



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

# Annual Financial Audit Outline

## **Powys Pension Fund**

**Audit year:** 2013-2014

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# Status of document

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This document was produced by John Herniman, Anthony Veale and Gareth Rees.

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# Annual Financial Audit Outline

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## Introduction

1. This Annual Financial Audit Outline has been prepared by John Herniman, the Engagement Lead on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice to examine and certify whether Powys Pension Fund's (the Pension Fund) accounting statements are 'true and fair'.
3. The purpose of this outline is to explain to you:
  - my audit team's approach to the audit of your Pension Fund's accounting statements for the year ending 31 March 2014, including the significant risks of material misstatements in your accounting statements and how we plan to address them;
  - the planned timetable, fees and audit team; and
  - the scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit.

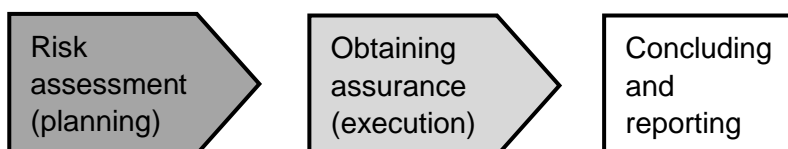
## Audit of Pension Fund accounts

5. It is my responsibility to issue a report on the accounting statements which includes an opinion on their 'truth and fairness', providing assurance that they:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.

## Audit approach

6. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance, and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

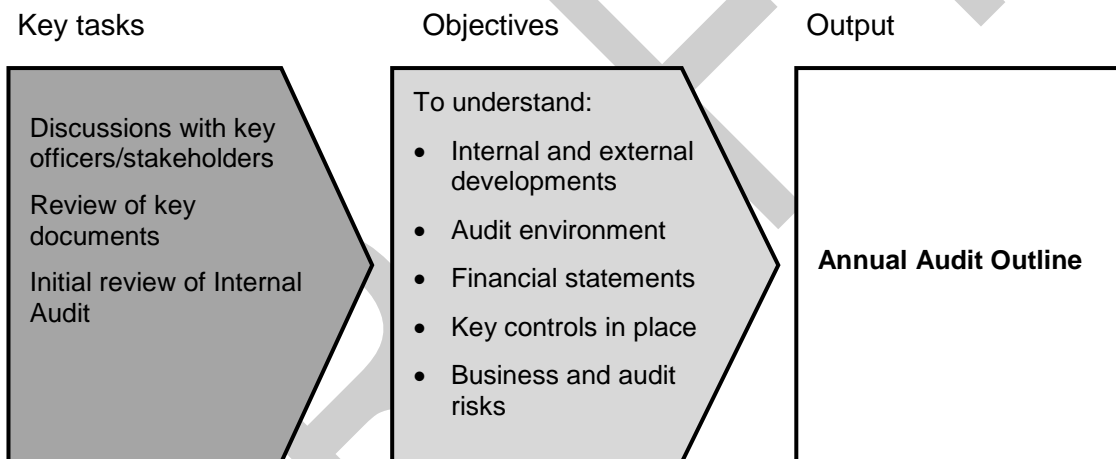
### Exhibit 1: Our audit approach



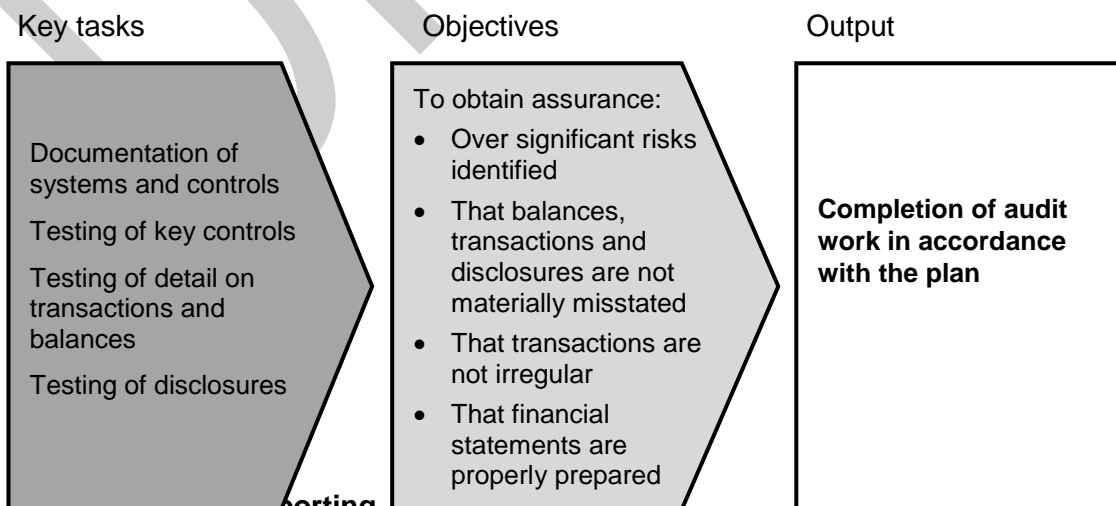
7. The work we undertake in each of these three areas is set out in more detail in [Exhibit 2](#).
8. I do not seek to obtain absolute assurance that the Pension Fund accounting statements are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the accounts and related notes, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to Powys County Council's Audit Committee prior to completion of the audit. My reports will also be sent to the Pension Fund Panel for information.
9. For reporting purposes we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore will not report them.

**Exhibit 2: Our audit approach**

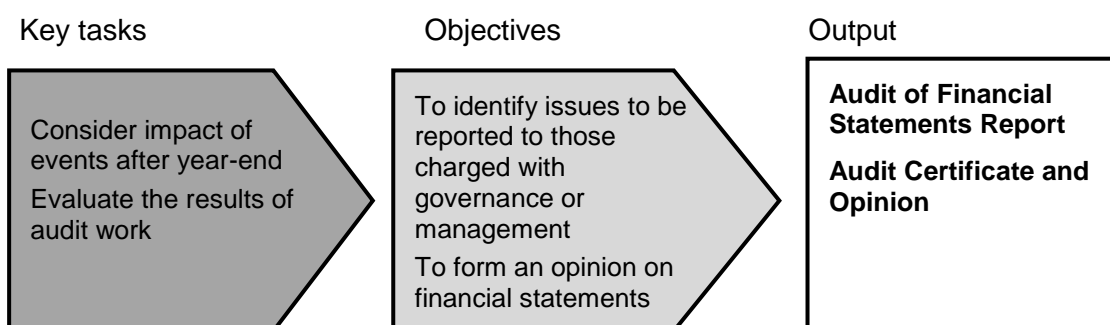
**Risk assessment (planning)**



**Obtaining assurance (execution)**



**Concluding and reporting**



10. In planning my work and obtaining an understanding of the Pension Fund, I consider the control environment, including the activities of Internal Audit, to determine the potential impact of its work on my planned procedures and to evaluate the extent to which I can rely on that work. I have noted that Internal Audit do not have any planned programme of work in respect of the pension fund in respect of the 2013-14 financial year of account.
11. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
  - the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Controls Assurance Reports are available from all investment managers and the custodian.

## Audit risks

12. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Pension Fund that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 3: Summary of main audit risks and proposed responses

Risks	Action proposed
<b>Control environment risks</b>	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p>In all entities, there is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk (ISA 240.26-27).</p>	<p>Whilst the majority of the Pension Fund's income is relatively defined in terms of value and the accounting period it applies to, we will evaluate which types of revenue give rise to such a risk and, where appropriate, focus testing on the timing and value of these transactions. Our work will focus on contributions and investment income.</p>
<p>Local Government Pension Schemes are required to produce compliance statements. These statements form part of the overall governance arrangements of the authority.</p> <p>There is a risk that the authority fails to keep the statement under review and, as a result, the Annual Governance Statement does not appropriately cover the Pension Fund's governance arrangements. In respect of the 2012-13 financial statements, the annual Governance Statement did not contain any reference to the Pension Fund.</p>	<p>We will review the content of the Annual Governance Statement to ensure that appropriate reference is included in respect of the Pension Fund; and</p>

Risks	Action proposed
<b>Financial statements risks</b>	
<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>External fund managers provide internal control reports on the investments held on behalf of the Pension Fund. These typically provide the Pension Fund with assurance on a wide range of controls, e.g. valuation of the investment portfolio held. From an external audit perspective, these controls are important, particularly in respect of Level 2 type investments where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active.</p> <p>In 2014, the Pension Fund has appointed one further external investment manager.</p>	<p>We will obtain direct confirmation from the fund managers of year-end investment balances, and consider whether investment managers' internal control reports indicate specific risks to these balances.</p> <p>We will also assess whether the investment manager's internal control reports for all investment managers provide assurance over a wide range of relevant controls, including valuation of investments held. We will review the accounting implications and disclosures within the 2013-14 financial statements in respect of the appointment of the additional fund manager</p>
<p>As part of its portfolio, the Pension Fund has substantial holdings in unquoted investments which are valued at fair value.</p> <p>These valuations include a degree of estimation and there is a risk that these valuations are materially misstated.</p>	<p>We will assess the assurances provided by the relevant fund managers in respect of the value of private equity investments.</p>
<p>Arrangements are in place to transfer Coleg Powys from the Pension Fund as a bulk transfer in 2013-14.</p>	<p>We will review the financial statements and supporting records to ensure that transfers have been appropriately valued and disclosed.</p>

### Accounting and reporting issues

13. In addition to the audit risks set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities.
14. There are no significant new financial accounting and reporting requirements that I wish to draw to your attention.



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## Pension Fund annual report

15. In addition to including the Pension Fund accounts in their main accounting statements, administering authorities are required to publish a Pension Fund annual report which must include the Pension Fund accounts.
16. I am required to read the Pension Fund annual report and consider whether the information it contains is consistent with the audited Pension Fund accounts included in the Council's main accounting statements.
17. I also issue an audit statement confirming the consistency of the accounts included in the annual report with the audited Pension Fund accounts.

## Fee, audit team and timetable

### Fee

18. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
19. Owing to the requirements of the Public Audit (Wales) Act 2013, we have needed to revise our approach to fee setting. This Act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement, we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that going forward our fee setting will fully comply with these new statutory requirements. This unfortunately has been a time-consuming process. The exercise has now been completed and the Auditor General is currently consulting on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.
20. After the end of the consultation process (28 February 2014), and after considering the consultation responses, we will be able to provide you with an estimate of your fee for 2013-14, which we anticipate being able to do in March 2014.
21. Planning will be ongoing, and changes to my programme of audit work and therefore my fee may be required if any key new risks emerge. I shall make no changes without first discussing them with the Director of Finance. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
22. Further information on the Auditor General's fee scales and fee setting can be found on our website at: [www.wao.gov.uk/aboutus/4240.asp](http://www.wao.gov.uk/aboutus/4240.asp).

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## Audit team

### Exhibit 4: My team

Name	Role	Contact number	E-mail address
John Herniman	Engagement Lead – Financial Audit	07776 163 851	john.herniman@wao.gov.uk
Anthony Veale	Financial Audit Manager	029 2032 0585 078 9627 1873	anthony.veale@wao.gov.uk
Gareth Rees	Financial Audit Team Leader	07794 002654	gareth.rees@wao.gov.uk

23. I can confirm that my team members are all independent of the Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

24. I will provide reports, or other outputs as agreed, to the Audit Committee (and the Pension Fund Panel for information) covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

### Exhibit 5: Timetable

Planned output	Work undertaken	Report finalised
<b>Outline of Audit Work for 2014</b>	February 2014 – March 2014	April 2014
<b>Financial accounts work:</b> <ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on Financial Statements</li></ul>	July 2014 – September 2014	September 2014
<b>Outline of Audit Work for 2015</b>	November 2014 – January 2015	February 2015

# Appendix 1

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## Roles and responsibilities

The Council is the administering authority of 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 2013-14 Pension Fund accounts.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed me as the auditor of the Pension Fund accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Pension Fund. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Pension Fund's financial transactions and of the amount and disposition of the fund's assets and liabilities. The Act also requires me to satisfy myself of these things:

- that the accounts are prepared in accordance with regulations under section 39 of the Act (the Accounts and Audit (Wales) Regulations 2005);
- that the accounts comply with the requirements of all other statutory provisions applicable to them; and
- that proper practices have been observed in the compilation of the accounts.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Council of its responsibility regarding the Pension Fund to:

- establish systems of internal control 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.



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