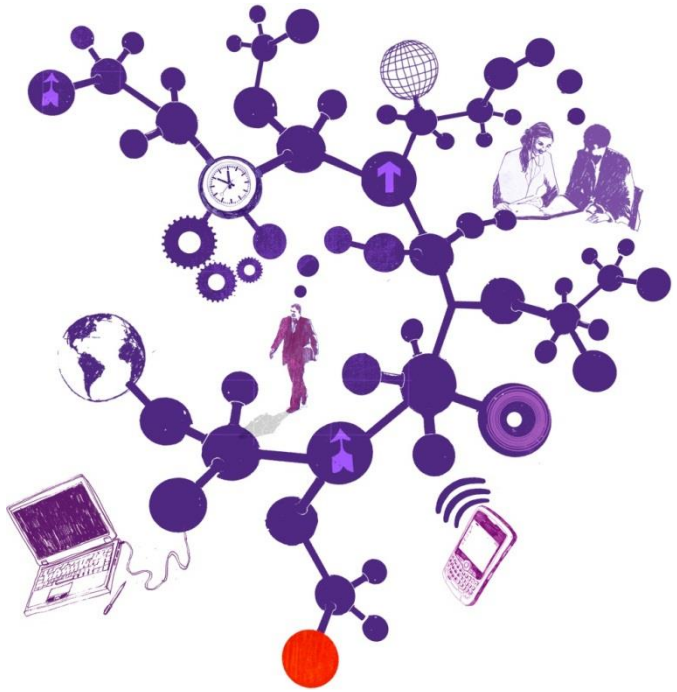
DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Plan for Greater Manchester Pension Fund

Year ending 31 March 2016

April 2016



Mike Thomas
Director
T 0161 214 6368
E mike.thomas@uk.gt.com

Marianne Dixon
Manager
T 0113 200 2699
E marianne.dixon@uk.gt.com

Mark Stansfield
Executive
T 0161 234 6356
E mark.stansfield@uk.gt.com

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 Pension 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.

Grant Thornton

Greater Manchester Pension Fund
Guardsman Tony Downs House
5 Manchester Road
Droylsden
Manchester M43 6SF

Grant Thornton UK LLP
4 Hardman Square
Spiningfields
Manchester
M3 3EB

T +44 (0)161 953 6900
www.grant-thornton.co.uk

April 2016

Dear Members

Audit Plan for Greater Manchester Pension Fund for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Greater Manchester Pension Fund, Tameside MBC's Overview (Audit) Panel), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing 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 or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Mike Thomas

Engagement Lead

Contents

Understanding your business

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.

Challenges/opportunities

1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals are to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

4. Increase in Local Government Outsourcing and Academies

- Council's continue to look at outsourcing and the set up of external companies as a more cost effective way to provide services, this together with the growth in independent Academies will have an impact on the LGPS.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require fund's to bring forward the approval of draft accounts and the audit of financial statements to the 31 May and 31 July respectively by the 2017/18 financial year.

Our response

- Officers are continuing to progress the Fund's proposals in this regard.
- We will continue to discuss with officers their plans for asset pooling and the implications that this will have on both the investment policy and governance arrangements of the fund.

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund.

- We will work with you to identify areas of your accounts production where you can learn from good practice in others.
- We aim to complete all substantive work in our audit of the Pension Fund's financial statements by 31 July as a 'dry run'.

Developments and other requirements relevant to your audit

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 Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

2. Financial Reporting

- 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 2016, however the Pension Fund needs to ensure on going compliance with the Code.

3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems In place to maintain and report on this data.

4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.

Our response

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our audit work.

- We will continue to review the arrangements that the Fund has in place for the quality of its' membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.

Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- Understanding the environment and the entity
- Understanding the business
- Understanding management's focus
- Evaluating the year's results

→

- Inherent risks
- Significant risks
- Other risks
- Material balances

→

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material respects with the CIPFA Code of Practice on Local Authority Accounting using our global methodology and audit software

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Devise audit strategy (planned control reliance?)

Yes
- Test controls
- Substantive analytical review
- Tests of detail

No
- Tests of detail
- Substantive analytical review

IDEA: Extract your data → Analyse data using relevant parameters → Report output to teams

General audit procedures

Financial statements

Conclude and report

Voyager

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit we have determined overall materiality to be £175,912k (being 1% of net assets). We will consider whether this level is appropriate on receipt of the draft financial statements and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £8,796k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, 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'.

We have identified the following items where we will undertake audit procedures as these are key figures / disclosures in the accounts that should be correct:

Balance/transaction/disclosure	Explanation
Management Expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.
Auditor's remuneration	This is a statutory requirement and a requirement of ethical and auditing standards
Cash	All transactions affect the balance and therefore it is considered to be material by nature.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental 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
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Greater Manchester Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The split of responsibilities between the Pension Fund, its Fund Managers, Custodian and HSBC provides a clear separation of duties reducing the risks relating to investment income • the culture and ethical frameworks of local authorities, including Tameside MBC as the administering authority, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Review of journal environment and walkthrough testing of journals • Testing of journal entries up to December 2015 **Further work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for remaining 3 months and closedown journals • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Level 3 Investments – Fair value measurements priced using inputs not based on observable market data not correct. (Valuation is incorrect)	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	**Work completed to date:** • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the cycle. **Further work planned:** • For indirect property investments, test valuations to valuation reports and/or other supporting documentation. • For a sample of private equity investments, test valuations to Fund Manager valuations and/or by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • Review the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.

Other risks identified

"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 (UK & Ireland) 315).

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

Other risks	Description	Audit approach
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	• For investments held by fund managers, review reconciliation between custodian (JP Morgan), fund managers, HSBC and the Pension Fund and follow up any significant variance and gain appropriate explanations/evidence for these. • For other investments,(e.g. direct property), agree a sample to supporting documentation.
Investment purchases and sales	Investment activity not valid. (Valuation gross)	• For investments held by fund managers, review reconciliation between JP Morgan, fund managers, HSBC and the Pension Fund and follow up any significant variance and gain appropriate explanations/evidence for these. • For other investments,(e.g. direct property), agree a sample to supporting documentation.
Investment values – Level 2 investments Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct	Valuation is incorrect. (Valuation net)	• For investments held by fund managers, review reconciliation between JP Morgan, fund managers, HSBC and the Pension Fund and follow up any significant variance and gain appropriate explanations/evidence for these. • For direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert
Contributions	Recorded contributions not correct (Occurrence)	**Work completed to date:** We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over recorded contributions. **Further work planned:** • Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Other risks identified (continued)

Other risks	Description	Audit approach
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**Work completed to date:** We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over benefit payments. **Further work planned:** • Controls testing over, completeness, accuracy and occurrence of benefit payments, • Rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct. (Rights and Obligations)	**Work completed to date:** We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over benefit payments. **Further work planned:** • Review of reconciliation of member numbers • Sample testing of changes to member data made during the year to source documentation

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Management expenses
- Cash deposits
- Level 1 investments
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments

Other audit responsibilities

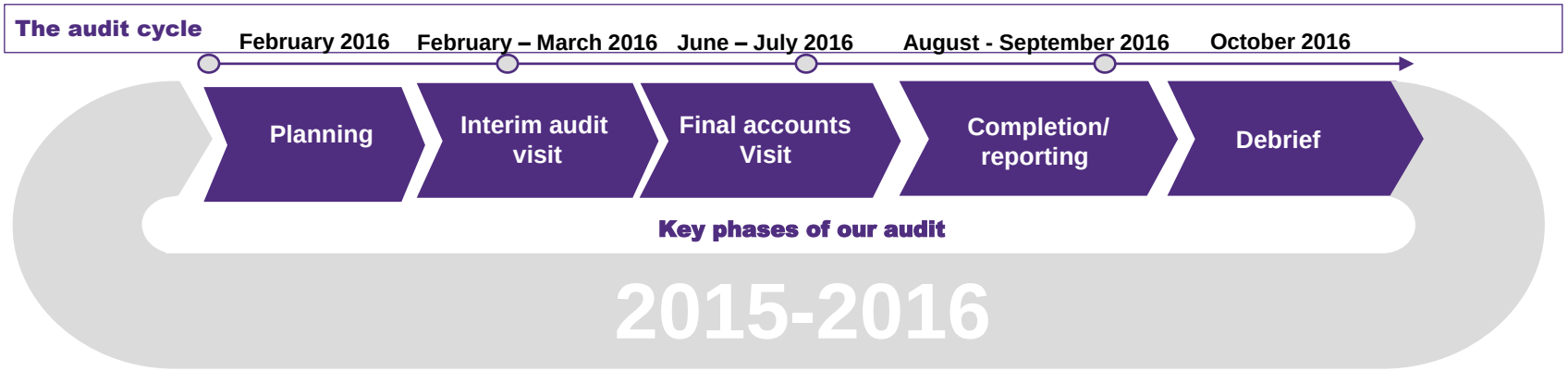
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will read the Pension Fund Annual Report and ensure that it is consistent with the Pension Fund Accounts included within Tameside MBC statement of accounts.

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	Conclusion
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices.	Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements.
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We will continue to liaise with internal audit and consider the outcome of their work on the Pension Fund's key financial systems and any impact it has on our responsibilities.	Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements including investments, benefit payments, contributions and member data.	Our work has not identified any weaknesses which impact on our audit approach. Internal controls have been implemented by the Fund in accordance with our documented understanding.
Journal entry controls	We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy. To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.	We have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements. We will carry out additional work including testing on journal transactions for the remainder of the year, including the closedown period, during our final accounts visit.

Key dates



Date	Activity
February / March 2016	Planning and Interim visit
January 2016	Interim site visit
31 May 2016	Presentation of audit plan to Tameside MBC Overview (Audit) Panel
June – July 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Assistant Director of Pensions
September 2016	Report audit findings to those charged with governance Tameside MBC Overview (Audit) Panel
September 2016	Sign Pensions Fund financial statements opinion
September 2016	Present audit findings report to Management Panel AGM

Fees and independence

Fees

	£
Pension Fund Scale Fee	56,341
Proposed fee variation (IAS 19 work for admitted bodies auditors – PSAA regime only)	5,996
Total audit fees (excluding VAT)	**62,337**

Fees for other services

Service	Fees £
Audit related services	0
Non-audit services	0

Our fee assumptions include:

- 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 Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

Grant Thornton UK LLP also provides audit services to Matrix Homes Limited Partnership for fees totalling £11,500 and other services of £2,000. This is a separate engagement outside the remit of Public Sector Audit Appointments Limited

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 requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Administering Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the fund is fulfilling these 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 issues 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		✓

grant-thornton.co.uk