

# The Audit Plan for Lancashire County Pension Fund

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**Year ended 31 March 2014**

March 2014

**Karen Murray**

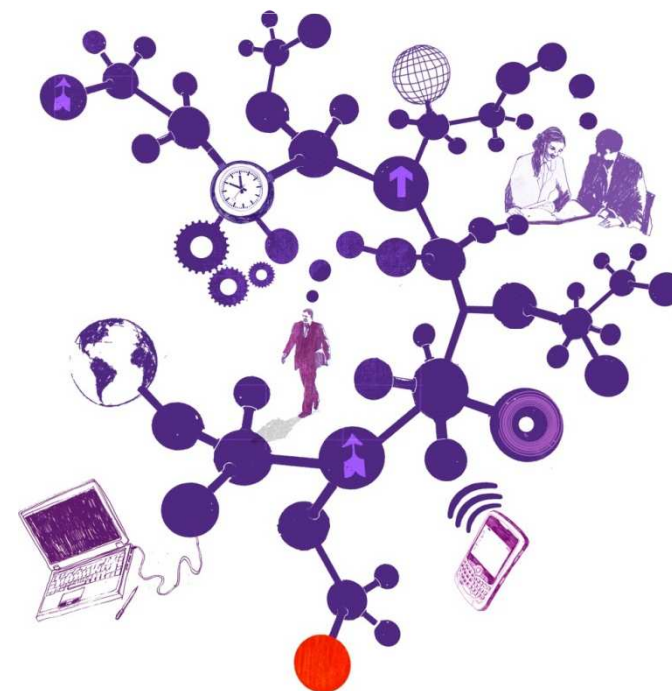
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# Contents

<b>Section</b>	<b>Page</b>
1. Understanding your business	4
2. Developments relevant to your Pension Fund and the audit	5
3. Our audit approach	6
4. Significant risks identified	7
5. Other risks	8
6. Logistics and our team	9
7. Fees and independence	10
8. Communication of audit matters with those charged with governance	12

# Understanding your business

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

## Challenges/opportunities

### 1. Increasing complexity of investments within internally managed fund

- As part of the diversification of investments, the internally managed funds are being targeted towards more fixed income, credit instruments, emerging market funds and company assets

### 2. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments not covered by contributions and investment income. Investment strategies need to respond to these demands as well as the changing nature of investment markets.

### 3. Triennial valuation

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

### 4. Local government restructuring and outsourcing

- With increasing outsourcing services and Directions which require equivalent pensions to be provided to transferred staff, LGPS funds are admitting more private companies.
- Increased number of admitted bodies may increase risks for the fund in the event of those bodies failing.

### 5. Probation trust pension fund merger

- Reforms of probation services include the Greater Manchester Pension Fund acting as LGPS Fund for the National Probation Service and Community Rehabilitation Companies.
- Regulations have been delayed; transfer may be phased from June 2014.

## Our response

- We will review the nature of these investments and the methods being used to estimate the fair value of those investments at 31/3/2014.
- We will assess the appropriateness of the valuation basis and assumptions being used to arrive at a fair value.

- 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 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.

- 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.

- We will discuss with officers arrangements in place to effect the transfer including data transfer and transfer of investment assets.

# Developments relevant to your Pension 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

- 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 implementing of the Career Average Revalued Earnings scheme (CARE), effective from 1 April 2014, will impact on the workload of the pensions administration team.
- The new scheme is likely to be more complex to administer and will require changes to systems and processes.
- This, together with changes to governance arrangements may impact on the capacity to respond to audit queries.

### 3. New governance arrangements

- The Act requires an increased governance regime requiring that each scheme appoint a Scheme Manager who will be assisted by a Pension Board.
- The CLG has consulted on these and regulations are expected in 2014 with implementation expected by April 2015 at the latest

### 4. The Pensions Regulator

- The Act also provides for The Pensions Regulator (TPR) to oversee the operation of LGPS schemes and to set standards of governance and administration.
- The fund will need to monitor compliance with the requirements set by TPR.

### 5. Structural change and efficiency

- DCLG has signalled its intention to consider the future structure of the LGPS to improve efficiency and performance.
- LGPS management expenses are increasingly under scrutiny. In response, CIPFA intends to issue guidance on reporting in 2014.

## Our response

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

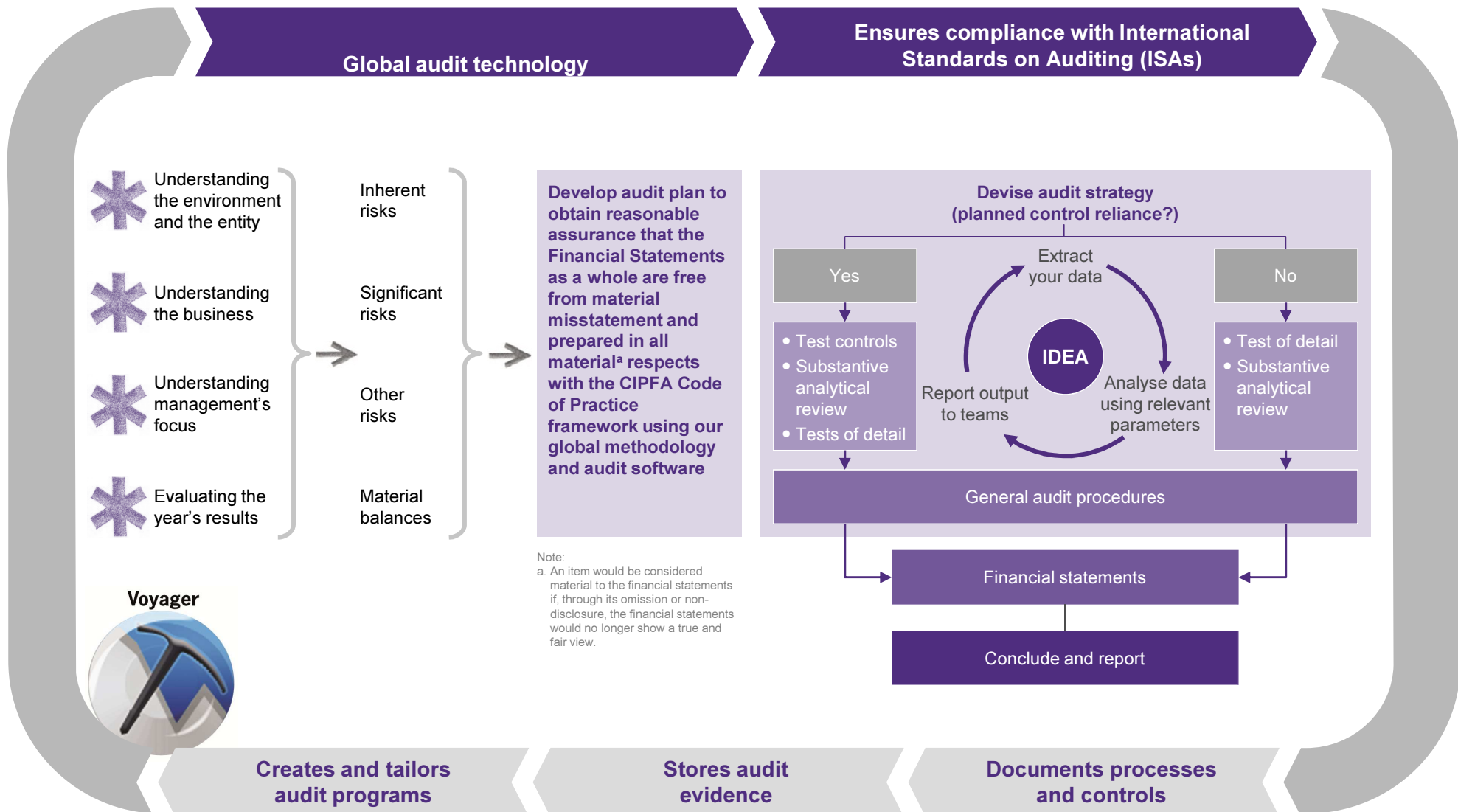
- We will discuss with officers the progress and implementation of LGPS 2014 in our regular meetings. If appropriate will report any observations.
- We will plan our audit and agree timetables with officers, including pension administrative staff, to ensure our audit causes minimal disruption.
- In the 2014/15 audit we will consider the changes to the control environment in response to LGPS data requirements.

- We will consider the Pension Fund's revised governance arrangements, including the proposed separate annual governance statement, as they develop and share good practice on emerging new arrangements

- We will share our experiences of working with TPR as you prepare for the new regulatory regime.
- From 1 April 2015 we will consider our reporting responsibilities to TPR. We will discuss any report with officers and the Pensions Committee

- We will share with you good practice in reducing administration costs through collaboration or other initiative.
- Once issued, we will consider the CIPFA guidance and discuss with officers
- We will discuss any proposals for structural change and their impact on the pension fund with officers.

# 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 may be misstated due to the improper recognition.	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Lancashire County Pension Fund. this is because:</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, its Fund Managers and the Custodian, provides a clear 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 presumption 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).

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

Other reasonably possible risks	Description	Planned audit procedure
Investments	Investments not valid Investments activity not valid Alternative Investments not valid Fair value measurement not correct	We will: <ul style="list-style-type: none"> <li>• See independent verification of year end holdings and in-year purchases and sales from the fund managers and the custodian</li> <li>• 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. We may also have to test a sample of purchases and sales during the year back to detailed information provided by the custodian and fund managers.</li> <li>• test the valuation of a sample of the individual investments held by the Fund at the year end. for any unquoted investments we will critically assess the assumptions and basis of underlying estimations of investment values</li> <li>• Complete procedures to enable us to rely on pension fund's property valuers in respect of property investments</li> <li>• Confirm the existence of investments directly with the independent custodian and property valuer or by agreement to relevant documentation.</li> </ul>
Benefit Payments	Benefits improperly calculated/claims liability understated	We will: <ul style="list-style-type: none"> <li>• perform tests of controls over new pensions in payment and associated lump sum benefits.</li> <li>• 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.</li> <li>• compare the movements on membership statistics to material transactions in the accounting records.</li> </ul>

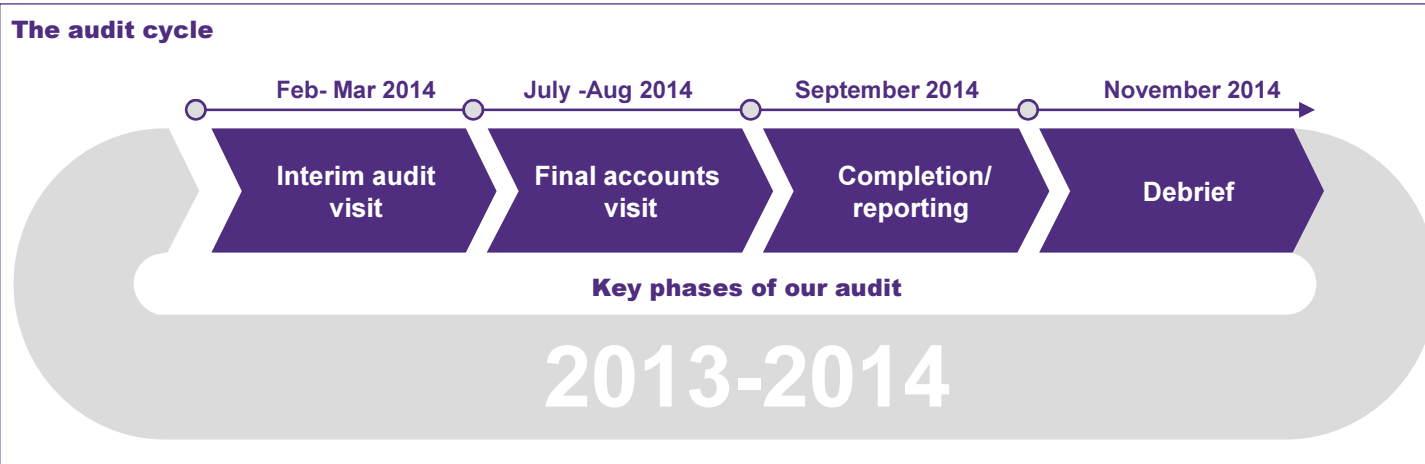


## Other risks

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Other reasonably possible risks	Description	Planned audit procedure
Contributions	Recorded contributions not correct	We will: <ul style="list-style-type: none"> <li>• perform a test of controls on the Administering Authority's contributions monitoring procedures.</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> </ul>
Member Data	Member data not correct  Regulatory, legal and scheme rules/ requirements not met  Actuarial amounts not determined properly	We will <ul style="list-style-type: none"> <li>• confirm the system of controls and reconciliations covering the determination of member eligibility, the input of evidence into the Pensions Administration System and the maintenance of member records.</li> <li>• substantively test changes to Member Data</li> <li>• examine the reconciliation of membership numbers for each category of member to previous year's figures via retirements, leavers and starters.</li> </ul>

# Logistics and our team



Date	Activity
Feb/ March 2014	Planning
Feb/ March 2014	Interim site visit
March 2014	Presentation of the Audit Plan to Audit and Assurance Committee
July - August 2014	Year end fieldwork
September 2014	Audit Findings clearance meeting with Finance staff
September 2014	Presentation of the Audit Findings to Audit and Assurance Committee
September 2014	Opinion issued

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# Fees and independence

## Fees

	£
Pension Fund (scale fee)	34,169
IAS19 related work	£1,737
<b>Total proposed fee</b>	<b>£35,906</b>

### 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	£
None	Nil

## Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the in-charge member of our team has a family member who works within the Pension Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake any work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

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 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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