

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **15 March 2013**

By: **Chief Executive**

Title of report: **External Audit Plan for East Sussex Pension Fund 2012/13**

Purpose of report: **To inform the Committee of the content of the external audit plan the East Sussex Pension Fund for 2012/13**

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**RECOMMENDATION:**

**The Committee is recommended to consider and comment upon the External Audit Plan for the East Sussex Pension Fund for 2012/13.**

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**1. Financial Appraisal**

1.1 The Plan confirms the external audit fee for the Pension Fund as £26,607 a reduction of 38.9% on 2011/12. The fee for 2012/13 has been reduced to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission. 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 2012/13 accounts. The Plan now reflects any relevant issues that have arisen as a result of the audit of the 2011/12 Pension Fund accounts and other work carried out by PKF. The main risks identified by PKF are:

- Management override inherent risk
- Income from admitted and scheduled bodies
- Financial instruments disclosures.
- Annual report compliance with publication regulations

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 10 May 2013.

BECKY SHAW  
Chief Executive

Contact Officer: Ola Owolabi, 01273 482017

Local Member: All

Background Documents

None



# Audit Plan 2012/13

REPORT TO THE AUDIT, BEST VALUE AND COMMUNITY SERVICES SCRUTINY COMMITTEE

East Sussex Pension Fund

FEBRUARY 2013



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## **Disclaimer**

The *Code of Audit Practice* and *Statement of Responsibilities of Auditors and Audited Bodies* issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members and officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member of officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

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# 1 Executive summary

We are pleased to present our Audit Plan for the year ending 31 March 2013. This plan summarises our proposed audit work for the year for East Sussex Pension Fund, the significant risks that impact on our audit and our planned work in response to those risks.

## AUDIT SCOPE AND RESPONSIBILITIES

The scope of the audit is determined by the Audit Commission's *Code of Audit Practice for Local Government (March 2010)* and requires us to review and report on your:

- pension fund financial statements
- pension fund annual report.

BDO LLP and PKF (UK) LLP recently announced that we have agreed to merge our businesses and this is expected to be completed in spring 2013. We have undertaken a review of the procurement consultancy and support provided by BDO LLP to the Council in recent years and consider that this does not present a threat to our independence and objectivity as auditor.

## RISK ASSESSMENT

We have identified the following areas of significant risk that impact on our audit:

- management override of controls
- income from admitted and scheduled bodies
- financial instruments disclosures
- annual report compliance with publication regulations.

## REPORTING AND COMMUNICATIONS

We will provide an opinion on your pension fund financial statements by 30 September 2013 and an opinion on the pension fund annual report. We will provide our detailed report on findings and conclusions to the Audit, Best Value and Community Services Scrutiny Committee ahead of the reporting deadline and provide progress reports throughout the year.

## FEES

The proposed audit fee for the year is £26,607 plus VAT. The fee for 2012/13 has been reduced compared to 2011/12 to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission.

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# 2 Audit scope and responsibilities

## PURPOSE OF THIS REPORT

We are pleased to present our Audit Plan for the year ending 31 March 2013, to set out a mutual understanding of our respective responsibilities, and to promote effective two-way communication between us.

This plan summarises our proposed audit work for the year for East Sussex Pension Fund, the significant risks that impact on our audit and our planned work in response to those risks.

The information and fees in this plan will be kept under review throughout the year and updated as necessary for any significant changes to risks and the focus of the audit, which will be reported to the Audit, Best Value and Community Services Scrutiny Committee.

## COMMUNICATION

Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence (below), audit planning information and significant risks (section 3) and findings from the audit (section 4).

## SCOPE OF THE AUDIT

The scope of the audit is determined by the Audit Commission’s *Code of Audit Practice for Local Government (March 2010)* which describes how auditors carry out their functions as set out in the *Audit Commission Act 1998*. This requires us to review and report on your:

- pension fund financial statements
- pension fund annual report.

The financial statements audit is conducted in accordance with International Standards on Auditing (UK & Ireland) (ISAs), *Practice Note 10: audit of public sector bodies in the United Kingdom (October 2010)*, *Practice Note 15: audit of occupational pension schemes in the United Kingdom (January 2011)* and guidance issued by the Audit Commission.

## RESPECTIVE RESPONSIBILITIES

The respective responsibilities of the Council and ourselves are set out in in the *Statement of Responsibilities of Auditors and Audited Bodies (2010)* available from the Audit Commission’s website.

The Council remains responsible for: the preparation of the pension fund financial statements and pension fund annual report.

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We are responsible for forming and expressing an opinion on these in accordance with the requirement of the *Code* and other guidance. Our audit responsibilities do not relieve you of your responsibilities.

### INDEPENDENCE AND OBJECTIVITY

We consider there are no relationships between PKF or other member firms of the PKF International network and yourselves, including councillors, senior management and affiliates, which may reasonably be thought to bear upon our objectivity and independence as auditors.

BDO LLP and PKF (UK) LLP recently announced that we have agreed to merge our businesses and this is expected to be completed in spring 2013. The firm, under the BDO brand, will be a leading accountancy and business advisory firm, with some 3,500 people in the UK generating revenues approaching £400million. The merger creates a financially strong business with significant sector and geographical coverage across the UK. PKF has a significant presence in providing audit and assurance services to public sector entities, including local authorities. BDO offers a well regarded advisory and consultancy practice across the public sector. Our clients should see significant benefits arising from this merger in the depth and breadth of the services available.

We have undertaken a review of the procurement consultancy and support provided by BDO LLP to the Council in recent years. We have provided the Deputy Director of Finance with a briefing note of our review of the work undertaken by BDO LLP against the APB's Ethical Standards and the Audit Commission's Standing Guidance and consider that this does not present a threat to our independence and objectivity as auditor.

A copy of PKF's general policies and processes for maintaining objectivity and independence can be provided on request.

### CO-OPERATION WITH OTHER BODIES

The *Code* requires co-operation between auditors and other regulatory bodies including the National Audit Office to facilitate an efficient audit. In preparing this plan, we have assumed that the Council has provided us permission to discuss issues relevant to the audit with regulators and other auditors.

### QUALITY OF SERVICE

We are committed to providing 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 Leigh Lloyd-Thomas in the first instance. Alternatively you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.

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

In addition, the Audit Commission's complaints handling procedure is detailed on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints/>.

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# 3 Risk assessment

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 significant risk relevant to our audit responsibilities and reflecting this in the audit fees.

The determination of significant risks is a matter for auditors' professional judgment. For each of the significant audit risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. Current and emerging risks that do not impact on our audit are also discussed with management so that we may add value to the risk assessment process and monitor any areas of concern to the Council.

We detail below significant risks impacting on our audit of the pension fund financial statements and pension fund annual report.

If you consider there to be other significant risks, whether due to fraud or error, please let us know.

## FINANCIAL STATEMENTS

We will plan and perform procedures designed to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, thereby enabling us to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The applicable financial reporting framework is the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13*.

We will obtain an understanding of the Council and of the environment in which it operates, including the Council's internal controls and this, together with information obtained from discussions with management, provides a basis for identifying and assessing the risks of material misstatement.

### Fraud risk assessment

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

We have discussed the possible risk of material misstatement arising from fraud with the following: Chief Executive, Deputy Director of Finance, Head of Assurance, Chair of Audit, Best Value and Community Services Scrutiny Committee and Chair of the Governance Committee.



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Each has confirmed that they are not aware of any actual or suspected instances of fraud during the financial year, or allegations of fraud that have not yet been investigated, other than:

- relative of deceased pensioner continuing to receive pension.

The amount involved was not significant. The matter is being investigated by the police and has not yet been reported to the Audit, Best Value and Community Services Scrutiny Committee as the case not yet been fully concluded. Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

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

### Significant risks

We have identified areas of significant risk that impact on our audit. These, and our proposed work to respond to such risks, are set out below.

#### **Management override of controls**

ISA (UK&I) 240 *The auditor's responsibilities in relation to fraud in an audit of financial statements* requires us to presume that a risk of management override of controls is present and significant in all entities.

We are required to respond to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We will review accounting estimates for evidence of possible bias and obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the pension fund or that otherwise appear to be unusual. We are also required to consider the need to perform other additional procedures to respond to the identified risk of management override of controls.

#### **Income from admitted and scheduled bodies**

Management carries out high level analytical procedures over the level of contributions received from admitted and scheduled bodies and annual LGPS 31 returns are obtained. In addition, assurance statements are requested from the relevant bodies to confirm that contributions deducted from payroll are accurate and complete for current members of the pension scheme.

However, we consider that there is a risk that employee and employer contributions from admitted and scheduled bodies may not be accurately and completely deducted and paid over to the pension fund as there are a variety of deduction bandings based on levels of pay across the different admitted bodies.

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### **Financial instruments disclosures**

The financial statements in 2011/12 required significant additional disclosure around the classification, nature, basis of valuation and risks for financial instruments. Management requested information from the custodian for investment assets but this did not include other financial instruments held by the fund.

This required significant audit resource to assist management in preparing the necessary disclosures; including identifying, classifying and obtaining appropriate valuation risk disclosures in the financial statements.

There is a risk that the 2012/13 financial statements may not include all the necessary financial instrument disclosures.

### **Annual report compliance with publication regulations**

We previously reported that the 2011/12 annual report did not fully comply with the reporting requirements contained in the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance:

- reference was made in the annual governance statement to the pension scheme governance compliance statement although the governance compliance statement should be included in full
- there was limited management commentary on the performance of the fund during the year
- the Statement of Investment Principles was referred to although the current full statement should be included
- the policy on communications with members and employing authorities was not included.

There is a risk that the 2012/13 annual report may not include all required disclosures.

### **Internal control**

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

### **Internal audit**

It is our intention to use the work of your internal auditors in reaching our audit conclusions. We will be seeking to use work performed on the pension fund financial systems.

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### Reliance on management experts

Where the financial statements include amounts included by management that have been derived from information or estimates provided by experts, we may seek to place reliance on that work in obtaining audit evidence. As part of our work we expect to obtain assurance on the work undertaken by the following experts:

- valuation of scheme assets provided by the custodian where such values are not readily derived from quoted prices
- valuation of pension fund liabilities by your actuary.

### Materiality

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

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# 4 Reporting and communications

## COMMUNICATION

During the course of our work, we will communicate to you relevant matters relating to the audit. We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. The audit is not designed to identify all matters that may be relevant to you.

Communication may take the form of discussions or, where appropriate, be in writing.

If we identify significant deficiencies in internal control, we will communicate such deficiencies to you, in writing, as soon as is practicable.

Our contact for communications will be the Assistant Director for Strategic Finance and the Audit, Best Value and Community Services Scrutiny Committee. When communicating with this Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

## FINDINGS FROM THE AUDIT

As required by auditing standards and the *Code*, we will communicate the following matters to you, where applicable:

- significant deficiencies in internal control identified during the audit
- significant qualitative aspects of the pension fund's accounting practices including the application of the applicable financial reporting framework
- significant matters discussed, or subject to correspondence with management or other employees
- uncorrected misstatements (see below)
- material misstatements that have been corrected by management
- other significant matters relevant to the financial reporting process
- material uncertainties relating to going concern
- written representations that we are requesting from you or from other parties
- expected modifications to the opinion or emphasis of matter (or other matter) paragraphs in the auditor's report
- significant difficulties that we have encountered during the course of the audit.
- any matters reported in the public interest
- any recommendations made under section 11(3) of the Audit Commission Act 1998.

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## UNCORRECTED MISSTATEMENTS

We will report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £630,000 for investment valuations and £126,000 for transactions other than investment valuations to be trivial, unless the misstatement is indicative of fraud.

We will identify material uncorrected misstatements individually. We will request that any uncorrected misstatements are corrected.

## AUDIT TEAM

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

<b>Leigh Lloyd-Thomas</b> – Engagement partner email: leigh.lloyd-thomas@uk.pkf.com Tel: 020 7065 0486	Responsible for delivering the audit in line with the Code, including agreeing the Audit Plan, Governance Report and any other reports. Also responsible for signing opinions and conclusions.
<b>Janine Combrinck</b> – Director 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 liaison with the senior management and the Audit, Best Value and Community Services Scrutiny Committee.
<b>Liana Hine</b> – Assistant Manager email: liana.hine@uk.pkf.com	Responsible for managing the delivery of our audit fieldwork on site.

## TIMETABLE AND OUTPUTS

Area of audit	Fieldwork	Reporting
<b>Financial statements</b>		
Review of internal controls	Mar - Apr 2013	
Final audit of the financial statements	Jun - Aug 2013	30 Sept 2013
Review of the annual report	Aug - Sept 2013	
<b>Reporting</b>		
Report on significant deficiencies in internal controls (if required) <i>(continued)</i>		22 May 2013

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Area of audit	Fieldwork	Reporting
Governance report to the Audit, Best Value and Community Services Scrutiny Committee		3 Sept 2013
Governance report to the Governance Committee		10 Sept 2013

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We will agree specific dates for our site 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.

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# 5 Fees

## AUDIT COMMISSION SCALE FEES

The proposed pension fund audit fee for the year is £26,607 plus VAT. As noted in our Planning Letter 2012/13, the proposed fee is the same as the Audit Commission's published scale fee.

The fee for 2012/13 has been reduced compared to the 2011/12 of £43,570 to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission.

There are limited opportunities to further reduce fees but further improvements could be made through:

- more timely responses to audit queries raised during the audit
- training staff on the necessary reporting and disclosure requirements for financial instruments
- reviewing the pension fund annual report for compliance with reporting regulations.

## QUESTIONS AND OBJECTIONS

Should any arise, time spent dealing with questions and objections will be billed separately under the *Code* audit fee. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

## ASSUMPTIONS

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, to an adequate standard, and we are able to place full reliance on this work
- there are no significant changes to your main financial systems or internal controls
- you will provide the information requested in our records required listing in accordance with agreed deadlines and that there will be no significant departures from the timetable
- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
- there are no major changes to Audit Commission instructions or guidance.

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

Subject to prior approval by the Audit Commission, we reserve the right to increase fees should the above assumptions not be met or where we encounter unexpected problems, or issues arise, that cause significant additional work. Time spent dealing with problems or matters arising are usually that of senior people and hence the cost will often, necessarily, be disproportionate to the original fee.

#### BILLING ARRANGEMENTS

The *Code* audit fee will be billed as £13,071 in September 2012, £6,885 in December 2012, and £6,651 in March 2013.



# Appendix A – Risk assessment

## Audit risk identified from planning

## Audit response

## Area and assertions

### FINANCIAL STATEMENTS

#### 1 Management override

ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.

Financial statement level risk across all account headings and assertions

We are required to respond to this risk by testing the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.

We will review accounting estimates for evidence of possible bias and obtain an understanding of the business rationale of significant transactions that are outside the normal course of business for the pension fund or that otherwise appear to be unusual.

#### 2 Income from admitted and scheduled bodies

We consider that there is a risk that employee and employer contributions from admitted and scheduled bodies may not be accurately and completely deducted and paid over to the pension fund as there are a variety of deduction bandings based on levels of pay across the different admitted bodies.

Accuracy and completeness of income

We will review the LGPS 31 returns and assurance certificates received from admitted and scheduled bodies and we will request sight of underlying evidence of checks carried out on deductions at a sample of admitted and scheduled bodies.

We will also vouch a sample of employees from AXISE to information provided by admitted and scheduled bodies to confirm the completeness of contributions being made in respect of employees accruing benefits.

#### 3 Financial instruments disclosures

There is a risk that the 2012/13 financial statements may not include all the necessary financial instrument disclosures.

Accuracy and completeness of disclosures

We will work with management as part of the accounts closedown to identify financial instruments that require additional information to be included in the financial statements.

#### 4 Annual Report compliance with publication regulations

We previously reported that the 2011/12 annual report did not fully comply with the reporting requirements contained in the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Completeness of information in the annual report

We will work with management to ensure that all required information is included in the 2012/13 annual report.

