

Audit opinion plan

Suffolk Pension Fund

Audit 2010/11

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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Introduction	2
Responsibilities	3
Fee for the audit	4
Specific actions Suffolk Pension Fund could take to reduce its audit fees ...	4
Auditors report on the financial statements	5
Materiality	5
Identifying opinion audit risks	5
Identification of specific risks	6
Testing strategy	7
Key milestones and deadlines	8
The audit team	9
Independence and objectivity	9
Meetings	9
Quality of service	9
Planned outputs	10
Appendix 1 Basis for fee	11
Assumptions	11
Appendix 2 Independence and objectivity	12
Appendix 3 Working together	14
Meetings	14
Sustainability	14
Appendix 4 Glossary	15

Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning, which assesses:

- current national risks relevant to your local circumstances; and
- your local risks.

2 I will discuss and agree this plan, and any reports arising from the audit, with the Pension Fund Committee. However, as the pension fund accounts remain part of the financial statements of Suffolk County Council as a whole, the Audit Committee are 'those charged with governance' and will retain ultimate responsibility for receiving, considering and agreeing the audit plan and any reports arising from the audit.

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Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

4 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

5 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

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Fee for the audit

The indicative fee for the audit is £39,000.

6 The Audit Commission deferred setting the 2010/11 fee scales for local government pension funds, pending a review of the costs of the 2008/09 audits. This review was completed in late spring 2010 and the Commission approved revised scales of fees for 2009/10 and 2010/11. As a result I informed you of a revised indicative fee, set out above, in May 2010.

7 In the Commission consultation document "Proposed work programme and scales of fees for 2011/12" published in December 2010; it was stated that the scale fees for pension fund audits would remain under review. Nationally, the costs of the 2009/10 pension fund audits are being reviewed to determine whether any further changes to the scales of fees are necessary.

8 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit; and
- Internal Audit undertakes appropriate work on all material systems and this is available for my review by 30 April 2011.

9 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Head of Strategic Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

10 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Suffolk Pension Fund could take to reduce its audit fees

11 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that Suffolk Pension Fund could take and to provide ongoing audit support.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

12 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of Suffolk Pension Fund as at 31 March 2011.

13 I am also required to review the pension fund annual report in accordance with the Local Government Pension Scheme (LGPS) Regulations 1997.

Materiality

14 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

15 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing Suffolk Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of Suffolk Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within Suffolk Pension Fund's information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>The current economic climate may place pressure on the financial health of the Pension Fund creating a risk that inappropriate valuation methods are used.</p> <p>A significant increase in requests for early retirement valuations due to redundancy, which if resulting in early retirement will change the active and pension membership ratio and hence the funding profile of the Fund.</p>	<p>Review the appropriateness of estimation and valuation techniques employed by the Pension Fund to determine the value of its assets and liabilities.</p> <p>Review the impact of early retirements on the funding and cash flow of the Pension Fund.</p>
<p>The introduction of International Financial Reporting Standards (IFRS) in the accounts of local government is a significant change. This is not the case for Pension Funds as the main areas are around disclosure requirements. However, it requires a valuation in accordance with International Accounting Standard (IAS) 19 for all retirement benefits for all employer bodies within the Pension Fund including smaller bodies which previously did not require FRS17 valuations.</p>	<p>The audit will:</p> <ul style="list-style-type: none">• review the approach to obtaining the valuations; and• audit the disclosure and accounting for the associated costs.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

16 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

17 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- Review of accounting policies;
- Year-end feeder system reconciliations; and
- Predictive Analytical review.

18 Where I identify other possible early testing, I will discuss it with officers.

19 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

20 I plan to rely on centrally obtained assurance from the Audit Commission in respect of the work of Hymans, regarding their overall approach to the actuarial valuation of the LGPS. I will also review the specific valuations supplied against national information supplied by the Audit Commission for pension funds.

Key milestones and deadlines

The Suffolk Pension Fund is required to prepare financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

21 The key stages in producing and auditing the financial statements are in Table 2. The timing reflects the requirement for me to provide assurance, under the Audit Commission protocol, to the auditors of a number of admitted bodies regarding IAS 19 disclosures.

22 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

23 During the audit, the audit team will meet with the key contact on a regular basis and review the status of all queries. I will arrange additional meetings if necessary, depending on the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	March / April 2011
IAS 19 assurance testing, including draft statements and working papers	June / July 2011
Progress meetings	As required when on site
Receipt of formal accounts	30 June 2011
Present report to those charged with governance at the Audit committee	September 2011
Issue opinion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Neil Harris District Auditor	neil-harris@audit- commission.gov.uk 0844 798 2414	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Philip King Audit Manager	p-king@audit- commission.gov.uk 0844 798 5556	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Strategic Finance.

Independence and objectivity

24 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

25 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

26 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

27 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

28 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

29 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	By 30 September 2011
Auditor's report giving an opinion on the financial statements	By 30 September 2011
Final accounts memorandum (if required)	November 2011

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Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Suffolk Pension Fund with reference to:

- my cumulative knowledge of the Suffolk Pension Fund;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Suffolk Pension Fund officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of my audit;
- you provide:
 - good quality working papers and records to support the financial statements by the beginning of July 2011;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fees that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Head of Strategic Finance	DA and AM	January, March, July, September incorporated within Suffolk County Council meeting	General update plus: March - audit plan July - accounts progress September - annual governance report
Pension Fund Officers	AM and TL	March September	Planning & issues for 2010/11 audit Audit closure meeting
Pension Fund Committee and Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

30 The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

Those charged with governance

Those charged with governance are defined in auditing standards as ‘those persons entrusted with the supervision, control and direction of an entity’.

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