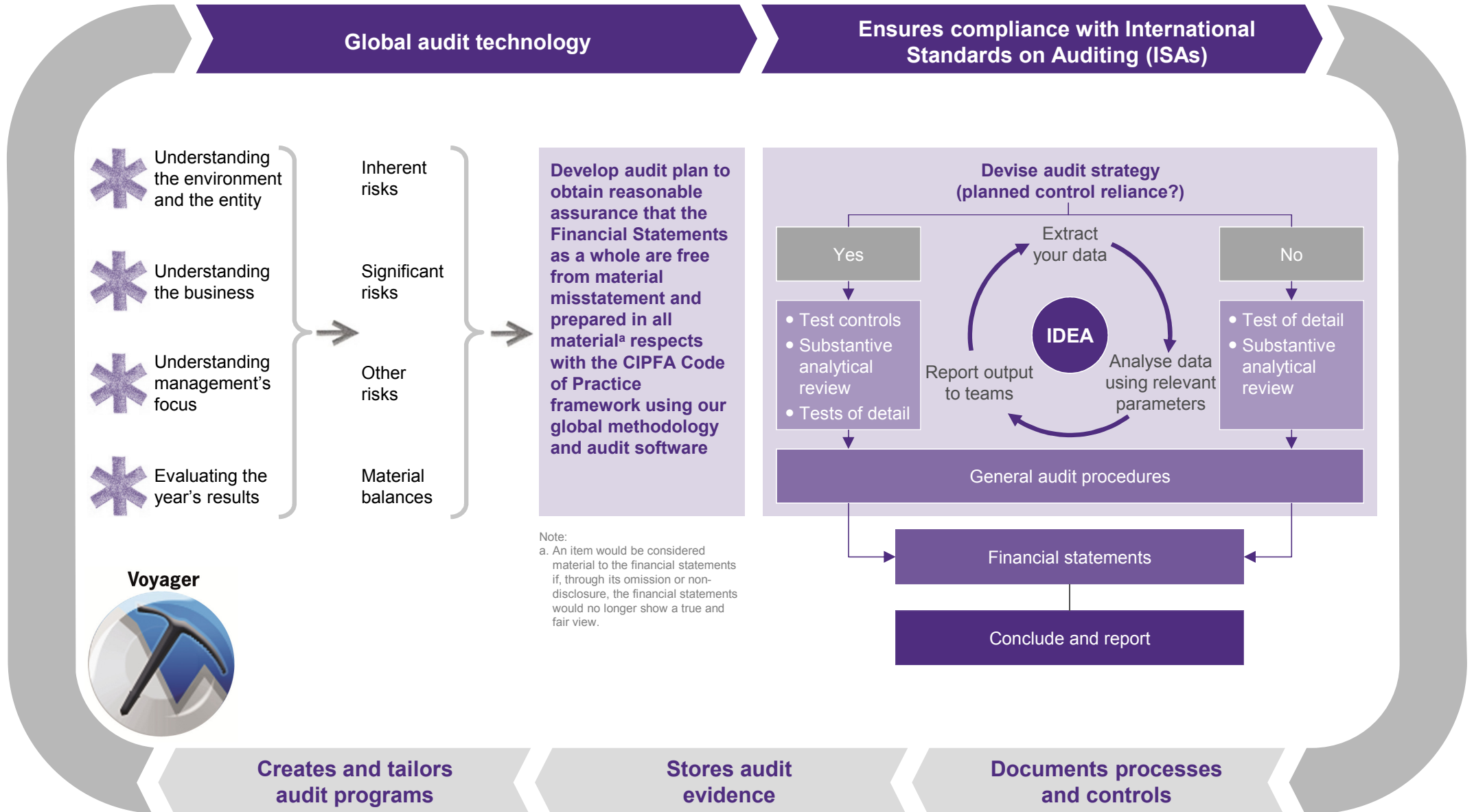
We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

We will review arrangements for setting up new bodies.

Whilst this does not impact the contribution rates applied in the year ended 31 March 2014, it may affect the disclosures in the 2013/14 Pension Fund financial statements.

We will assess the impact this has on the administration of the Pension Fund and any required disclosures in the 2013/14 Pension Fund financial statements.

3. Our audit approach



4. An audit focused on risks

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 rely on 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	None		No	✓ If material
Pensions payable	Yes	Benefit payments	Medium	Other	Benefits improperly computed/claims liability understated	Yes	✓
Payments to and on account of leavers	Yes	Benefit payments	Low	None		No	✓ If material
Administrative expenses	No	Administrative expenses	Low	None		No	X
Investment income	Yes	Investments	Medium	Other	Investment activity not valid	No	✓

4. An audit focused on risks (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Profit and loss on disposal of investments and changes in value of investments	Yes	Investments	Medium	Other	Investment activity not valid	No	✓
Taxes on income	No	Investments	Low	None		No	X
Investment management expenses	No	Investments	Low	None		No	X
Investments	Yes	Investments	Medium	Other	Investments not valid Fair value measurement not correct	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	None		No	X
Current liabilities	No	Benefit payments, investments	Low	None		No	X

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
Revenue	Under ISA 240 there is a presumed risk that revenue 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 Avon 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-in-hand transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very 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 and 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 and which is subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Interim audit testing of journal entries <p>Further work planned:</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	Investments not valid Investments activity not valid Fair value measurement not correct	<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 variances.</p> <p>We will select a sample of the individual investments held by the Scheme at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments). The existence of investments will be confirmed directly with independent custodians 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	<p>We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds which are tested by reference to the member files. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by Avon Pension Fund have been followed.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p> <p>The movements on membership statistics will also be compared to 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

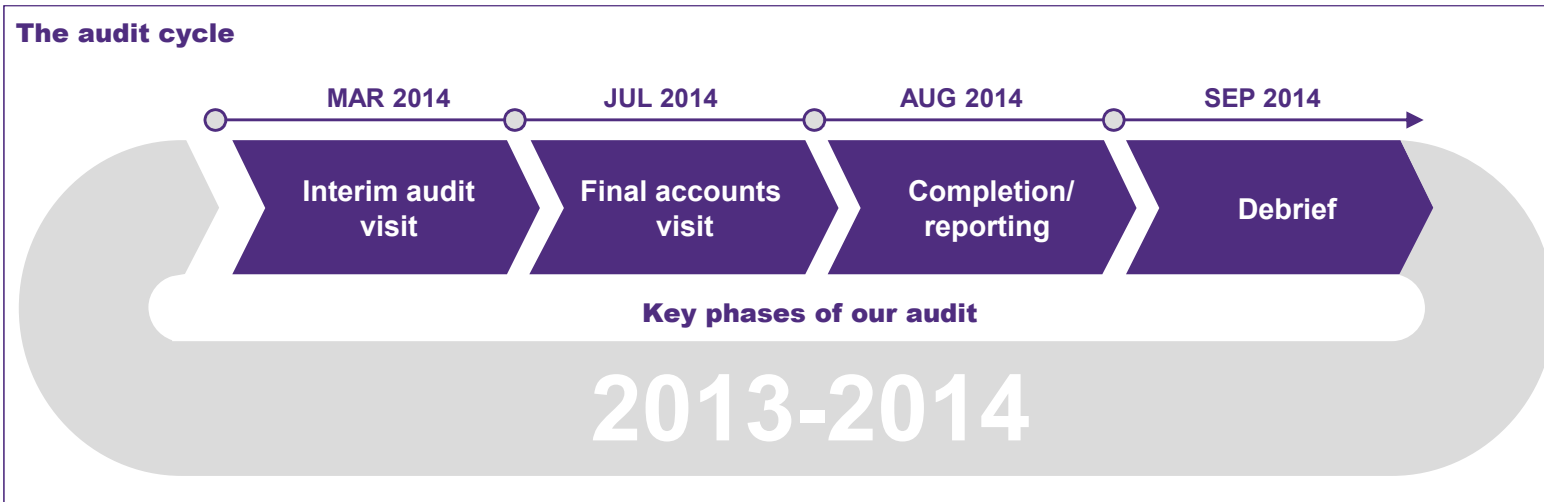
Scope

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

- the effectiveness of the internal audit function
- 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 interim journals

	Work performed	Conclusion/ Summary
Internal audit	We have undertaken a high level review of internal audit's overall arrangements and deemed them to be adequate.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council including the Pension Fund and that we can take assurance from internal audit work in contributing to an effective internal control environment at the Pension Fund.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.
Journal entry controls	We have reviewed the Pension 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 Pension fund's control environment or financial statements.	Our testing is on-going.

8. Logistics and our team



Date	Activity
December 2013	Planning meeting
March 2014	Interim site work
June 2014	The audit plan presented to the Pensions Committee
July 2014	Year end fieldwork commences
August 2014	Audit findings clearance meeting
September 2014	Pensions Committee meeting to report our findings
September 2014	Audit Committee meeting to report our findings
September 2014	Issue opinion of the financial statement and annual report

Our team

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9. Fees and independence

Fees

	2013/14 £	2012/13 £
Pension fund audit	30,116	28,804

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

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.

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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