

Staffordshire Pension Fund

Year ending 31 March 2016

Audit Plan

21 March 2016

Ernst & Young LLP



EY

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1. Overview

1.1 Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Staffordshire Pension Fund (the Pension Fund) give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and
- ▶ Our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements

The Audit Plan includes mandatory communications with the Audit Committee. We expect Members of the Audit Committee to have read the full audit plan to discharge their responsibilities as those charged with governance.

1.2 Risks

As part of our initial analysis we have identified the following two external risk areas:

Local Government Pension Scheme Investment Reform	Challenging Market Conditions
<ul style="list-style-type: none">• On 25 November 2015, the Department for Communities and Local Government published their Investment Reform Criteria and Guidance along with a consultation on Local Government Pension Scheme Regulations 2016. We note that:• Authorities are required to collaborate and invest in asset pools, each with at least £25bn of Local Government Pension Scheme assets.• In February you submitted your initial response to pooling and progress towards formalising arrangements with other authorities. Refined and completed submissions are expected in July 2016.	<ul style="list-style-type: none">• The current global economic, political and market conditions, have created uncertainty for investors. We note that:• European markets have achieved variable results given continued concern over the ISIS situation and the refugee crisis. Furthermore, the VW diesel emissions scandal has created uncertainty towards the perception of European manufacturers generally.• The International Monetary Fund expects China's economy to grow by 6.3% this year and 6% in 2017, marking its slowest growth in a quarter of a century. China's growth is seen as a driver of the global economy, and is a major concern for investors globally.• Oil prices hit a four-year low in November eroding any small gains by the oil-producing nations, which has translated into rising financial distress and postponement of capital investment across the sector.

1.3 Financial statement risks

Significant risks (including fraud risks)

Our audit approach

Risk of management override

Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. At EY, we identify that the risk of fraud in revenue recognition at a pension fund is applicable to contribution income and investment

Contributions

We will:

- ▶ Perform a detailed analytical review of contributions received compared to our expectations based upon member numbers for each employer and contribution rates,

Significant risks (including fraud risks)	Our audit approach
income. Our audit approach has therefore been split between these two forms of revenue.	<p>which are provided by the actuary</p> <ul style="list-style-type: none"> ▶ Review the ratio of member to employer contributions on a monthly basis to ensure there are no unexplained variances ▶ Review the timeliness of the payment of contributions to the scheme, including ensuring that contributions relate to the correct financial year <p>Investment Income</p> <p>We will:</p> <ul style="list-style-type: none"> ▶ Obtain third party confirmations and agree all investment income to the confirmations ▶ Review and test investment reconciliations performed between investment manager and custodian reports

We have identified other key areas of the audit that have not been classified as significant risks but are still important when considering the risks of material misstatement to the financial statements and disclosures.

Other financial statement risks	Our audit approach
Valuation of complex investments (Unquoted investments)	
<p>The Fund's investments include unquoted pooled investment vehicles and direct property investments.</p> <p>Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review the basis of valuation for property, private equity funds and other alternative investments and assess the appropriateness of the valuation methods used ▶ Review the latest audited accounts for all underlying investment vehicles and ensure there are no matters arising that highlight weaknesses in the funds valuation ▶ Perform tests of valuation such as reviewing transactions around the year end, performing 'look through' testing or obtaining latest available audited accounts and auditing any subsequent cash movements between the date of the audited accounts and the Fund's year end ▶ Where necessary our internal valuation specialists will support our work in this area

1.4 Responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

1.5 Fees

The indicative fee scale for the audit of Staffordshire Pension Fund is £28,637

1.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit and the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Risk assessment and setting of scopes	February 2016	21 March 2016	Audit Plan
Testing routine processes and controls	March 16	September 2016	
Year-end audit	Commencing July		
Completion of audit	September 16	September 2016	Report to those charged with governance via the Audit Results Report Audit report on our opinion on the financial statements Audit report on our opinion on the consistency of the financial statements within the pension fund annual report with the pension fund financial statements

1.7 Further reading in the Audit Plan

Areas not covered in this summary, but should be read by the Audit Committee to discharge its governance responsibilities:

- ▶ Financial Statement risk assessment
- ▶ Responsibilities in relation to fraud and error
- ▶ Value for money conclusion risk assessment
- ▶ Audit process and strategy
- ▶ Group audit scope
- ▶ Key processes
- ▶ Use of analytics
- ▶ Internal audit
- ▶ Use of management and EY experts
- ▶ Mandatory procedures required by auditing standards
- ▶ Materiality
- ▶ The audit team
- ▶ Fees and assumptions
- ▶ Independence
- ▶ Required communications with those charged with governance.

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