



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Financial Audit Outline

Powys Pension Fund

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This document was produced by John Herniman and Anthony Veale.

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Annual Financial Audit Outline

Roles and responsibilities

1. Powys County Council (the Council) is the administering authority of the Powys Pension Fund (the Pension Fund). This Annual 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 2011-12 Pension Fund accounts.
2. Since 1 April 2005, under 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 and seek to place reliance on their work; and
 - develop substantive procedures to respond to specific risks of material misstatement in the Pension Fund accounts.
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 those charged with governance for the Council as a whole prior to completion of the audit.

Risks of material misstatement in the Pension Fund accounts

12. **Exhibit 1** provides information regarding the main operational and financial risks faced by the Pension Fund that could impact on my audit. These are the main 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 new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Summary of main audit risks and proposed responses

Risks	Action proposed
Control environment risks	
<p>Financial pressures arising from the current economic climate present risks to the Council in managing its overall financial position. The Hutton Report was issued in March 2011 and this has wide-ranging recommendations for all of local government pension funds. This creates uncertainties around the future nature of the fund and member contribution rates.</p>	<p>We will monitor these ongoing developments.</p>
<p>There is a continuing requirement to include a governance statement (that will cover the pension fund's governance arrangements) and a risk that the Council will not have the systems in place to produce such a statement or may not comply with all areas of good practice for Local Government Pension Schemes.</p>	<p>We will undertake a detailed review of the governance statement and carry out substantive testing of content and accuracy against audit expectations. We will also critically review the governance arrangements in place and compare these to the <i>Principles for Investment Decision Making in Local Government Pension Schemes</i> as outlined by the CIPFA Pensions Panel.</p>
Financial systems risks	
<p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities, from 1 April 2011, to maintain and operate a separate pension fund bank account. Where separate accounts are not in operation throughout 2011-12, this risks not complying with regulations.</p>	<p>Review the operation of separate Pension Fund bank accounts.</p>
Financial statements risks	
<p>The number of transactions undertaken during the year will result in material values presented in the year-end financial statements. There is a higher risk that errors in these items lead to material misstatement of the accounts.</p>	<p>Specific audit testing will be undertaken on material balances and transactions presented in the year-end financial statements.</p>
<p>The actuarial valuation at 31 March 2010 makes changes to the employer contribution rates that take effect from 1 April 2011.</p>	<p>Test the contributions income data for assurance that the correct employer contribution rates have been applied.</p>

Risks	Action proposed
Financial statements risks	
<p>Pension Fund investments include material sums of private equity fund investments. These are accounted for at fair value determined by valuations provided by the Partner of the underlying investment. Some of the equity-fund valuation dates also do not coincide with the Pension Fund's year end date of 31 March adding further uncertainty to the year-end valuation.</p>	<p>Assess the value of private equity fund investments and whether the information provided adequately supports the year-end valuation.</p>
<p>External investment managers are appointed to manage the investment portfolio. Their own systems and records will generate account entries made to the Pension Fund account and net assets statement.</p>	<p>Obtain direct confirmation from the Fund managers of year-end investment balances, and consider whether investment managers' internal control reports indicate specific risk to these balances.</p>

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 the 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 Audit Committee and the Pensions and Investment Committee 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
Annual Financial Audit Outline	February 2012	March 2012
Audit of Financial Statements (ISA 260) Report	July 2012	September 2012
Audit Opinion on the 2011-12 Financial Statements	September 2012	September 2012

Audit fee

19. The proposed fee for 2011-12 financial audit work is £29,778 (plus VAT) and will be charged in equal instalments between November 2011 and October 2012. This fee is in line with the Auditor General's fees letter and is based on the zero-based fee model for financial audit.
20. The 2011-12 financial audit fee has therefore not changed from my 2010-11 fee, £29,778.

Other matters

Pension Fund annual report

21. In addition to including the Pension Fund accounts in their main Statement of Accounts, administering authorities are required to publish a Pension Fund annual report which must include the Pension Fund accounts.
22. 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 the 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 are outlined above. The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors and engagement leads	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement lead.	Details of the Appointed Auditor and the Engagement Lead 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's 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's rotation policy.
Engagement performance	Engagement leads 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 Engagement Lead has established appropriate review levels based on the experience of the staff undertaking the audit work.

Appendix 2

Financial audit team

The Appointed auditor is Anthony Barrett and the audit team is:

Name	Role	Contact number	E-mail address
John Herniman	Financial Audit Engagement Lead	02920 320556	john.herniman@wao.gov.uk
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