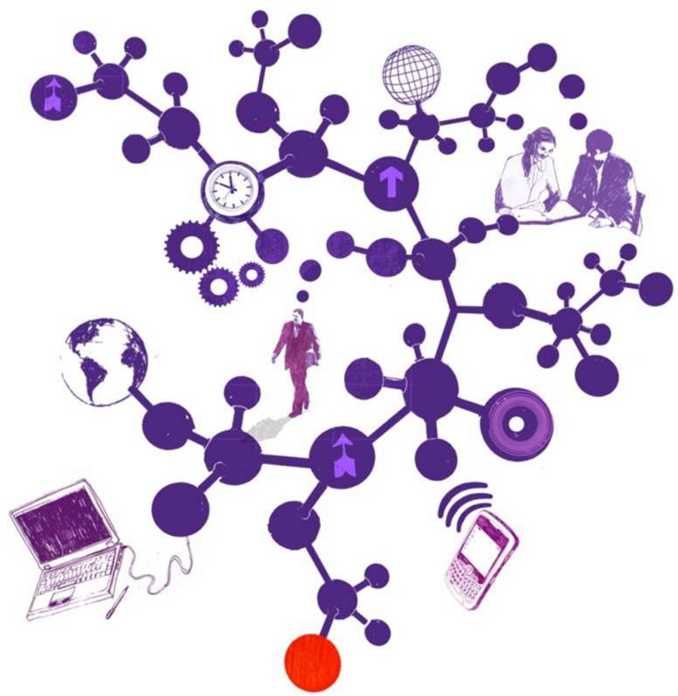
The Audit Plan for Devon Pension Fund

Year ended 31 March 2014

27 June 2014



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

1. Developments relevant to your Pension Fund and the audit

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

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

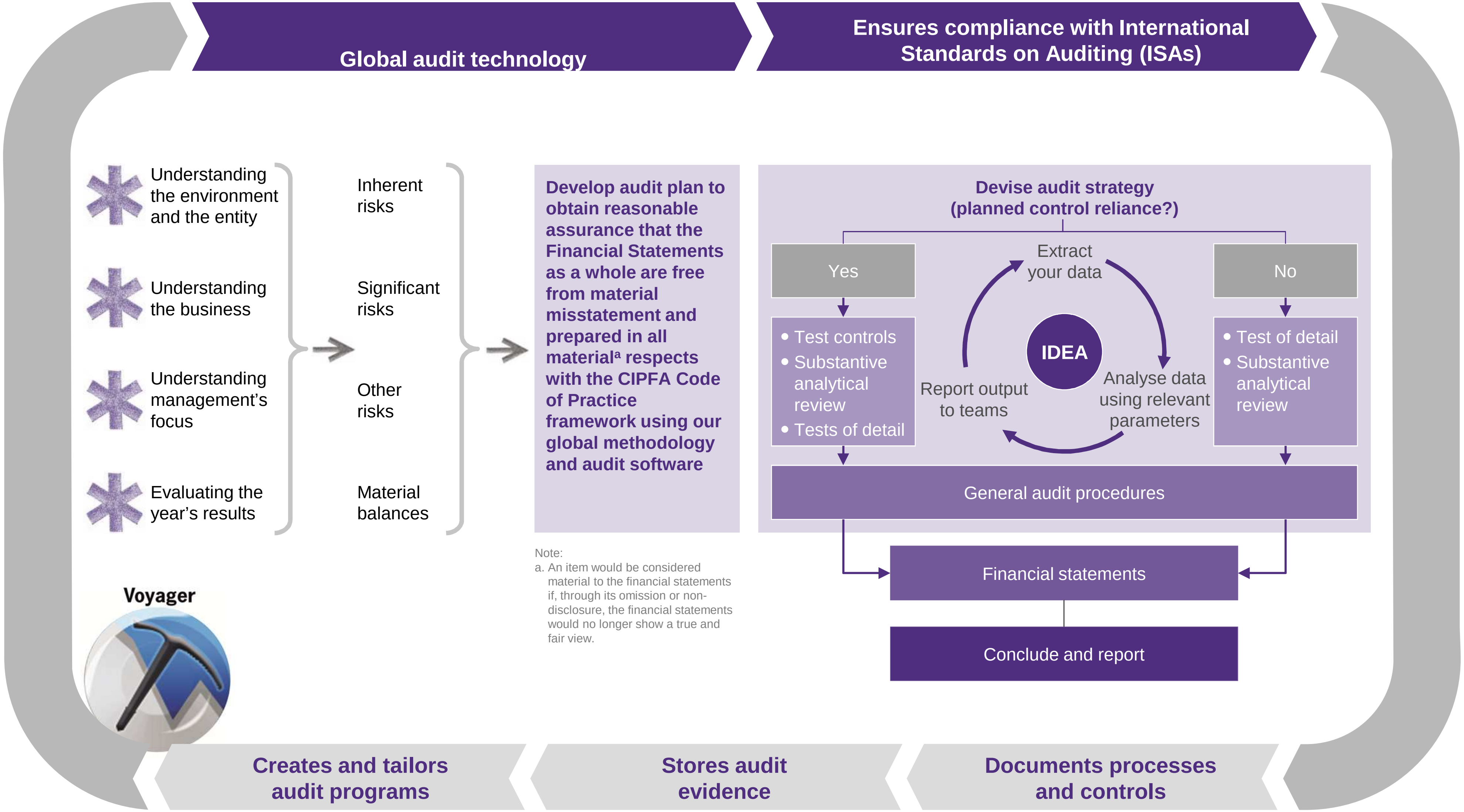
Developments and other requirements

1. Financial reporting & Governance	2. Changes to the Local Government Pension Scheme	3. LGPS 2014	4. Triennial valuation
There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2014. The "Coming of Age; development of the LGPS" report based on a survey of almost 30% of the funds in the UK was published in November 2013. While majority of funds have adopted the CIPFA framework, only 22% of the funds are implementing action plans as a result. See Appendix 1 for further detail.	The Public Service Pensions Act 2013 ('the Act') and consequent regulations make changes to the LGPS from 1st April 2014 including: • changing from a final salary to career average scheme • allowing members the option to reduce their contributions by 50% to receive 50% less benefit • changing the way contributions are based on salary • changing employee contribution rates and bandings • transitional protection for people retiring within 10 years of 1 April 2012 These changes require all employers involved in the LGPS to change the way their payroll systems calculate pension contributions. See Appendix 2 for further detail.	Planning and implementation of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014, will impact on the workload of the pensions administration team. This, together with further developments in relation to governance may impact on capacity to respond to audit queries.	Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of additional employer deficit contributions required and how to fund them.

Our response

We will ensure that the Pension Fund financial statements comply with the requirements of the Code.	We will discuss the impact that this these changes have on the administration of the pension fund. We will discuss the impact on governance arrangements of the Act which is due to be implemented from 1 April 2015.	We will discuss the impact of the changes with management and agree timetables with officers.	We will assess the impact this has on the administration of the pension fund and any required disclosures in the 2013/14 Pension Fund financial statements.

2. Our audit approach



3. Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing (ISAs)) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	We have rebutted this presumption and therefore do not consider this to be a significant risk for the Fund since: • The nature of the Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its Fund Managers and the Custodian, provides a clear separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules. They are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred, which is subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	**Work to be completed:** • Review of accounting estimates, judgements and decisions made by management • Testing of journal entries • Review of unusual significant transactions

4. Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

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

Other reasonably possible risks	Description	Planned audit procedure
Investments	Investments not valid	For funds managed externally, we will obtain independent third party assurances from the Custodian and Fund Managers to confirm investments held. For funds managed in-house we will obtain supporting documentation.
Investments	Investments activity not valid	We will test a random sample of investment purchases and sales during the year.
Investments	Fair value measurement is not correct	We will test the valuation of a sample of investments held at 31 March 2014 to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments).
Benefit Payments	Benefit payments improperly computed/claims liability understated	We will test a random sample of new pension and lump sum calculations to confirm the accuracy of the calculations. We will use analytical review procedures to assess the reasonableness of the information reported in the financial statements.

4. Other risks (continued)

Other reasonably possible risks	Description	Planned audit procedure
Scheme Contributions	Recorded contributions not correct	We will review contributions received with reference to changes in member body payrolls and numbers of contributing staff to ensure that unexpected trends are satisfactorily explained.
Member data	Member data not correct	We will review the collection and reporting of member data to ensure the accuracy of the data provided to the actuary.
Member data	Regulatory, legal and scheme rules/ requirements not met	We will review the timing of contributions paid by the contributing bodies to ensure that they are paid to the fund in accordance with the regulations.

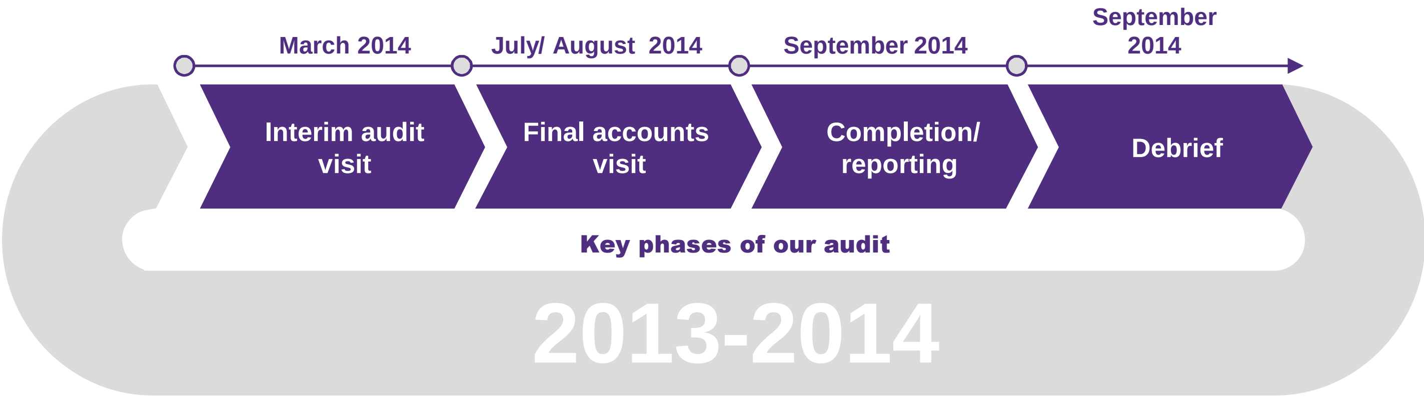
5. Results of interim audit work

The findings of our interim audit work and the impact of our findings on the accounts audit approach are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We reviewed internal audit's work on the Pension Fund's systems to date. We have not identified any significant weaknesses impacting on our responsibilities. Our work has not identified any issues which we wish to bring to your attention.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Pension Fund and that internal audit work contributes to an effective internal control environment at the Council Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding	Our work has not identified any weaknesses which impact on our audit approach.
Review of information technology controls	Our information systems specialist will perform a high level review of the Council's general IT control environment, as part of the overall review of the internal controls system.	We will complete our work in July 2014.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our review of procedures has not identified any issues which impact on our audit approach. We will test a sample of journals for the financial year at our final visit.

6. Logistics and our team

The audit cycle



Date	Activity
March 2014	Planning
March 2014	Interim site visit
June 2014	Presentation of the Audit Plan to the Audit Committee
July - August 2014	Year end fieldwork
August 2014	Audit Findings clearance meeting with management
September 2014	Presentation of the Audit Findings to the Investment and Pension Fund Committee and Audit Committee
September 2014	Opinion issued

Our team

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7. Fees and independence

Fees

	£
Pension Fund	28,603

Fees for other services

Service	£
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension Fund and its activities have not changed significantly
- The Pension Fund will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

8. Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension Fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendix 1

Changes to the Local Government Pension Scheme

The Public Service Pensions Act 2013 ('the Act') and consequent regulations make changes to the LGPS from 1st April 2014 including:
• changing from a final salary to career average scheme
• allowing members the option to reduce their contributions by 50% to receive 50% less benefit
• changing the way contributions are based on salary
• changing employee contribution rates and bandings
• transitional protection for people retiring within 10 years of 1 April 2012

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

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

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

Appendix 2

Governance in the LGPS

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

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

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

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

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

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