



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

Annual Financial Audit Outline

Clwyd Pension Fund

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Status of document

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This document was produced by John Herniman.

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Annual Financial Audit Outline

Roles and responsibilities

1. Flintshire County Council (the Council) is the administering authority of the Clwyd 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 2012-13 Pension Fund accounts.
2. Under the provisions of the Public Audit (Wales) Act 2004, the Auditor General is responsible for appointing external auditors (appointed auditors) to local government bodies.
3. 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.
4. I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Council of its responsibility regarding the Pension Fund 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. I understand that internal controls are designed, implemented and maintained by the Pension Fund 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 work undertaken by Internal Audit where appropriate; and
 - develop substantive procedures to respond to 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. Therefore 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 those charged with governance for the Council as a whole (the Audit Committee) 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 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 1: Summary of main audit issues and proposed responses

Issues	Action proposed
Control environment risks	
<p>Local Government Pension Schemes are required to produce compliance statements. These statements form part of the overall governance arrangements of the authority. There is a risk that the authority fails to keep the statement under review and, as a result, that its Annual Governance Statement does not appropriately cover the Pension Fund's governance arrangements.</p>	<p>We will review the content of the Annual Governance Statement and ensure that its contents are not inconsistent with our knowledge and understanding of the authority's governance arrangements, including those arrangements covering the pension fund.</p>
<p>Although the Finance Function Review is now complete, populating the new organisation structure is still ongoing. Whilst the process continues, there is a risk that there is insufficient capacity or changes within the pensions department to administer the scheme and deliver the draft financial statements to the required standard and agreed timetable.</p>	<p>We will review the Council's accounts closedown procedures and will liaise regularly with the Head of Pensions to identify any capacity issues and risks to the accounts production and certification timetable being achieved.</p>
Financial systems/preparation of accounts risk	
<p>A new pensions' administration system (Altair) has been introduced for the 2012-13 financial year.</p>	<p>We will review the scope and findings of Internal Audit's review in respect of the implementation of the new system. Our IT specialist will also review the IT control environment in relation to the new system.</p>
Financial statements risks	
<p>As part of its portfolio, the Pension Fund has substantial holdings in unquoted investments (approximately £228 million in 2011/12). These are accounted for at fair value determined by valuations provided by fund managers.</p>	<p>We will assess the value of private equity 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>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>

Issues	Action proposed
<p>The Local Government Pension Scheme Regulations 2009 made some significant changes to the Regulations that were previously in place.</p> <p>Prior to 1 April 2010, under the 1998 Regulations, administering authorities could borrow money from the pension fund to meet their financing needs.</p> <p>Many administering authorities pool their pension fund cash surpluses with the authority's own money for the purposes of making an investment.</p> <p>Specific issues arising during the 2011-12 audits of pension funds in Wales have shown that there is uncertainty as to whether such pooling arrangements are in accordance with regulation 3(4) of the 2009 regulations.</p>	<p>We will review the pension fund's cash flow management and investment procedures and review compliance with the pension fund's statement of principles to ensure that they comply with the requirements of the 2009 regulations.</p> <p>We will also review the Council's treasury management practices and procedures to ensure consistency of implementation with the pension fund.</p>

Reporting

13. The Code of Audit Practice issued by the Auditor General requires appointed auditors to comply with relevant 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 affect 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 I confirm that there are no known threats to my independence as Appointed Auditor or on the independence of staff or contractors working for me.
16. This document provides information regarding the planning of the audit.
17. I will submit reports to the Audit Committee and where necessary, to the Cabinet/Council in a timely manner.
18. I will provide other reports or outputs 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 2013	March 2013
Audit of Financial Statements (ISA 260) Report	July 2013	September 2013
Audit Opinion on the 2012-13 Financial Statements	September 2013	September 2013

Audit fee

19. The proposed fee for 2012-13 financial audit work is £35,000 (plus VAT) and will be charged in equal instalments between November 2012 and October 2013. This fee is in line with the Auditor General's fees letter and is based on the zero-based fee model for financial audit. We have recently received a ruling from HMRC regarding changes in the VAT status of the Auditor General which will take effect from 1 April 2013. We are currently liaising with HMRC regarding the precise scope of this ruling and will shortly be writing to you separately to explain the implications of this ruling.
20. The 2012-13 financial audit fee has therefore not changed from my 2011-12 fee of £35,000.

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.
23. I also 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 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.
Discretionary work by agreement	The Auditor General has set out clear criteria for approval of any discretionary work requested by audited bodies.	No discretionary agreement work has been requested or is proposed.
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 (see Wales Audit Office rotation of audits policy); and • contentious or difficult issues. 	I can confirm that there are no known threats to my independence as the Appointed Auditor or to the independence of staff or contractors working for me, and I have complied with the Wales Audit Office 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 the audit, 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

Name	Role	Contact number	E-mail address
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