

# Audit opinion plan

Avon 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.**

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# Summary

**1** This plan sets out the audit work I propose to undertake in relation to the audit of financial statements 2010/11 for Avon Pension Fund. 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 and improvement priorities.

**2** I will discuss this plan, and any reports arising from the audit, with the Pension Fund Committee. The pension fund accounts remain part of the financial statements of Bath & North East Somerset Council as a whole. The Corporate Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

**3** The audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and I will keep the information and fees in this plan under review and update as necessary.

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# Responsibilities

4 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.

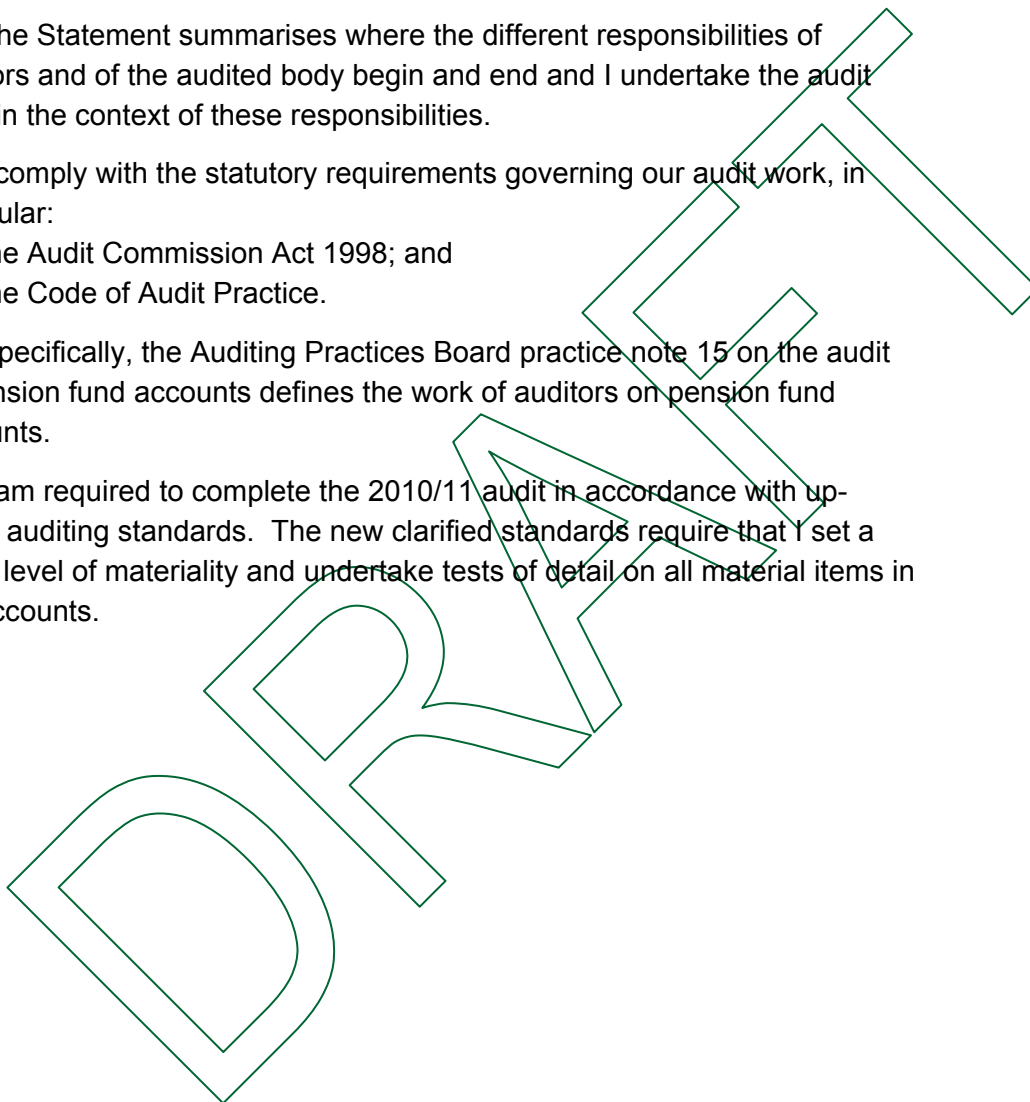
5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake the audit work in the context of these responsibilities.

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

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

7 Specifically, the Auditing Practices Board practice note 15 on the audit of pension fund accounts defines the work of auditors on pension fund accounts.

8 I am required to complete the 2010/11 audit in accordance with updated auditing standards. The new clarified standards require that I set a lower level of materiality and undertake tests of detail on all material items in the accounts.



# Fee for the audit of financial statements

**9** The Audit Commission's work programme and fee scales for 2010/11, sets out the details of the structure of scale fees. Scale fees are based on several variables, including the type, size and location of the audited body.

**10** The fee for the 2010/11 audit is £47,000, as reported in my letter of 15 June 2010.

**11** In setting the fee, I have assumed the level of risk on the audit of the pension fund accounts is consistent with that for 2009/10.

**12** Where this assumption is not met, extra work will be required, which is likely to result in an increased audit fee. Where this is the case, I will discuss this firstly with the Director of Resources. I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

**13** Appendix 1 sets out more information on the basis for the fee.

**14** 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 the Pension Fund could take to reduce its fee.

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# Auditors report on the financial statements

**15** 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).

**16** I am required to issue an audit report giving my opinion on whether the pension fund accounts give a true and fair view of the financial position of the Authority as at 30 September 2011.

**17** I am also required to review the pension fund annual report according to the LGPS regulations 1997.

## Identifying opinion audit risks

**18** As part of my audit risk identification process I need to understand 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 the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the 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 the Pension Fund information systems.

# Identification of specific risks

19 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>Avon pension fund has £1.8bn billion of units in unquoted pooled investment securities. There is an inherent risk of material misstatement because there is no direct market to independently check the valuation of these units, although we understand the underlying securities are quoted.</p>	<p>I will review and place reliance on AAF01 reports from auditors of fund managers. AAF01 reports are industry standard reports on the effectiveness of internal control arrangements at fund managers. Appendix 3 provides a glossary of terms.</p> <p>I will substantively test the value of all material investment balances to fund manager's reports and custodian reports. Where possible I will agree the units held by Avon Pension Fund in pooled investments back to the underlying quoted securities.</p>
<p>Actuarial Valuation – politically sensitive disclosures.</p>	<p>I will check the disclosures on the actuarial valuation as at 31 March 2010 to supporting evidence from the Actuary.</p>



# Testing strategy

**20** Based on the risks identified above I will produce a testing strategy that will consist of testing key controls and substantive tests of transaction streams and material account balances at year-end.

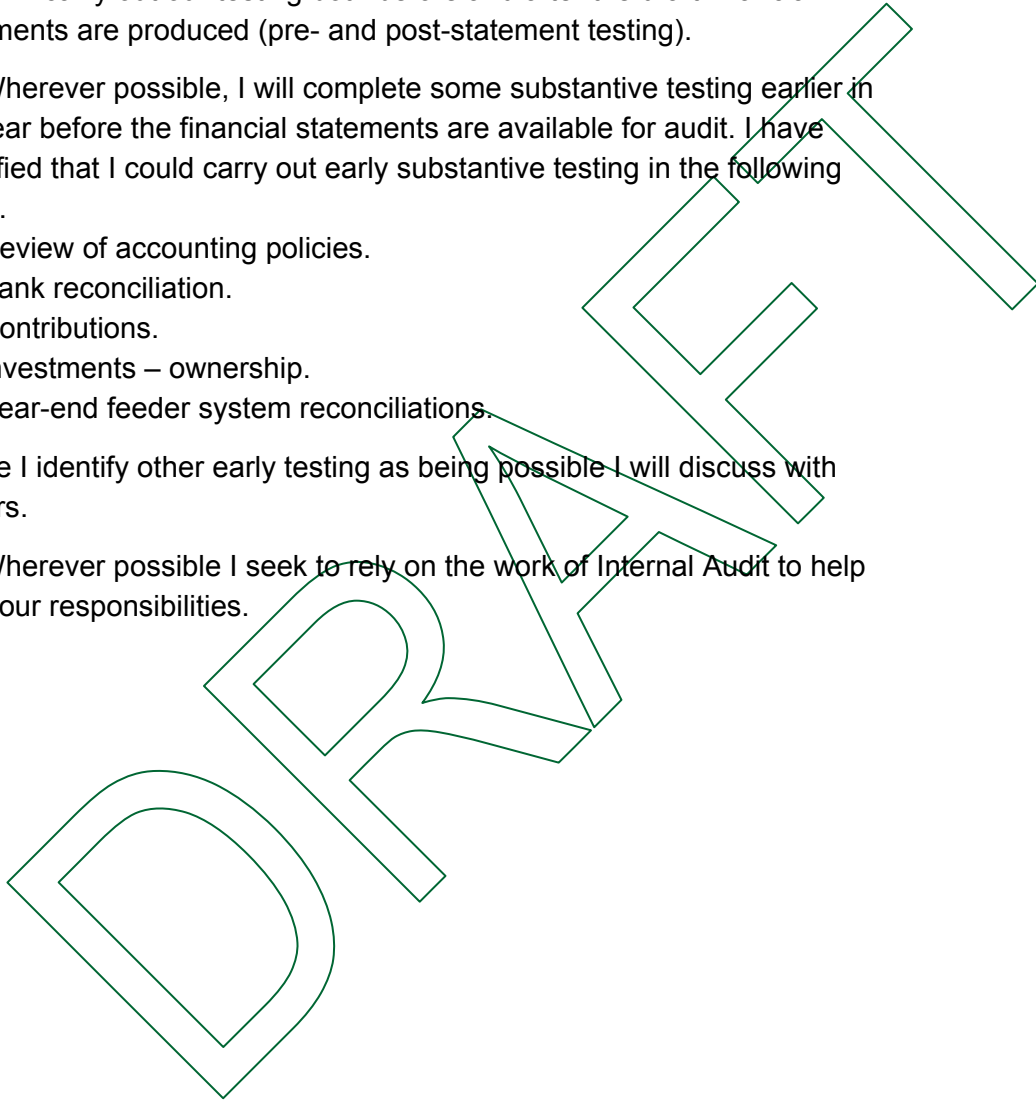
**21** I will carry out our testing both before and after the draft financial statements are produced (pre- and post-statement testing).

**22** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified that I could carry out early substantive testing in the following areas.

- Review of accounting policies.
- Bank reconciliation.
- Contributions.
- Investments – ownership.
- Year-end feeder system reconciliations.

Where I identify other early testing as being possible I will discuss with officers.

**23** Wherever possible I seek to rely on the work of Internal Audit to help meet our responsibilities.



# Key milestones and deadlines

**24** The Pension Fund is required to prepare the financial statements by 30 June 2011. I am required to complete our audit and issue our opinion by 30 September 2011. Table 2 shows the key stages in producing and auditing the financial statements.

**25** I will agree with you a schedule of working papers required to support the entries in the financial statements.

**26** Every week during the detailed testing in the summer, my team will meet with the key contact and review the status of all queries. If appropriate, they will meet at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Task	Deadline
Control and early substantive testing	28 February 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	1 August 2011
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	September 2011
Issue opinion	30 September 2011

# The audit team

27 The table below shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Wayne Rickard District Auditor	w-rickard@audit-commission.gov.uk 0844 798 1208	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with B&NES Chief Executive.
Chris Hackett Audit Manager	c-hackett@audit-commission.gov.uk 0844 798 8760	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and the Head of Pensions.

## Independence and objectivity

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

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

## Meetings

30 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Appendix 3 sets out our proposals.

## Quality of service

1 I commit to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how to improve the service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice at the Audit Commission (c-westwood@audit-commission.gov.uk). He will look into any complaint quickly and do what he can to resolve the problem.

2 . 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

3 Before issuing reports to Committee, I will discuss and agree reports with the appropriate officers.

Table 4: **Planned outputs**

Planned output	Indicative date
Audit plan	31 December 2010
Annual governance report	30 September 2011
Auditor's report giving an opinion on the financial statements	30 September 2011
Final accounts memorandum	30 October 2011

## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based on 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 identifying the significant financial and operational risks applying to the Pension Fund based on:

- our cumulative knowledge of the Council and pension fund;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed that:

- the level of risk on the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform us of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- you will provide good quality working papers and records to support the financial statements by 30 June 2011;
- you will provide requested information within agreed timescales;
- you will provide prompt responses to draft reports; and
- additional work will not be required 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).

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

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires 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 the auditor has charged the client; and
- confirms in writing 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 Corporate Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters considered to be of enough importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively. To 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 (ie 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 Plan as 'additional work'. This work will be charged separate 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, change at least once every five 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.

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# Appendix 3 Working together

## Meetings

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

5 Our proposal for meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Financial Services	Audit Manager (AM) and Team Leader (TL)	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Head of Pensions	AM and Team Leader (TL)	Quarterly	Update on audit issues
Pension Fund 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

6 The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce its 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 may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance 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’.

In councils, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;