

Audit Opinion

Plan -

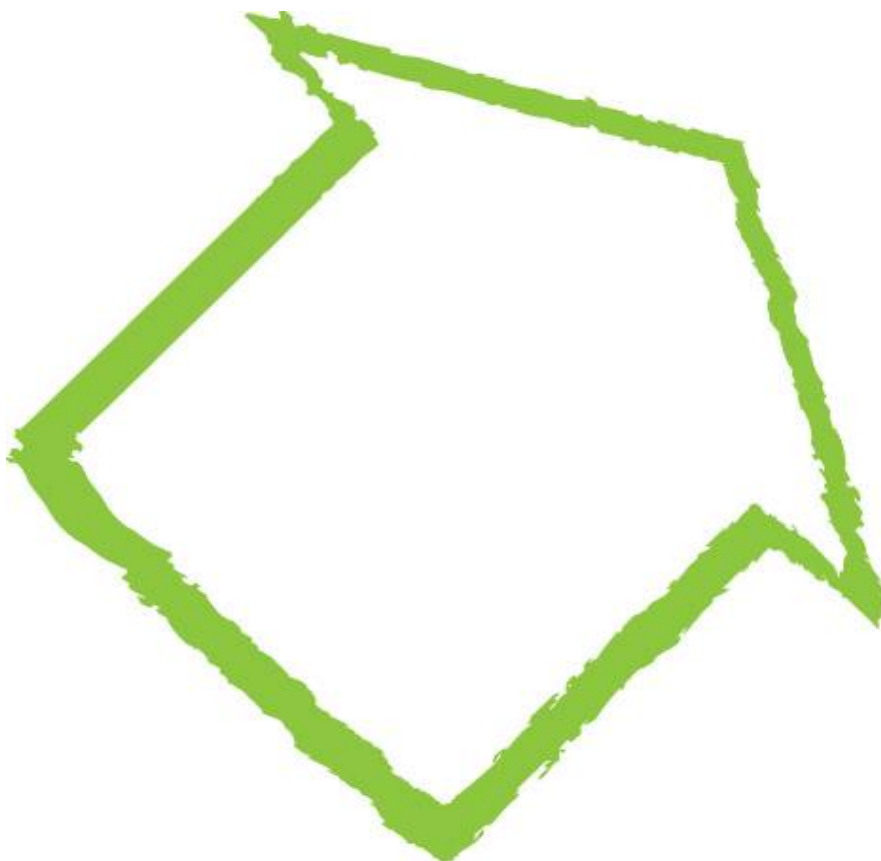
Nottinghamshire

Pension Funds

Nottinghamshire County Council

Audit 2009/10

February 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 This plan sets out the audit work we propose to undertake in relation to the audit of financial statements 2009/10 for the two Nottinghamshire Pension Funds. A separate plan has been produced for the audit of the Nottinghamshire County Council audit.
- 2 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.
- 3 As the Pension Funds' accounts remain part of the County Council financial statements, the Audit Committee (as those charged with governance) is responsible for receiving, considering and agreeing the audit plans and any reports arising from the audit. We will though share our plans and reports with the Pensions Committee and meet with its members as required.
- 4 The audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 5 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.
- 6 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 7 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.
- 8 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.

Fee for the audit of financial statements

- 9 The indicative fee for the 2009/10 was set in April 2009 at £49,500. This is 30 per cent less than the £70,900 scale fee for this type of fund audit, and is the minimum fee within the normal level of variation specified by the Commission.
- 10 In setting the fee we have assumed the general level of risk in relation to the audit of accounts is consistent with 2008/09. The updated 2008/09 plan took into account the requirement to issue separate opinions for the two pension funds, the specific and inherent risks identified and the audit work required. These included the additional work required to obtain sufficient assurances from third parties regarding, amongst other things, the completeness and accuracy of employee contributions receivable and the existence and valuation of investments.
- 11 The assessed level of risk is largely unchanged and I do not, at this stage, propose to adjust the fee. The fee remains though well below the Audit Commission's scale fee and I plan to keep it under review as the audit progresses. If I need to make any increases during the course of the audit I will discuss this with the Service Director (Finance) and outline the reasons for any increase for discussion with the Audit Committee.
- 12 Further information on the basis for the fee is set out in Appendix 1.

Specific actions the Pension Funds could take to reduce the audit fees

- 13 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, we will work with staff to identify any specific actions that the Pension Funds could take and to provide ongoing audit support.

Auditor's report on the financial statements

- 14 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).
- 15 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 Funds as at 31 March 2010.
- 16 I am also required to review the pension fund annual report as per the LGPS regulations 1997.

Identifying opinion audit risks

- 17 As part of our audit risk identification process we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the Funds, including assessing your own risk management arrangements;
 - considering the financial performance of the Funds;
 - considering any emerging national pensions or investment issues which impact on the Funds;
 - 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 Funds' information systems.

Identification of specific risks

18 We 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	Assertions	Audit response
<p>Contributions receivable (employer and employee) continues to be a difficult area to audit. For example:</p> <ul style="list-style-type: none"> differing contribution rates, based on pay bands, have been in place since April 2008 with the risk that contributions are not deducted and collected at the right rates; the administering authority is dependant on the admitted bodies having effective controls in place throughout the year and much of its detailed checks are carried out after the year end; and we recommended after last year's audit that the authority review its procedures and resolve discrepancies between employers' annual returns and the general ledger. 	<p>Accuracy Completeness Cut off</p>	<p>We will review the controls in place to ensure contributions from all employers are collected at the right rates and are complete. We will carry out further substantive testing as necessary.</p>
<p>The value of the Funds' unquoted investments is material. Specific audit procedures are required in relation to these types of investments, which can be difficult to value.</p>	<p>Valuation Accuracy Rights and Obligations Existence</p>	<p>We will substantively test relevant investments and consider the appropriateness of the valuation methods used by the authority.</p>
<p>The 2008/09 financial statements did not disclose the basis of valuation of derivatives and the assets and liabilities for trades had been netted off, instead of shown separately as required by the SORP.</p>	<p>Accuracy Classification Valuation</p>	<p>We will review the disclosure of derivatives against the SORP requirements and substantively test any material amounts.</p>

Identification of specific risks

Risk Area	Assertions	Audit response
<p>At the 2008/09 audit we identified an error in the manual recording of an investment holding in the shareholder system which understated investments in the Main Fund by £8.4m. This error was not material but we recommended in our post statements memorandum that the authority review its procedures for the input of investment details into the system and carry out checks at the year end.</p>	<p>Valuation</p>	<p>We will discuss the arrangements for 2009/10 with officers and carry out specific substantive tests on material balances.</p>
<p>We identified a number of areas where the notes in the financial statements could be expanded or clarified to more closely meet the SORP disclosure requirements. These were reported to officers in our post statements memorandum.</p>	<p>Accuracy Classification</p>	<p>We will review the draft accounts against the SORP guidance notes.</p>
<p>We reported, in the December 2009 Annual Audit Letter and in a subsequent letter to the Service Director (Finance), concerns regarding the arrangements in place for the investment of the Funds' surplus cash and the Council's borrowing from the Funds. We are currently reviewing the Council's response to the issues raised and taking further advice in order to determine what action is necessary. The Pensions Committee is reviewing its investment governance arrangements to ensure they more clearly comply with the current regulations and the changed requirements from April 2010.</p>	<p>Accuracy Classification</p>	<p>We will consider the advice received, discuss the arrangements further with officers and report to the Audit and Pension Committees. We will review the planned revisions to the investment governance arrangements and the proposed procedural changes from April 2010.</p>

Testing strategy

- 19 On the basis of risks identified above we 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.
- 20 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 21 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing may be carried out early:
 - review of accounting policies;
 - bank reconciliation;
 - contributions;
 - investments - ownership; and
 - year end feeder system reconciliations;
- 22 Where other early testing is identified as being possible this will be discussed with officers.
- 23 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of Internal Audit's work on the County Council's payroll and creditors systems where it is relevant to the Pension Funds' audit.

Key milestones and deadlines

- 24** The Pension Funds' financial statements form part of the County Council's statements. The Council is required to prepare these statements by 30 June 2010. We are required to complete our audit and issue our opinions on the Pension Funds and County Council accounts by 30 September 2010. The key stages in the process of producing and auditing the financial statements are similar to those for the main County Council audit and are shown in Table 2.
- 25** The Council is also required to publish an Annual Report for the Pension Funds, which incorporates the Funds' annual accounts, by 31 December 2010. The report is likely to be drafted by September 2010 and available for audit before we give our opinions.
- 26** We will agree with you a schedule of working papers required to support the entries in the financial statements. We will attend the finance team's Closedown Workshop in February 2010 and provide feedback on the 2008/09 audit and specific areas of focus for 2009/10. We will meet with the key contact regularly and review the status of all queries as the audit progresses.
- 27** As the pension funds' accounts remain part of the County Council financial statements, the Audit Committee (as those charged with governance) is responsible for receiving, considering and agreeing the audit plans and any reports arising from the audit. We will though share our plans and reports with the Pensions Committee and meet with its members as required.

Table 2 Proposed timetable

Task	Deadline
Control and early substantive testing	by May 2010
Receipt of accounts	June 2010
Forwarding of audit working papers to the auditor	June 2010
Start of detailed testing	June 2010
Present report to those charged with governance at the Audit Committee	September 2010
Issue of opinion and review of Annual Report	By 30 September 2010

The audit team

28 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Andrew Blackburn District Auditor	a-blackburn@audit-commission.gov.uk 0844 798 4361	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Mike Norman Audit Manager	ma-norman@audit-commission.gov.uk 0844 798 4403	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Service (Finance) and Pensions staff.

Independence and objectivity

- 29 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 30 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

- 31 The audit team will maintain 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

- 32 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the East Midlands Head of Operations.
- 33 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

- 34 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Pensions Committees.

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	February 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	by 30 September 2010
Final accounts memorandum	30 November 2010

Appendix 1 – Basis for fee

- 1 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.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to:
 - our cumulative knowledge of the County Council, as Administering Authority, and the Pensions Committee;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with officers; and
 - liaison with Internal Audit.

Assumptions

- 3 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 2008/09;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit's work on the Council's payroll and creditors systems (which are relevant for the Pension Funds Audit) is sufficient that we can place reliance for the purposes of our audit];
 - good quality working papers and records will be provided to support the financial statements by the start of the audit in June 2010;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 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

- 1 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).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 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 fee 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
- 4 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 although we expect to share communications with the Pensions Committee. The auditor reserves the right to communicate directly with the Council, as the Administering Authority, on matters which are considered to be of sufficient importance.
- 5 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.

Appendix 2 – Independence and objectivity

- 6 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 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 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.

Appendix 3 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

Table 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Head of Service (Finance)	AM and TL	Quarterly	General update plus: <ul style="list-style-type: none"> • March/April - audit plan; • July - accounts progress; and • September - annual governance report.
Head of Pensions	AM and Team Leader (TL)	Quarterly	Update on audit issues
Audit and Pension Fund Committees	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan; • Annual governance report; and • other issues as appropriate.

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we 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.

The Audit Commission

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.

Copies of this report

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