



CAMBRIDGESHIRE COUNTY COUNCIL PENSION FUND

PLANNING REPORT TO THE AUDIT AND ACCOUNTS COMMITTEE

Audit for the year ended 31 March 2017

Date of issue: 11 May 2017

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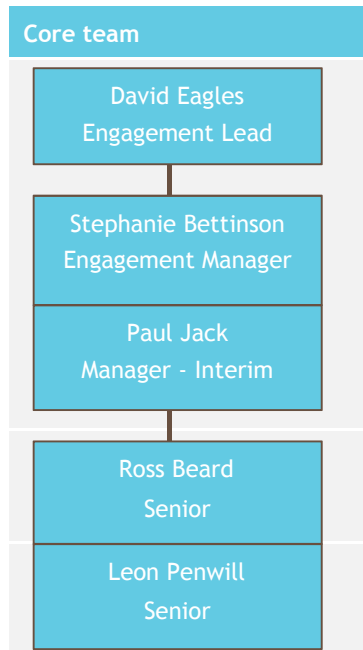
INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the Cambridgeshire County Council Pension Fund for the year ended 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Accounts Committee and Pension Fund Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
David Eagles Engagement Lead	Tel: 01473 320728 david.eagles@bdo.co.uk	Oversee the audit and sign the audit report
Stephanie Bettinson Engagement Manager	Tel: 01473 320775 stephanie.bettinson@bdo.co.uk	Management of the audit
Paul Jack Manager - Interim Audit	Tel: 01483 408097 paul.jack@bdo.co.uk	Management of the interim audit
Ross Beard Senior	Tel: 01473 320785 ross.beard@bdo.co.uk	Day to day supervision of the interim audit
Leon Penwill Senior	Tel: 01473 320739 leon.penwill@bdo.co.uk	Day to day supervision of the final on-site audit

David Eagles is the Engagement Lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

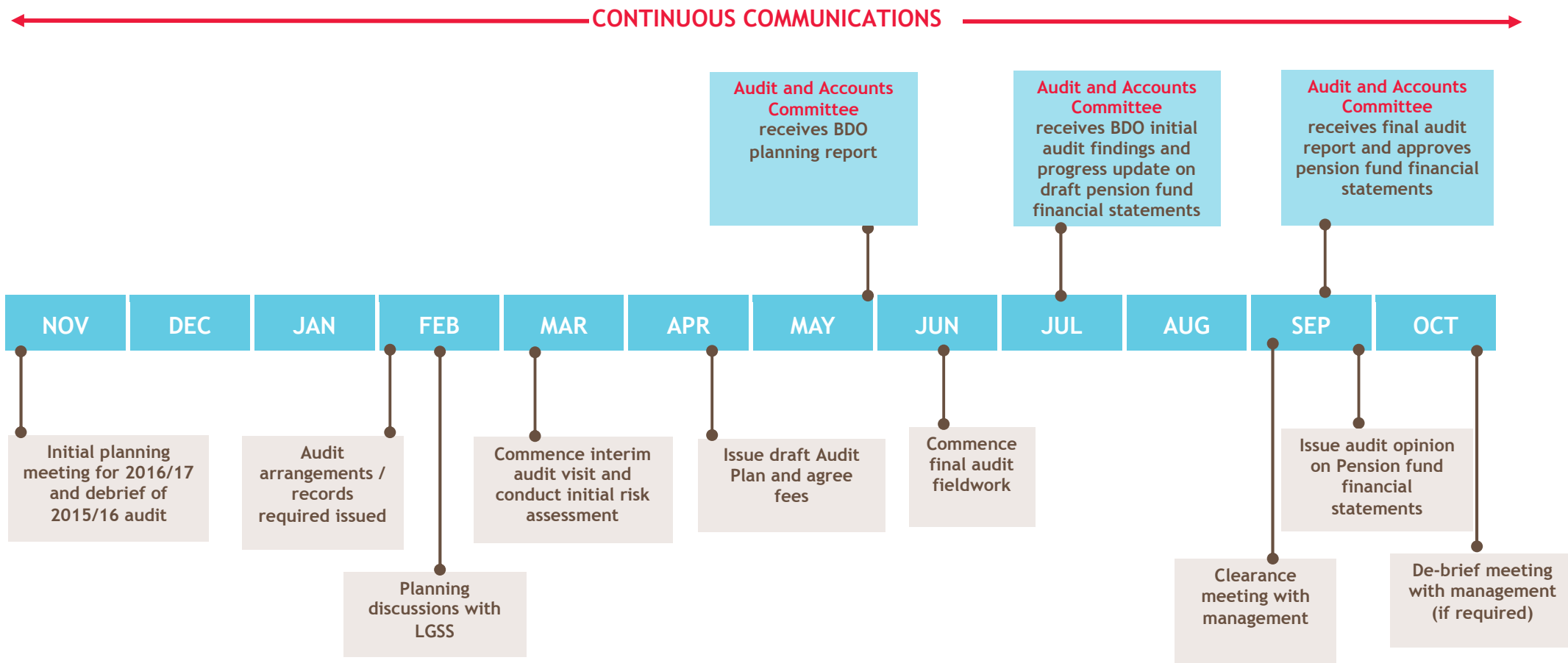
In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error

David is also responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

Our audit objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	ADDITIONAL REQUIREMENTS	
1	The financial statements give a true and fair view of the financial transactions of the pension fund for the period, and the amount and disposition at the period end of the assets and liabilities, other than liabilities to pay pensions and benefits after the period end.	3	Other information published together with the audited financial statements is consistent with the financial statements.	
2	The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.		4	Review the pension fund annual report and report on the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts.

MATERIALITY

MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Pension fund overall materiality	£27,000,000	£540,000
Specific materiality for other financial statement areas:		
- Contributions	£6,000,000	£120,000
- Other fund account balances	£8,400,000	£240,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the pension fund financial statements will initially be based on 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for contributions at 5% of contributions receivable and for other fund account balances at 7.5% of the greater of total income or total expenditure.

At this stage, the above figures are based on the prior year net assets and income and expenditure figures, adjusted to reflect our expectations gained from interim work performed. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the pension fund financial statements

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the pension fund and the specific risks it faces. We discussed the changes to the fund, such as scheme regulations, and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

We also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

We then carry out our audit procedures in response to risks.

Risks and planned audit responses

Under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether we are able to place any reliance on internal audit work as evidence of the soundness of the control environment.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p> <p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the fund's policies, aims and objectives and to manage the risks facing the fund; this includes the risk of fraud.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.</p> <p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	Not applicable.
Fair value of investments (unquoted investments - excluding Cambridge & Counties Bank)	<p>The investment portfolio includes unquoted investment holdings valued by the fund manager. The valuation of these assets may be subject to a significant level of assumption and estimation and valuations may not be based on observable market data.</p> <p>In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations.</p> <p>As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.</p> <p>The valuation of Cambridge & Counties Bank is considered separately as a non-significant risk below.</p>	<p>We will obtain direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund.</p> <p>Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, we will confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds.</p> <p>We will review the methods and assumptions used and consider whether investments have been correctly valued in accordance with the relevant accounting policies.</p>	Direct confirmation of fund valuation and audited financial statements for private equity investments.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Revenue recognition (CCC contributions)	<p>Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. We have rebutted this presumed significant risk as the majority of income is from contributions, which is a highly controlled stream (with limited subjectivity or opportunity for manipulation), and levels of contributions are set by the scheme actuary.</p> <p>However, the majority of contributions are from a single employer, Cambridge County Council (CCC). Therefore, there is a risk that manipulation may occur within the CCC contributions, but this is not regarded as significant. We have scoped out from this specific risk the contributions received from other bodies, as it would require significant manipulation of multiple bodies for any misstatement to be material.</p>	<p>We will undertake substantive testing of contributions receivable by the fund from CCC, on a sample basis, to verify the monthly contributions received by the pension fund and trace these back to returns issued to the pension fund and the employer payroll records.</p> <p>For a sample of individual members, we will verify their inclusion in the employer payroll and seek to confirm that employer contribution rates are in line with the latest rates set by the actuary, and member rates are in accordance with the LGPS Contributions Table.</p>	<p>We will check a sample of contributions receivable from the Council to the Council’s payroll records to ensure that the correct amounts have been paid by the employee and employer.</p>
Fair value of investments (Cambridgeshire and Counties Bank)	<p>The investment in Cambridge & Counties Bank (CCB) is unquoted and is valued by an external valuer appointed by the fund (Grant Thornton). The valuation of the investment is based upon the unquoted results of the bank and includes an element of assumption and estimation.</p> <p>There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements. However, from our experience gained by reviewing the valuation basis in the prior year, and our expectation that the same basis will be applied this year, we have concluded this does not present a significant risk of misstatement.</p>	<p>We will review the valuation of the bank completed by the external valuer and the significant assumptions made in this valuation. As part of this we will consult with a valuation specialist within the firm to help assess the reasonableness of the valuation.</p> <p>We will ensure that investments have been correctly valued in accordance with the relevant accounting policies.</p>	<p>External market comparators to Pension Fund’s valuation drivers.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation uses inappropriate assumptions to value the liability.</p>	<p>We will review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.</p> <p>We will agree the disclosure to the information provided by the actuary.</p>	<p>We will use the consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p> <p>We will also undertake our own review of the assumptions used and confirm the professional competence of the actuary.</p>
Investment management expenses disclosures	<p>Local Government Pension Fund Accounts are required to disclose investment management expenses.</p> <p>Management expenses included in the pension fund accounts represent the fees for the service provided by and any performance related fees in relation to the fund manager. Further 'hidden' fees may be deducted when the investment of contributions is made by the fund manager and hence has historically been included in the change in market value of investments.</p> <p>CIPFA issued guidance in June 2016 on obtaining and separately presenting these additional charges in the fund accounts, in order "to promote transparency, consistency and completeness of financial reporting". There is a clear expectation that LGPS fund accounts should observe this guidance.</p> <p>We consider there to be a risk in the presentation of investment management expenses in the fund accounts where fees are not identified and separately reported.</p>	<p>We will review the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Consideration of related party transactions - key management personnel disclosures	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p> <p>In particular, new requirements to disclose the remuneration of key management personnel apply from 2016/17, as previous exemptions (for remuneration reported elsewhere) are no longer available. This specific requirement needs to be considered specifically to ensure correct and adequate disclosure in the financial statements.</p>	<p>We will seek to identify, through review and discussions, the appropriate individuals and entities considered to be key management personnel.</p> <p>We will consider the disclosures proposed and seek corroboration and explanation for the levels of remuneration disclosed and narrative explanations given.</p> <p>We will discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	Not applicable.

Key: ■ Significant risk ■ Normal risk ■ Other issue

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Accounts Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the Council and Pension Fund. We do not consider this to be a threat to our independence and objectivity.

We have not identified any potential threats to our independence as auditors.

We have confirmed that we have not provided any non-audit services.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

INDEPENDENCE

Continued

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
David Eagles - Engagement lead	2	31 March 2021
Stephanie Bettinson - Engagement manager	1	31 March 2027
Paul Jack - Manager	2	31 March 2026
Engagement Quality Review Partner	2	31 March 2023

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ended 31 March 2017 are:

	£
Code audit fee (pension fund)	22,410
TOTAL FEES	22,410

Fee invoices have been raised as set out below,:

- First instalment £11,205 in July 2016
- Second instalment £11,205 in January 2017.

The fee set out above is the base Scale fee. It has not been adjusted to reflect any ongoing risks and consequent additional audit resource requirements to address such. This position will be closely monitored and any additional risk work that we consider necessary will be discussed and agreed with the Pension Fund.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the pension fund financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. related party transactions disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the pension fund, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY


Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Accounts Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit and Accounts Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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