



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit 2010-11

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Financial Audit Outline

Powys Pension Fund

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Roles and Responsibilities

1. The Council is the administering authority of the Powys Pension Fund (the Pension Fund). This Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the 2010-11 pension fund accounts.
2. Since 1 April 2005, the Public Audit (Wales) Act 2004 the Auditor General's functions have included the appointment of external auditors (Appointed Auditors) for local government bodies.
3. As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the pension fund accounts, satisfying myself that the accounts:
 - give a true and fair view of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities;
 - comply with all relevant legislative requirements; and
 - have been prepared in accordance with proper accounting practices.
4. I am also required to:
 - satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Pension Fund of its responsibility to:
 - put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
 - maintain proper accounting records;
 - prepare accounts in accordance with relevant requirements; and
 - establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.
6. The key requirements of the Auditor General and the Appointed Auditor are set out in Appendix 1.

The audit approach

7. Information regarding the financial audit team is provided in Appendix 2.

Audit of pension fund accounts

8. Internal controls are designed, implemented and maintained to address identified business risks that threaten the achievement of an audited body's objectives regarding:
 - the reliability of its financial reporting;
 - the effectiveness and efficiency of its operations; and
 - its compliance with applicable laws and regulations.
9. I will:
 - assess the effectiveness of high level internal controls and key system level internal controls in preventing and detecting material errors in the accounting statements;
 - assess the effectiveness of Internal Audit;
 - review and seek to place reliance upon any work undertaken by Internal Audit, as appropriate; and
 - develop substantive procedures to respond to specific significant risks.
10. I do not seek to obtain absolute assurance that the pension fund accounts and related notes are true and fair, but adopt a concept of materiality. In planning and conducting the audit, I seek to identify material misstatements in the pension fund accounts and related notes, that is, those that might result in a reader of the accounts being misled.
11. The levels at which I judge such misstatements to be material will be reported in my report to the Pensions and Investment Committee and to the Audit Committee as those charged with governance prior to completion of the audit.

Audit risks

12. Exhibit 1 provides information regarding the audit risks that have been identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. Changes to the audit may be required if any significant new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Audit risks

Control environment risks	Action proposed
The actuarial valuation as at 31 March 2007 showed the assets held at the valuation date were sufficient to cover only 73% of the accrued liabilities assessed on an ongoing basis. A triennial valuation occurred at 31 March 2010.	Evaluate whether the valuation at 31 March 2010 contains reservation or issues that create significant uncertainty for the pension fund.
Powys Pension Fund employs 13 separate managers for various parts of the investment portfolio. This provides increased risk that the portfolio will include a fund manager with weak system controls or poor performance.	Assess the outcome of the Fund's monitoring activities.
The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 commenced on 1 January 2010 and introduces revisions to the Statement of Investment Principles, changes to the restrictions on investments and directions over the use of fund money by an administering authority.	Evaluate your level of compliance with the new Regulations.
Financial systems risks	Action proposed
The pension fund's investments include unquoted investments for which, and unlike quoted investments, there is no ready evidence of the investment value at 31 March.	Assess the evidence provided from the private equity fund's own accounts and the fund manager's independent accountants report.
Internal Audit has identified weaknesses in the pensions computerised administration system in that passwords are not routinely changed.	Complete analytical review of the account entries that may be affected and consider whether additional tests are required.

Preparation of the accounts risks	Action proposed
Introduction of the IFRS based Code of Practice on Local Authority Accounting From 2010-11. Local Government Pension Funds must prepare accounts on an IFRS basis. There is a risk that pension funds will fail to comply with the requirements of the LG Code and IAS 26 'Retirement Benefit Plans'.	We will assess your arrangements to comply with requirements of the new code.
The accounts contain a statement from the actuary, an external professional contracted by the pension fund.	Assess competence of the external professional employed and whether the assumptions used differ significantly to other actuaries.
Financial statements risks	Action proposed
Risk of material misstatement in the financial statements.	Final accounts testing based on work undertaken during the year and review of the draft financial statements.

Reporting

13. The Code of Audit Practice issued by the Auditor General requires Appointed Auditors to comply with auditing and ethical standards. International Standards on Auditing (ISAs) require formal reporting at various stages during the audit to those charged with governance.
14. In particular, auditors must report:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - certain matters to those charged with governance (as distinct from management) before they give an opinion on the financial statements.
15. Appendix 1 highlights the key elements of the audit engagement at Powys Pension Fund, and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.
16. This document provides information regarding the planning of the audit.
17. I will submit reports to the Pensions and Investments Committee and where necessary to the Council in a timely manner, prior to the completion of the audit.
18. I will provide reports, or other output as agreed. The key milestones are set out in Exhibit 2.

Exhibit 2: Key milestones

Planned output	Planned start date	Report finalised
Financial Audit Outline	March 2011	April 2011
Financial statements report to those charged with governance	July 2011	September 2011
Annual Audit Letter	October 2011	November 2011

Audit fee

19. The proposed fee for 2010-11 financial audit work is £29,778 (plus VAT) and will be charged in equal instalments between November 2010 and October 2011. This fee is in line with the Auditor General's fees letter and is based on the new zero-based fee model for financial audit.
20. Overall, the 2010-11 financial audit fee represents an zero per cent increase on the equivalent element of Appointed Auditor's responsibilities included as part of my 2009-10 fee, £29,778.
21. I am required to undertake additional audit work arising from the change to International Financial Reporting Standards. I have decided to bear the cost of this work without passing it on to the Pension Fund.

Other matters

Pension fund annual report

22. Administering authorities are required to publish a pension fund annual report which must include the pension fund accounts.
23. I am required:
 - to read the Pension Fund annual report and consider whether the information it contains is consistent with the pension fund accounts; and
 - to issue an audit statement confirming the consistency of the accounts included in the annual report with the audited pension fund accounts included in the administering authority's Statement of Accounts.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at Powys Pension Fund
Engagement activities		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of appointed auditors outlined above. The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/englishdocuments/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an Appointed Auditor.	Details of the Appointed Auditor are provided in Appendix 2 of this document.
'Non-statutory' work	The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited bodies.	No 'non-statutory' work has been requested or is proposed.
Limitations on audit work	I am required to advise you of any limitations on the work that I propose to undertake, including limitations imposed by management.	No limitations have been placed on the work that I propose to undertake.
Ethical considerations		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> • threats to auditor independence (including litigation); • family and other personal relationships; • long association with the audited body, based on the Wales Audit Office rotation of audits policy; and • contentious or difficult issues. 	I can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and I have complied with the Wales Audit Office rotation policy.
Engagement performance	Appointed Auditors need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for all audits, and the Appointed Auditor has established appropriate review levels based on the experience of the staff undertaking the audit work.

Appendix 2

Financial audit team

Name	Role	Contact Number	E-mail address
John Herniman	Appointed Auditor	02920 320566	john.herniman@wao.gov.uk
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