

Leicestershire County Council Pension Fund

Report to those charged with governance

Report to the Local Pension Committee and those charged with governance of the Leicestershire County Council Pension Fund on the audit for the year ended 31 March 2015 *(ISA (UK&I)) 260*

Government and
Public Sector

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in June 2015; we have reviewed the plan and concluded that it remains appropriate.

Audit Summary

- At the time of issuing this report, we have completed our audit and review of the Annual Report and Accounts and will issue a consistent with opinion. A consistent opinion means our opinion in the financial statements is consistent with the opinion included within the Statement of Accounts of Leicestershire County Council for the year ended 31 March 2015.
- We would like to formally record our thanks to the officers of the Fund who have assisted us in completing our work.

Please note that this report will be sent to Public Sector Audit Appointments Limited in accordance with the requirements of its standing guidance.

Audit approach

Our audit approach was set in our audit plan which we presented to you in June 2015.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Audit approach
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant <input type="checkbox"/>	<p>As part of our assessment of your control environment we considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We performed procedures to:</p> <ul style="list-style-type: none">- Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;- Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus;- Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);- Evaluate the business rationale underlying significant transactions outside the normal course of business; and- Perform unpredictable procedures targeted on fraud risks. <p>We performed other audit procedures as necessary.</p> <p>There were no matters to report.</p>

Risk	Categorisation	Audit approach
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government.</p>	<p>Significant ▢</p>	<p>We performed procedures to:</p> <ul style="list-style-type: none"> - Test the appropriateness of journal entries and other year-end adjustments affecting revenue; - Consider recognition criteria for investment income. <p>We have noted during the year that internal audit have performed some work regarding member contributions and have considered these findings within our audit fieldwork</p> <p>There are no matters to report.</p>
<p>Valuation of hard to value investments</p> <p>Leicestershire County Council Pension Fund holds a mixture of categories of investment within the Pension fund portfolio. For a proportion of these assets a readily available market price is not always available.</p>	<p>Elevated ▢</p>	<p>We reviewed the monitoring procedures in place over these categories of investments with management.</p> <p>We confirmed the valuation of hard-to-value investments at year end with the individual investment managers and assessed the accuracy of the year end valuation by reviewing the latest audited accounts to information provided to management to assess the reasonableness of these unit prices.</p> <p>We reviewed the latest investment manager controls reports, where available, to update our understanding of controls and procedures in place over valuation of such assets.</p> <p>There are no matters to report.</p>

We have summarised below the other risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Focus area/risk	Work performed
<u>Investment assets and returns</u>	
Investments may not exist or the scheme may not have title to investment assets	<ul style="list-style-type: none"> • We understood the Committee and management monitoring controls, including reviewing Committee meeting minutes; • We obtained independent confirmations of all externally managed investments assets from the investment managers. In the case of those investment assets managed by the in house team, we obtained confirmation from the custodian; and • We reviewed internal controls reports on investment management and custody. <p>There are no matters to report.</p>
Investments may be incorrectly valued	<ul style="list-style-type: none"> • We tested the valuation of quoted investments against third party sources; • We understood how the Committee and management validate asset values provided by investment managers for investments which are not quoted; and • We reviewed valuations for pooled investment vehicles and private equity investments, including reviewing the most recent audited accounts for the funds and any available internal controls reports. <p>There are no matters to report.</p>
Investments may be recorded incompletely in the financial accounting records and the accounts	<ul style="list-style-type: none"> • We reviewed the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments; and • We reviewed the reconciliations performed in-house between investment manager and custodian assets. <p>There are no matters to report.</p>

Focus area/risk	Work performed
Performance of investments reported may be inconsistent with the accounts	<ul style="list-style-type: none"> We completed an analytical review of investment returns for reasonableness compared with the Fund's benchmarks and other external indices. <p>There are no matters to report.</p>
Allocation of investments may not be in accordance with the Statement of Investment Principles ('SIP')	<ul style="list-style-type: none"> We reviewed the allocation of investments compared with the requirements of the SIP. <p>There are no matters to report.</p>
Contributions	
Payment of employer contributions may not be in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) ("the schedules")	<ul style="list-style-type: none"> We reviewed the controls over payroll and validate on a sample basis that these are operating as expected. We undertook analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions. We considered the monthly contributions received and investigate any unusual fluctuations. We tested on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules. We reviewed the timing of the payment of contributions according to bank details compared with the requirements of the schedules. <p>There are no matters to report.</p>
Benefits and membership	
Benefits may not be correctly calculated according to the local government regulations	<ul style="list-style-type: none"> We reviewed the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected; We undertook analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase; We considered the monthly total pensions paid and investigate any unusual fluctuations; and We performed substantive testing on a sample basis over material types of benefit payments.

Focus area/risk	Work performed
<p>Membership statistics accurately reflect the membership of the scheme</p>	<ul style="list-style-type: none"> • We reviewed the results of any pensioner existence checking exercise completed during the year; and • We compared membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations. <p>There are no matters to report.</p>
<p><u>Other areas</u></p>	
<p>Current assets and liabilities may not be appropriately accounted for</p>	<ul style="list-style-type: none"> • We reviewed balances compared with the prior year and against our expectations from testing of income and expenditure; • We obtained independent confirmation of cash balances; and • We reviewed controls over cash movements and bank account authority levels. <p>There are no matters to report.</p>
<p>Related party transactions may be incomplete or inaccurately reflected in the accounts</p>	<ul style="list-style-type: none"> • We understood the controls that the Committee and management have over the identification of related parties and transactions with them; and • We made specific enquiries for any transactions which look to be outside of the normal course of business. <p>There are no matters to report.</p>

Significant audit and accounting matters

Auditing standards require us to tell you about relevant matters related to the audit of the financial statements sufficiently promptly for you to take appropriate action. This section contains such items.

Financial statements

Our audit is now complete, and we expect to issue a “consistent with” opinion to the main County Council accounts.

Accounting issues

We have no significant accounting issues to bring to your attention.

Misstatements and significant audit adjustments

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. We identify all items greater than £1,564,000 as non-trivial. As auditors, we also bring to your attention misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

We have not noted any such non-trivial adjustments as part of our audit work.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of Leicestershire County Council.

We also read the other information contained within the pension fund annual report and considered the implications for our report, and noted no apparent misstatements or material inconsistencies with the financial statements. The other information consists only of the Chairman’s Report, Fund Management, Investment Report, Fund Membership, Glossary and Contacts.

In preparing this Pension Fund report, the Director of Finance and Resources is responsible for ensuring:

- The selection of suitable accounting policies and the consistent application of these;
- Ensuring judgments and estimates are reasonable and prudent;
- Ensuring compliance with the Code of Practice on Local Authority Accounting;
- Keeping proper accounting records which are up to date; and
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

IFRS 7 sets out the information that an entity should disclose to enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed to at the end of the reporting period. This includes providing disclosures around the risks arising, for example credit risk, liquidity risk and market risk, and how they have been managed by the entity. The Fund has made improved disclosures within the notes to the financial statements which set out the risks that are relevant to the Fund’s specific circumstances and reflects how the Fund monitors and controls its risk.

Judgments and accounting estimates

Significant judgments and accounting estimates were used in the preparation of the financial statements in relation to the valuation of non-listed investments. As set out in the previous section, we carried out audit procedures to satisfy ourselves that these valuations are reasonable. However, we consider it worth bringing to your attention that these balances are based on more significant judgements than other investment balances which are commonly traded: as a result, we have focused greater audit attention on these balances.

These are also the investments and balances which potentially represent the greatest risk of manipulation, and it is therefore important that members of the committee are comfortable with the suitability and carrying value of these investments.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. None were noted during the course of the audit

Disagreements with management

There were no disagreements with management, individually or in aggregate, which could be significant to the entity's Statement of Accounts or our audit report.

Financial standing

There are no material uncertainties related to events and conditions that may cast significant doubt on the scheme's financial standing.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We did not identify any matters during the course of our work.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board. Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Fund that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We have not identified any potential issues in respect of personal relationships with the Fund or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Fund as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Fund.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Fund's senior management or staff.

Other matters

We are not aware of any other matters which may impact on our independence and objectivity e.g. litigation.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Pension Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Fees

We reported our fee proposals in our plan. Our actual fees were in line with our proposals (£27,637).

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Pension Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in June 2015 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.



In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. You agree to pay due regard to any representations which PwC may make in connection with such disclosure and you shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, you disclose this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for you and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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