CAMBRIDGESHIRE COUNTY COUNCIL PENSION FUND

FINAL ISA260 REPORT TO THE AUDIT AND ACCOUNTS COMMITTEE

Audit for the year ended 31 March 2016 - Final version issued 14 October 2016

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PURPOSE AND USE OF THIS REPORT

We present our Final Report which details the key findings arising from the audit for the attention of those charged with governance. 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.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

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. As the purpose of the audit is for us to express an opinion on the Fund financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit and Accounts Committee and Pension Fund Committee, and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit to date and throughout the period.

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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved.
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work.
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning letter.
- Our materiality levels have not required reassessment since our audit planning referred to above.

AUDIT OPINION

We anticipate issuing an unqualified opinion on the Fund's financial statements for the year ended 31 March 2016.

KEY AUDIT AND ACCOUNTING MATTERS

The key matters that have arisen in the course of our audit are summarised below:

i. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

ii. We identified the valuation of Cambridge and Counties Bank as a significant risk, due to the judgement involved. We were provided with a copy of the valuation prepared for the Fund by Grant Thornton LLP, and engaged our specialist valuations team to assess the basis and assumptions used. We concluded that the assumptions and methods used were not unreasonable, and the valuation produced was appropriate. We identified a non-trivial but immaterial understatement error of £1m (see p9), but have concluded that the value is not materially misstated.

iii. We also identified the valuation of other unquoted investments as a significant risk. We have concluded that the valuation basis used appears reasonable and the values are not materially misstated.

iv. We have observed a lack of controls to prevent officers both creating and authorising journal entries in Oracle, which is set out in more detail below. We did not identify any erroneous or fraudulent entries during the course of our audit work however.

v. It is not possible to reconcile or confirm contributions posted directly to Altair by the LGSS payroll department for Cambridge County Council employers, where LGSS also maintain the employer payrolls. We understand that LGSS are investigating ways to improve the controls in this area. There is an unreconciled amount of £958,000 but no error in contributions paid has been indicated.

vi. The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 has been issued and will be adopted for the 2016-17 financial year. The revised Code requires changes to the format of the Pension Fund Account and the Net Assets Statement. The changes are expected to have minimal impact on the presentation of the Pension Fund Account and the Net Assets Statement of the Cambridgeshire County Council Pension Fund, however certain additional disclosures will be required. One such additional disclosure is that of investment management fees incorporated within fund values, this is discussed in further detail on pages 8 and 21 of this report.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in our audit planning report dated 27 May 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's and pension fund internal control environment and draft financial statements, and we have identified an additional significant risk in relation to the posting and authorising of journals. This risk is also detailed below.

■ [S] Significant risk of material misstatement ■ [N] Normal risk of material misstatement ■ [O] Other issue

NATURE OF RISK	RELATED CONTROLS / RESPONSE TO RISK	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION AND RECOMMENDATION
MANAGEMENT OVERRIDE OF CONTROLS [S]	Auditing standards presume that a risk of management override of controls is present in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We are required to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	We have performed detailed audit work to test a sample of journals, and our conclusions were satisfactory. There is no indication of inappropriate journals having been recorded. No issues have been identified in our review of the appropriateness of other transactions and adjustments made to the financial statements, and our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION (CONTRIBUTIONS) [S]	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. The Fund has controls in place in the form of reconciliations of employer data and returns.	We performed tests of control over the reconciliation and verification process for employer returns. We performed sample testing and recalculations to verify the pensionable pay and contribution rates to employer records and returns. We recalculated member and employer contributions rates and compared employer rates to those mandated by the actuary.	We have concluded there are no material errors or indications of fraud within revenue from contributions. We identified one potential control deficiency whereby contributions posted directly to Altair from the employer payrolls are not currently reconciled or verified, however the impact of this is not material and there is no confirmed error indicated. No other issues have been identified by our testing of revenue from contributions.
FAIR VALUE OF INVESTMENTS (UNQUOTED INVESTMENTS) [S]	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.	We obtained direct confirmations from each investment manager and confirmed the basis of valuation for managed investments. We considered the valuation method for directly held investments and calculated an expected value based on direct confirmations and publicly disclosed information.	We have reconciled the valuations to direct confirmations from the investment managers and reviewed the basis used to value these. We have concluded that the valuation basis used appears reasonable and the values are not materially misstated.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

■ [S] Significant risk of material misstatement ■ [N] Normal risk of material misstatement ■ [O] Other issue

NATURE OF RISK	RELATED CONTROLS / RESPONSE TO RISK	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION AND RECOMMENDATION
FAIR VALUE OF INVESTMENTS (CAMBRIDGE AND COUNTIES BANK) [S]	The investment in the bank is unquoted and is valued by an external valuer appointed by the fund. The valuation of the investment may be subject to a significant level of assumption and estimation.	We engaged in discussions at an early stage with officers about their proposed approach to valuation for the current period and ongoing. Grant Thornton were engaged to undertake the valuation and reported to the Fund in May 2016. We engaged specialist valuations experts within BDO to analyse and assess the external valuation on which the value in the financial statements was based. We reviewed the assumptions and methodology used in the valuation, and the accuracy and appropriateness of these in producing a final valuation. We considered the value held in the financial statements against the results and conclusions of these reviews.	We did not identify any material misstatement of the value used in the accounts as a result of inappropriate assumptions or estimates.
POSTING AND AUTHORISING OF JOURNALS [S]	We identified a risk of misstatement resulting from the ability of a single user to post and authorise journals within Oracle.	We planned to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	We performed a detailed analytical review of journals recorded during the year, and did not identify any significant anomalies or errors. We also selected samples of journals based on observed attributes and unusual items, and traced these to supporting evidence and corroborated explanations. We did not identify any errors. We have however identified that a control deficiency still exists in this area. The system permits the same individual to post and authorise journals (no prevention control), this is detailed below in the control environment section of this report. We are aware that there are subsequent reviews which provide a detection control.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our audit planning report and any other relevant audit and accounting issues identified as a result of our audit:

[S] Significant risk of material misstatement   [N] Normal risk of material misstatement   [O] Other issue

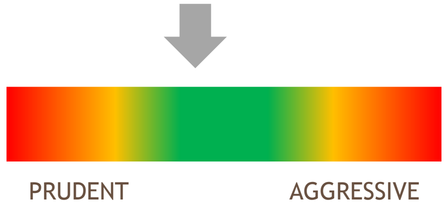
NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
PENSION LIABILITY ASSUMPTIONS [N]	An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. We reviewed the controls in place to ensure that the data provided from the fund to the actuary was complete and accurate, and reviewed the reasonableness of the assumptions used in the calculation. The disclosure in the financial statements has been agreed to information provided by the actuary.	No issues have been identified in our review of the assumptions used and our work on accounting estimates has not identified any evidence of bias.
INVESTMENT MANAGEMENT EXPENSES [N]	We reviewed 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. Where fees are incorporated within change in market value of investments, CIPFA's guidance recommends separately presenting these charges in the fund accounts, Whilst not mandatory to report these costs separately, there is a clear expectation that LGPS fund accounts do observe this guidance.	Investment management charges which are incorporated with fund prices, and therefore included in change in market value, have not been separately disclosed. We are aware that the administrators are compiling the information for 2015/16 to make the required disclosure in 2016/17, and we concur that this disclosure is not mandatory for 2015/16. The omission is unlikely to be of material significance to the users of the accounts, however we would recommend disclosure to comply with recommended practice. We have therefore noted this as an unadjusted disclosure matter on page 21.
RELATED PARTY TRANSACTIONS [N]	We reviewed and documented the related party transaction identification procedures in place and information concerning such transactions. We also discussed this with management and reviewed councillors' and Senior Management declarations of interests and related party transactions.	We did not identify any undisclosed related party transactions, and have concluded there are satisfactory procedures to identify such transactions at Council level. However, our reviews have indicated there is room for improvement in this area, as a record of related party interests is not maintained separately for the pension fund and made available to the administrators.
FRAUD AND ERROR [O]	We enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error.	Our audit procedures have not identified any material errors due to fraud.

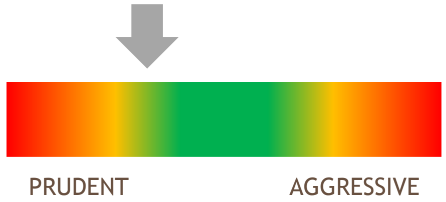
KEY AUDIT AND ACCOUNTING MATTERS
Continued

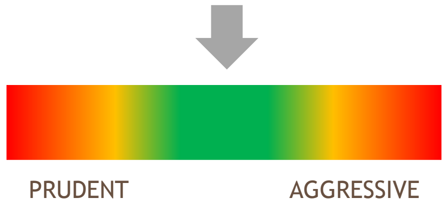
ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below:

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PENSION LIABILITY ASSUMPTIONS 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. There is a risk the valuation uses inappropriate assumptions to value the liability.	As at 31 March 2016 net pension liabilities are disclosed in the notes to the financial statements as £1.278 million, and have decreased by £0.229 million compared to the balance at 31 March 2015. It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement. The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2016 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions. No issues have been identified in our review of the assumptions used and our work on accounting estimates has not identified any evidence of bias.
VALUATION OF CAMBRIDGE AND COUNTIES BANK There is significant judgement and a degree of estimation in the valuation of the Fund's share of the bank, which is based on an external valuation by Grant Thornton LLP.	Grant Thornton LLP were engaged by the Fund to undertake an external valuation of the Fund's holding. We reviewed the assumptions and methodology used in the valuation, and the accuracy and appropriateness of these in producing a final valuation. We concluded that the assumptions and methods used were not unreasonable, and the valuation produced was appropriate. We identified an immaterial error (subordinated loan notes of £2m were deducted twice) within the valuation method, but this did not result in a material difference in value (potential understated valuation by £1m). We have concluded that the value is not materially misstated.
VALUATION OF OTHER UNQUOTED INVESTMENTS The investment portfolio includes unquoted investment holdings valued by the fund manager. There is a degree of estimation in these valuations.	We obtained direct confirmations from the fund managers supporting the values recognised in the financial statements. We have reviewed the fund managers' valuation reports and consider that the basis for the valuation and the assumptions used appear reasonable.







KEY AUDIT AND ACCOUNTING MATTERS
Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
FINANCIAL STATEMENTS, NOTES AND DISCLOSURES	The financial statements generally follow the CIPFA guidance for local government pension fund financial statements. We have suggested a number of amendments and corrections to the pension fund financial statements including: • spelling and typographical corrections • casting and removing rounding errors • consistency of the financial instruments note with the net assets statement • other general tidying up. Management have agreed with our suggestions for amendments and have incorporated these into a revised set of financial statements.
ACCOUNTING POLICIES	The accounting policies adopted are consistent with the CIPFA Code.
ANNUAL REPORT	When comparing the annual report with the CIPFA good practice guidance for annual reports, all required information appears to have been provided.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MATTER		COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements.	See our planning letter to you dated 27 May 2016. We will express an opinion on the Fund's financial statements, prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2	An overview of the planned scope and timing of the audit.	See our planning letter to you dated 27 May 2016.
3	Significant difficulties encountered during the audit.	There were no significant difficulties encountered during the audit which were not resolved.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process.	All such matters have been dealt with elsewhere in this report.
5	Written representations which we seek.	To be provided upon completion of the audit findings, a draft of our representation letter is reproduced at Appendix VII.
6	Any fraud or suspected fraud issues.	See our planning report to you dated 27 May 2016 and additional matters included within this report. During our audit we identified no fraud or suspected fraud issues.
7	Any suspected non-compliance with laws or regulations.	During our audit we identified no other suspected non-compliance with laws or regulations.
8	Uncorrected misstatements, including those relating to disclosure.	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties.	During our audit we identified no significant matters in connection with related parties. We did identify a recommended improvement in this area, which is detailed within this report.

SUMMARY OF AUDIT FINDINGS
Final - as at 14 October 2016

	STATUS	REPORTING LEVEL
R	Not started	Significant issue
A	In progress	Raised for your attention
G	Complete	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
G	Journals	A	Yes	No	No	No
G	Investments	G	Yes	No	Yes	Yes
G	Debtors	G	No	No	Yes	No
G	Cash and cash equivalents	A	Yes	No	Yes	No
G	Creditors	G	No	No	No	No
G	Revenue - Contributions	A	Yes	No	Yes	No
G	Revenue - Investment income	G	No	No	No	No
G	Transfers in from other funds	G	No	Yes	No	No
G	Benefits paid to members	G	No	No	Yes	No
G	Payments to leavers	G	No	No	No	No
G	Change in market value of investments	G	No	No	Yes	No
G	Actuarial liability	G	No	No	No	No
G	Related party transactions	A	Yes	No	No	Yes
G	Narrative report	G	No	Yes	No	No
G	Disclosures	A	Yes	Yes	Yes	No

CONTROL ENVIRONMENT
Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the pension fund's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

SIGNIFICANT DEFICIENCIES

We have identified significant control deficiencies in the following areas:

- There is a lack of controls to prevent or identify officers authorising own journals within Oracle
- Pension contributions are posted directly from the payroll to Altair for some employers, and the contributions paid are not fully reconciled to the employers' PEN18 returns. We have observed this with regards to Cambridgeshire County Council employers only, and our reviews have indicated a maximum unreconciled amount of £958,000. There is no indication that incorrect contributions have been paid, but the reconciliation cannot currently be evidenced.

Further details about these deficiencies are included within our recommendations and action plan at Appendix III.

CONTROL ENVIRONMENT
Continued

REVIEW OF PREVIOUS AUDIT RECOMMENDATIONS

We have also reviewed the report issued to the Committee by PricewaterhouseCoopers LLP at the conclusion of their audit of the Council and Pension Fund for the year ended 31 March 2015, and considered the recommendations made relating to the Pension Fund. We have summarised our observations regarding the resolution of these matters below.

	2014/15 RECOMMENDATION	RESOLVED	BDO OBSERVATIONS DURING 2015/16 AUDIT
1	The Oracle accounting system does not prevent staff from posting and authorising their own journals.	No	We have also observed a control deficiency in this area, as detailed in Appendix III. Further action is required to address this.
2	A list of related parties is not held and maintained by the council (in relation to Pension Fund Committee members)	Yes - but noted area for improvement	We have confirmed that up to date declarations have been obtained from all Committee members. However we recommend that a summary of declarations relevant for the Pension Fund is maintained and made available to the pensions team.
3	Valuation of the Cambridge and Counties Bank was not commissioned to the required standard.	Yes	An external valuation was commissioned from Grant Thornton LLP for 2015/16. We have reviewed this valuation and concluded that the assumptions and method used were not unreasonable, and the valuation produced was appropriate.
4	Late contributions are not monitored and therefore not received on a timely basis.	Yes	We have confirmed that late contributions from employers are monitored and recorded within the pensions team, and disclosure of these is now made in the annual report. We understand that reporting these is not required under the current policy, but that quarterly reports have been made to the Committee which summarise late contributions by repeat offenders and unusually delayed amounts.
5	A detailed reconciliation by segregated investments is not performed by the Pension Fund.	Yes	We confirmed that quarterly reconciliations are performed by LGSS and we have reconciled these to direct confirmations from the fund managers at the year end. We consider that adequate reconciliations are held in sufficient detail, appropriately segregated by individual investments.
6	Pension data per ALTAIR is not reconciled to the payroll system.	No	We have observed a similar situation this year, as detailed in Appendix III.
7	Supporting evidence for manual journals is not maintained as such that is readily available.	Yes	We have not encountered any significant difficulties in tracing individual journal entries which we selected for testing.
8	The performance fee is not accrued for as at 31 March 2015.	N/A	We have not identified any missing accrual in 2015/16.
9	General Ledger Codes are not always mapped to the correct Financial Statement line item.	No	We have observed unnecessary complication in the split of transactions by subjective code, and several subjective codes have been mapped to incorrect line items. We comment in more detail in Appendix III.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Fund	Cambridgeshire County Council Pension Fund (also referred to as Cambridgeshire Pension Fund)
The administrators	LGSS Pension Services
'Those charged with governance'	The Trustees – Cambridgeshire County Council, as delegated to the Audit & Accounts Committee and Section 151 Officer
Administering authority	Cambridgeshire County Council
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
The Code	The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Pension Fund Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

We have discussed and agreed our proposed adjustments with the Fund's management. In addition to narrative disclosures which have been amended, the following adjustments have been made in the revised draft financial statements.

CORRECTED AUDIT DIFFERENCES		FUND ACCOUNT		STATEMENT OF NET ASSETS	
	£'000	DR £'000	CR £'000	DR £'000	CR £'000
Net increase/(decrease) in the Fund for the year before adjustments	**(7,427)**				
DR Individual transfers		5,773			
CR Group transfers			5,773		
Being: Reclassification of split for disclosure within Note 8 (per first draft)					
TOTAL CORRECTED AUDIT DIFFERENCES		**5,773**	**5,773**	**-**	**-**
Net increase/(decrease) in the Fund for the year after corrections	**(7,427)**				

APPENDIX II: AUDIT DIFFERENCES
Continued

UNADJUSTED AUDIT DIFFERENCES

There are several unadjusted audit differences identified by our audit work which would change the decrease in the fund for the year by £747,000 and would decrease net assets by £115,000. You have indicated that you do not wish these adjustments to be processed in the financial statements on the basis that they are not material to the view given by the financial statements taken as a whole. We concur with this judgement.

The unadjusted audit differences are set out below.

UNADJUSTED AUDIT DIFFERENCES		FUND ACCOUNT		NET ASSET STATEMENT	
	£'000	DR £'000	CR £'000	DR £'000	CR £'000
Net increase/(decrease) in the Fund for the year before adjustments	**(7,427)**				
DR Contributions received		632			
CR Fund account b/f (prior period adjustment)					632
Being: Double counted contributions in 2016, and understated in previous years. Due to a catch-up exercise to correct mistakes in previous years and correct the cumulative position under the 10 year deficit contribution agreement with Magistrates Court Committee.					
DR Contributions received		208			
CR Receivables - Contributions due from employers					208
Being: Extrapolated differences identified within our sample testing, due to potential differences between PEN18 process and actual contributions received					
DR Investments				1,000	
CR Change in market value of investments			1,000		
Being: Difference in value of Cambridge & Counties Bank due to subordinated loans deducted twice					
DR Investments				703	
CR Returns on investment			703		
Being: Difference between unit price used by custodian and investment manager, Skagen					

APPENDIX II: AUDIT DIFFERENCES

Continued

UNADJUSTED AUDIT DIFFERENCES		FUND ACCOUNT		NET ASSET STATEMENT	
	£'000	DR £'000	CR £'000	DR £'000	CR £'000
DR Contributions received – CCC		956			
CR Contributions received – PCC Schools			44		
CR Receivables - Contributions due from employers					912
Being: Unreconciled differences between contributions posted directly to Altair and included in employer returns.					
DR Pensions		3,411			
CR Commutation and lump sum retirement benefits			3,411		
Being: Reclassification of benefits paid, to match nature of actual transactions within each subjective account. Pension increases of £19.4m were allocated to lump sum retirement benefits, while statutory retirement grants of £16.0m were allocated to regular pensions.					
DR Transfers In		698			
CR Debtors					589
CR Bank					109
Being: Net reversal of incorrect journal entries made in adjustment period. Errors regarding April transfer receipts recognised in March, duplicated entries and March receipts adjusted to debtors in error.					
TOTAL UNADJUSTED AUDIT DIFFERENCES		**5,905**	**5,158**	**1,703**	**2,450**
Net increase/(decrease) in the Fund for the year if adjustments accounted for	**(8,174)**				

APPENDIX II: AUDIT DIFFERENCES

Continued

UNADJUSTED DISCLOURE MATTERS

The following unadjusted disclosure matters were noted:

- No disclosure of nature, amount and reason for reclassification of comparatives has been made, which is required by IAS 1.41. There has been a presentation change in the net assets statement, by the insertion of a new subtotal for 'net investment assets', and the reclassification of investment liabilities of £1,006k (2015: £594k) to above this line. Although not disclosed in accordance with IAS 1, this change is appropriate and in line with the Committee's instructions.

- Five year analysis of pension overpayment data is not given in the annual report. The CIPFA 2014 guidance requires that where five years' data is unavailable, it should be built up year on year. One year of data is given for 2015/16, and data is available for 2014/15 but has not been disclosed due to concern over the time and effort required to compile the analysis.

- Disclosure has not been made of liabilities split between central government bodies, other local authorities, NHS bodies, public corporations/trading funds, and bodies external to general government (i.e. all other bodies). LGSS have agreed this will be included from 2016/17 onwards. We do not consider the impact of non-disclosure to be material.

- The Fund's financial statements do not fully comply with current CIPFA guidance on obtaining and separately presenting investment management charges, where such fees are deducted when the investment is made by the fund manager (and hence included in the change in market value of investments). This guidance is not mandatory for 2015/16 but will be a requirement of CIPFA's revised guidance for 2016/17. Committee members and the Administrator have indicated that the intention was to obtain the 2015/16 data for use as a comparator for implementation in next year's accounts, but no disclosure has been made in 2015/16.

- The Fund's financial statements do not fully comply with the disclosure requirements of IFRS 12 in respect of interests in joint ventures (in respect of the 50% ownership and control of Cambridge & Counties Bank). There is no disclosure of the reason for treating this interest as a investment at fair value through profit or loss, rather than on the equity basis. Management have declined to make the disclosure adjustments we recommended, due to insufficient time for them to properly research the relevant IFRSs and amend the accounts.

- The Fund's financial statements do not fully comply with the disclosure requirements of IFRS 13 in respect of the unobservable inputs to the valuation of level 3 investments. Management have declined to make the disclosure adjustments we recommended, due to insufficient time for them to properly research the relevant IFRSs and enter conversations with the Cambridge & Counties Bank over any sensitivities they may have to the additional disclosures.

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMIMG
Journal authorisation	We observed a lack of controls to prevent or identify officers authorising own journals within Oracle. The control implemented during the year to address this was a review of the nature of all journals over £50k. However, we identified the following issues with this: • It was not performed throughout the year, just a year end exercise, meaning it would be difficult to recognise an unusual journal. • An irregular journal is defined as those above £50k that have not been identified as a 'type'. Not all journals over £50k have been labelled as a 'type', but none are considered irregular per the control sheet. • 'Working paper contents' tab of control sheet mentions 2 irregular journals, but no irregular journals are identified in the actual review.	There is a danger that, if improper journals were authorised by officers themselves, these may be allowed by the system and go undetected.	The control should be extended to cover journals raised during the year, and the definitions of 'unusual' journal types should be expanded. This would increase the likelihood of the control preventing and/or detecting improper journal entries.	Recommendation not accepted. Finance professionals and budget holders provide relevant control though monitoring and reconciliations.	Paul Tysoe	N/A No action proposed
Related party registers	A separate record of related parties and potential transactions is not held for the pension fund specifically, although we have confirmed that adequate declarations are obtained for all Committee members.	Potential related party transactions may not be identified as they arise.	We recommend that a separate summary of Pension Fund Committee member's interests is maintained.	Recommendation not accepted. We will, however, consult with the governance professionals in Democratic Services to confirm that the process is relevant and proportionate to the risk to the pension fund.	Jo Walton	N/A No action proposed

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMIMG
Contributions paid late by employers	We identified several monthly contributions paid late by employers, and further late payments are disclosed in the annual report. We understand the policy of LGSS does not require all late payments to be reported.	The Committee needs to be made aware to consider whether any action is required against employers.	All late contributions should be reported to the Pension Fund Committee on a timely basis.	We believe that the existing policy and practice fully meet requirements. The Pensions Committee are informed of the timeliness of contributions via the Business Plan Update on a quarterly basis. Employers that breach more than once within the reporting period or more than three times in a rolling six month period are highlighted to the Committee with action taken or recommendations.	Jo Walton	N/A No action proposed
Verification of member contributions	We are aware that one layer of control activity undertaken by the pensions team, to ensure that members are making the necessary contributions, has not been operated during the year. This is a control requiring a member by member reconciliation of actual contributions to expected amounts.	There is a risk that errors or omitted member contributions could have been missed, although we acknowledge there are other controls operated by the systems team that should have identified any unprocessed leavers or other omissions.	We recommend that this control is put back in place and should be operated fully in future, alongside the other controls.	Recommendation accepted. There was an oversight this year and the control is now being performed.	Cory Blose	November 2016

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMIMG
Direct posting of payroll for CCC employer	LGSS Payroll Department processes the employer payrolls for Cambridgeshire County Council (CCC) employers. Pension contributions are posted directly from the payroll to Altair, and no PEN18 or other return is submitted.	There is currently no process to confirm the monthly contribution amounts against expectations, and no procedure to verify that the correct contributions are paid by the employer. There is a danger that errors may go undetected, which could affect the scheme's funding position if actuarial advice is not complied with.	We understand that LGSS are looking into ways to improve the posting in future by using holding accounts so that payroll can confirm PEN18s each month before postings are made to employer contribution ledger codes. We recommend that these controls, or manual reconciliations in the meantime, are implemented as soon as possible.	Recommendation accepted. The issue is that the payroll team cannot evidence that they have performed contribution reconciliations. The Fund Accounting team have designed a revised reconciliation process that is currently being implemented and will be applied retrospectively from April 2016.	Paul Tysoe	November 2016
General ledger code mapping	We have observed that subjective codes used for pension benefit elements are unnecessarily complex, with separate components posted to different subjective lines for no obvious reporting reason.	The extraction of amounts for disclosure in the financial statements has allocated costs incorrectly due to historic procedures. There may also be additional burdens of administration and difficulties tracing through transactions in the result of an individual query (whether internal, from a member, or as part of the audit).	We have discussed this with LGSS and the selection and split of entries by subjective lines is being reviewed. We recommend that action be taken to simplify the posting process based on the results of the review.	Recommendation accepted. The GL subjective coding structure has been fully reviewed from first principles as part of the implementation of the Agresso ledger system with the objective to reduce complexity and number of subjective codes. Pending the implementation of Agresso planned for April 2017, we will ensure that the mapping of GL subjectives is consistent with the latest thinking in Agresso.	Paul Tysoe	March 2017

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMIMG
Posting of adjustment period journals	We identified several discrepancies within the journals posted during the adjustment period. Contributions receipts in April are initially posted to bank as March transactions (via adjustment period journals) and then manually journaled out to debtors based on records from the contributions system. This is unnecessarily complicated and we have observed separate errors where these adjustment postings were omitted or duplicated / made in error.	The financial impact of the errors we identified is not material. However, there is a risk that similar errors may arise which have a more sizeable financial impact.. There is a risk of recording transactions in the incorrect period and therefore the financial statements being inaccurate with regards to cut-off.	We recommend a detailed review of the process for posting transactions within the adjustment period, and the manner in which adjustment period journals are identified and processed. We note that the reduced timescale for preparing the accounts from 2017/18 may necessitate changes in processes, and this may be a good opportunity to review the year end closedown and adjustment period processes.	The process for recognising adjustment period journals will be reviewed.	Paul Tysoe	2016/17 accounts
Reconciliation of bank balances	We observed that the bank reconciliations prepared by the Financial Systems team are not prepared in a suitable format for a year-end financial statements reconciliation. The reconciliation accurately highlights differences between the bank statements and ledger data taken at the Council close-down, but does not derive an expected year end balance taking account of timing differences on transactions.	There is no issue regarding accuracy of the reconciliation. However, the value of the reconciliation as currently performed is severely limited. This cannot be utilised as a tool to identify timing differences and ensure correct treatment of cut-off in the year end accounts.	We recommend that a financial year end reconciliation is performed for each account. This may either be achieved by amending the parameters (or timing of data extraction) used by the Financial Systems team, or by preparing a separate reconciliation for financial statements purposes.	The process for the preparation of bank reconciliations by the Financial Systems team will be reviewed.	Paul Tysoe	2016/17 accounts

APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Pension fund overall materiality	£22,800,000	£22,800,000
Specific materiality for other financial statement areas:		
- Contributions	£5,942,000	-
- Other fund account balances	£4,350,000	£4,350,000
Clearly trivial threshold	£450,000	£450,000

Planning materiality for the pension fund financial statements was based on 1% of prior year net assets. Specific materiality was set of 4% of prior year contributions for the fund account, and specific materiality for contributions was set at 5% of current year contributions. The clearly trivial amount is based on 2% of the overall materiality level.

Our final overall materiality levels have remained unchanged since our audit plan was issued.

APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
David Eagles - Audit engagement partner	1	31 March 2023
Robert Carter - Audit manager	1	31 March 2026
Paul Jack - Audit manager	1	31 March 2026
Engagement quality control reviewer (EQCR)	1	31 March 2025

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

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

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the pension fund.

We confirm that the firm complies with the FRC's Ethical Standards 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.

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

APPENDIX VI: FEES SCHEDULE

	CURRENT YEAR £	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
Scale audit fee	22,410	N/A	
TOTAL AUDIT	22,410		
Audit related assurance services	-		
Other assurance services	-		
TOTAL ASSURANCE SERVICES	22,410		

APPENDIX VII: REPRESENTATION LETTER

The text of the representation letter signed and issued to us on 14 October 2016 is reproduced below.

BDO LLP
16 The Havens,
Ransomes Europark
Ipswich,
Suffolk
IP3 9SJ

Dear Sirs

Financial Statements of Cambridgeshire County Council Pension Fund for the year ended 31 March 2016

1. We confirm that the following representations given to you in connection with your audit of the Fund's financial statements for the year ended 31 March 2016 are made to the best of our knowledge and belief, and after having made appropriate enquiries of management and agents of the Fund.

2. We have fulfilled our responsibilities for:

   a. the preparation and presentation of the financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements show a true and fair view of the financial transactions of the Fund during the year and of the amount and disposition at the end of the Fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice);
   b. keeping records in respect of contributions received in respect of any active member of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the schedule; and
   c. making accurate representations to you.

3. We have provided you with unrestricted access to persons within the Fund and agents acting for the Fund from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all trustees' meetings have been made available to you.

4. In relation to those laws and regulations which provide the legal framework within which our affairs are conducted and which are central to our ability to conduct our affairs, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

5. There have been no events since the year end which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

APPENDIX VII: REPRESENTATION LETTER
Continued

6. We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

7. We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

8. To the best of our knowledge we are not aware of any fraud or suspected fraud involving trustees, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

9. To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by trustees, employees, former employees, contributing employers, members, former members, advisers, agents, regulators or any other party.

10. We attach a schedule showing accounting adjustments that you have proposed together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

11. Other than disclosed in note *26* to the financial statements, there were no loans, transactions or arrangements between the Fund and its trustees and their connected persons at any time in the year which were required to be disclosed.

12. We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

13. We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

14. The value at which investment assets and liabilities are recorded in the statement net assets is, in the opinion of the trustees, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the year end date have been disclosed to you.

15. We confirm that the following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

    - Fair value of unlisted investments

    - Assumptions underpinning the reported pension liability (as set out in Note 20 to the pension fund accounts).

APPENDIX VII: REPRESENTATION LETTER
Continued

16. None of the assets of the Fund has been assigned, pledged or mortgaged.

17. We consider that the Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

18. We have not commissioned advisory reports on anything which may affect the conduct of your work in relation to the Fund's financial statements

19. We confirm that the above representations are made on the basis of enquiries of Management, agents, advisers and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

20. We confirm that the financial statements are free of material misstatements, including omissions.

21. We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. All officers and members have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Chris Malyon

Chief Finance Officer and S151 Officer

14 October 2016

Councillor Michael Shellens

Chairman of the Audit and Accounts Committee

Signed on behalf of the Audit and Accounts Committee

14 October 2016

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The Implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issues is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and / or enhancements to stream policies and procedures.

BDO are now reviewed annually by the AQR, every two years by QAD and on a three year cycle by the PCAOB. The results of our most recent 2015 AQR inspection can be found on the FRC website (www.frc.org.uk). Comments on the results of our other recent external reviews and our responses to the AQR report can be found in the firm's Transparency Report on our website (www.bdo.co.uk).

FOR MORE INFORMATION:

DAVID EAGLES

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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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