Agenda Item 9

Report to:	**Audit and Best Value Scrutiny Committee**
Date:	**3 March 2010**
By:	**Chief Executive and Deputy Chief Executive and Director of Corporate Resources**
Title of report:	**External Audit Plan for East Sussex Pension Fund 2009/10**
Purpose of report:	**To inform the Committee of the content of the external audit plan the East Sussex Pension Fund for 2009/10**

RECOMMENDATION:

The Committee is recommended to consider and comment upon the External Audit Plan for the East Sussex Pension Fund for 2009/10.

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1. Financial Appraisal

1.1 The Plan confirms the external audit fee for the Pension Fund £52,500, an increase of 5% on 2008/09. This is within the range of fees set by the Audit Commission of £38,500 for a small single employer fund to £70,900 for a large multi-employer fund. The Commission is currently reviewing its fee structure for pension fund audits and any changes may impact on this fee. The fee is charged to the Pension Fund and not to the Council itself.

2. Supporting Information

2.1 The Plan sets out in more detail the work the external auditors will conduct in order to audit the Pension Fund's 2009/10 accounts. The Plan now reflects any relevant issues that have arisen as a result of the audit of the 2008/09 Pension Fund accounts and other work carried out by PKF e.g. the Use of Resources assessment for 2009. The main risks identified by PKF are:

- The valuation of private equity and infrastructure assets held by the Pension Fund;
- The adoption of International Financial Reporting Standards (IFRS) which apply to Pension Fund accounts from 2010/1 but for which some transitional changes are required in 209/10.

2.2 Officers will continue to liaise with PKF to ensure that their work is delivered as efficiently and effectively as possible and that internal and external audit plans are complementary and make best use of audit resources. The Plan will be reported to the Governance Committee (the parent committee for the Pension Fund) for approval on 9 March 2010.

CHERYL MILLER Chief Executive	SEAN NOLAN Deputy Chief Executive and Director of Corporate Resources

Contact Officer: Duncan Savage, 01273 482330

Local Members: All

<u>BACKGROUND DOCUMENTS</u>
None

Accountants &
business advisers

East Sussex Pension Fund

Annual Audit Plan 2009/10

February 2010

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Appendices

1 Executive summary

1.1 This Annual Audit Plan sets out the audit work that we propose to undertake for the 2009/10 financial year. The scope of the audit is determined by the Audit Commission's Code of Audit Practice ('the Code') and PKF's risk-based approach to audit planning.

1.2 Our responsibility is to audit the financial statements of the Pension Fund which are published alongside the financial statements of East Sussex County Council. In addition, the Audit Commission has indicated that we should carry out a brief review of governance arrangements to meet our use of resources responsibilities. We are also required to include a report in the Pension Fund Annual Report on our audit of the financial statements and various other matters related to the content of the Annual Report.

Key audit risks

1.3 The key audit risk identified by our risk assessment relates to the accuracy of the figures included in the financial statements for private equity and infrastructure assets. Further detail is provided in Section 3.

Fees

1.4 Based on our assessment of risk, we propose an audit fee of £52,500 which is chargeable direct to the Pension Fund. The assumptions we have made in setting the audit fee are set out in Section 4.

Key outputs

1.5 The key audit outputs for those charged with governance will be:

Output	Expected timing
Accounts	
Annual Governance Report (ISA 260 report)	August 2010
Audit opinion on the Pension Fund financial statements issued alongside East Sussex County Council's financial statements	September 2010
Audit opinion within the Pension Fund's Annual Report, including reference to the content of the Annual Report	September 2010
Use of resources	
Report on any matters coming to our attention in the Annual Governance Report	August 2010

1.6 Our audit responsibilities are based on current guidance issued by the Audit Commission. If the guidance is amended we will consider the impact on our work and update those charged with governance.

2 Introduction

2.1 This Annual Audit Plan sets out the audit work that we propose to undertake for the 2009/10 financial year. It has been drawn up from our risk based approach to audit planning. The information and fees in this Plan will be kept under review and any significant changes will be reported to those charged with governance (the Audit and Best Value Scrutiny Committee and the Governance Committee).

2.2 The context in which we deliver our audit is set out in Appendix A.

Assessing risks

2.3 We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fee. It also means ensuring that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.

2.4 Our risk assessment process focuses on the identification of significant financial reporting risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

3 Risk assessment

Significant accounts risks

3.1 Our risk assessment has identified the following significant accounts audit risk that is likely to impact on our audit:

Audit risk identified from planning	Audit response
There is a risk that private equity and infrastructure assets may not be carried at reasonably correct fair values in the financial statements, given the relatively complex manner in which such investment values are reflected in the overall valuation, as underlined by the error identified by officers in the 2008/09 valuation report.	We will review a reconciliation back from the valuation in the financial statements to supporting accounts and statements from the fund managers.

3.2 We have set a triviality level of £50,000 for the 2009/10 accounts audit and will not report to you any matters arising below this level.

Other emerging issues and matters of emphasis

3.3 There are some issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise.

3.4 They include the adoption of International Financial Reporting Standards (IFRS) in local government, including pension funds, from 2010/11. This requires transitional arrangements to be put in place to restate the 2009/10 comparatives.

4 Fees and billing arrangements

Fees

4.1 The Audit Commission has reviewed the resources required to audit the Pension Fund and as documented in the 2009/10 Fees and Work Programme, has estimated that the audit of a small single-employer fund will cost £38,500, increasing to £70,900 for a large multi-employer scheme

4.2 We have applied a risk based assessment of expected resources, taking into account work required to comply with Practice Note 15 *The Audit of Occupational Pension Schemes in the United Kingdom,* planning and reporting requirements and work on the Annual Report. Based on this assessment, we propose a fee of £52,500 which will be charged directly to the Pension Fund. If there is any amendment to the Audit Commission's Fees and Work Programme document, we will report the potential impact on our fees.

Work area	2009/10 Fee £		2008/09 Fee £	
Accounts audit				
Planning	8,600		8,200	
Audit fieldwork	24,500		23,200	
Reporting	8,400		8,000	
Subtotal accounts		***41,500***		***39,400***
Reporting on the Annual Report		11,000		10,600
Total		**52,500**		**50,000**

4.3 The fee is based on our understanding of audit requirements and risks at the time of drafting this Plan. If we need to make significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Corporate Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Best Value Scrutiny Committee.

4.4 The fees detailed above are based on the following assumptions:

- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard
- we will, after re-performing a sample of Internal Audit's work, be able to place full reliance on the work of Internal Audit
- you will keep us informed of any significant changes to your financial systems or procedures
- you will provide a comprehensive, good quality set of working papers and records to support the financial statements prior to the commencement of the audit and there will be no fundamental problems with them
- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored

4.5 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit.

Billing arrangements

4.6 Your audit fee will be billed in four instalments commencing February 2010:

Month	£
February 2010	13,125
April 2010	13,125
June 2010	13,125
September 2010	13,125
Total	**52,500**

5 Audit arrangements

Staffing

5.1 The following staff will be involved in the audit throughout the course of the year:

Audit staff	
Partner Richard Bint Email: richard.bint@uk.pkf.com Tel: 020 7065 0497	Responsible for delivering the audit in line with the Code of Audit Practice, agreeing the Audit Plan, and report to those charged with governance. Also responsible for signing opinions and for liaison with the senior officers and those charged with governance.
Senior Manager Janine Combrinck Email: janine.combrinck@uk.pkf.com Tel: 020 7065 0440	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and use of resources work and for completion of the Annual Audit Plan, and reporting to those charged with governance.
Audit Supervisor Emma Liddell Email: emma.liddell@uk.pkf.com Tel: 020 7065 0211	Responsible for managing our audit fieldwork on site.
Other Team Members Beth Fisher Ronesh Nandha	

Timetable

5.2 The following outline audit timetable shows the expected dates for key fieldwork elements of the audit to be carried out:

Audit timetable	Timing
Annual Audit Plan	February 2010
Audit of core financial systems	April 2010
Audit of Pension Fund financial statements	July 2010
Review of governance arrangements	July – August 2010
Annual Governance Report (ISA 260 report)	August 2010
Audit opinion covering the Pension Fund financial statements published alongside East Sussex County Council's financial statements	September 2010
Audit opinion within the Pension Fund's Annual Report, including reference to the content of the Annual Report	September 2010

5.3 We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

Independence

5.4 Auditing Standards require auditors to communicate relevant matters relating to the audit to "those charged with governance". Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

5.5 We have included in Appendix B to this Plan a statement to the Audit and Best Value Scrutiny Committee and the Governance Committee setting out the Audit Commission's objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.

5.6 Following our audit of the financial statements we will report to the Audit and Best Value Scrutiny Committee and the Governance Committee on the findings from our audit.

Quality of service

5.7 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.

5.8 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

5.9 In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors", which is available on their website [.http://www.audit-commission.gov.uk/complaints/].

Appendix A: Audit requirements

Accounts

We are required to provide an opinion on whether the Pension Fund financial statements "presents fairly" (or if legislation is enacted "gives a true and fair view of") the scheme financial transactions and assets, and the scheme liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.

We identify the principal areas of risk of material misstatement from our knowledge of the Pension Fund and of the environment in which it operates and from discussions with management and to address these by carrying out appropriate audit procedures.

Scope of audit

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis for recording transactions in the Pension Fund
- review contributions to the scheme against payment schedules from scheme employers
- consider the robustness of the processes for preparing the Pension Fund financial statements, undertake analytical procedures, and tests of transactions and balances
- consider the adequacy of the disclosures in your financial statements.

In carrying out our work we shall apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Internal controls and key financial systems

Auditing standards require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, information systems, internal controls and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

In carrying out this review, we shall consider the environment within which those controls operate and evaluate specific controls that respond to significant risks. Following our evaluation, we will assess whether we shall be placing reliance on particular controls and where reliance is to be placed will conduct testing of the relevant controls.

Your key financial systems are:

- Main accounting system
- Cash and bank
- Benefits payable
- Membership information
- Contributions receivable

- Investments and investment income.

Working with Internal Audit

The Audit Commission expects that appointed auditors and Internal Audit departments work together to ensure that audit work is most effectively targeted, thereby minimising duplication and the overall level of audit resource required. We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit and that its work will be directed to each of the key financial systems noted above.

Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and those charged with governance (the Audit and Best Value Scrutiny Committee and the Governance Committee).

We will make appropriate enquiries and review the counter fraud arrangements in place in order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

Financial statements preparation and audit approach

We will consider the adequacy of your arrangements for closing down the ledger and producing accurate, timely and comprehensive Pension Fund financial statements and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.

Our audit assurance will be derived from our review of the effectiveness of internal controls and further substantive audit procedures such as analytical review and detailed tests of transactions and balances where appropriate.

Analytical procedures will focus on pension income receivable, based upon active member numbers and agreed employer and employee contribution rates, and pension payable based on pensioned members and average pensions payable. Analytical procedures will also be applied to support investment returns on funds under management.

The fund assets are held by the custodian and managed by fund managers, including pooled investment funds. We will agree the custodian's valuation report to evidence provided by the fund managers.

Reliance on others

We will obtain assurances from the auditors of the custodian and the fund managers over the controls operated by them as custodians and managers of scheme assets (known as SAS 70 or AAF 01/06 reports).

Pension Fund Annual Report

We are also required to include our audit opinion on the Pension Fund financial statements within the Pension Fund Annual Report. Our report contained within the Annual Report additionally includes reference to various other matters related to the content of the Annual Report:

- We are required to report whether, in our opinion, the commentary on the financial performance included within the Pension Fund Annual Report is consistent with the Pension Fund financial statements.

- We are required to review whether the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and any related guidance issued by the Department for Communities and Local Government (CLG). There is currently draft guidance from CLG. In the event that the draft guidance becomes extant before completion of the audit, we will need to consider whether the Annual Report complies with the guidance.

- We are also required to read other information published in the Pension Fund Annual Report and consider the implications for our audit report if we become aware of any apparent misstatements or material inconsistencies with the Pension Fund financial statements.

Use of resources

The Audit Commission has indicated that we should review key governance arrangements around the Fund and report any points of significance arising to those charged with governance.

In carrying out this work we will:

- consider the governance arrangements made in accordance with the 2007 Regulations.

- review the arrangements for benchmarking performance of the fund and related management decisions.

- assess the adequacy of the funding strategy and recovery plans for funds in deficit.

Contributions receivable

There is a legal obligation for participating employers to ensure that employees' contributions are paid into the fund by due dates. The administering authority should ensure that the scheme is receiving the right contributions at the right time.

We will review the arrangements in place for preparing, maintaining and monitoring the payments of contributions towards the scheme on behalf of the active members of the scheme.

Appendix B: Communication to those charged with governance

To: Audit and Best Value Scrutiny Committee and the Governance Committee, East Sussex Pension Fund

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of East Sussex Pension Fund it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Best Value Scrutiny Committee and the Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity
- exercise their professional judgement and act independently of both the Commission and the audited body
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director
- audit staff are expected not to accept appointments as lay school inspectors
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Statement by the appointed auditor

In relation to the audit of the financial statements for East Sussex Pension Fund for the financial year ending 31 March 2010, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.