

# Audit Strategy

Shropshire County Pension Fund

Audit 2011/12



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# Introduction

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**This strategy sets out the work for the 2011/12 audit. The strategy is based on the Audit Commission's risk-based approach to audit planning.**

## **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 you.

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.

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

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

My audit of the accounting statements does not relieve management or the Pensions Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Pension Fund Annual Report

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I will carry out the audit of the accounting statements included within the Authority's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair.

## Materiality

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

## Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
- considering the financial performance of the 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 Fund's information systems.

## Identification of significant risks

This plan reports the risks I have identified at the time of reporting. If material risks change or new ones are identified that impact upon my proposed audit strategy, I will report them separately to the Pensions Committee. I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below

Table 1: **Significant risks**

Risk	Audit response
<p>The present value of retirement benefits is a significant item which forms part of the Actuaries valuation which is detailed within your financial statements. The complexities involved in the valuation means that there is a risk that the information contained within the financial statements may be materially misstated.</p>	<p>I will review the management arrangements for instructing the actuary and the controls over information provided to the actuary (as received from admitted bodies). This will also address a specific risk in relation to potential issues around accuracy of details supplied in respect of possible changes at West Mercia Supplies.</p> <p>I will undertake procedures to enable me to place reliance on the work of the actuary.</p> <p>I will undertake tests of detail on accounting entries and the IAS 19 valuation report.</p>
<p>The Net Assets Statement details unit trusts, hedge funds and derivatives. Due to the complexity and the nature of these transactions, I will need to secure assurances of the valuations of these investments.</p>	<p>I will ensure that information is obtained from the relevant fund managers as to the basis of their valuation and will undertake reviews of the data to enable me to form a view as to the reasonableness of the valuation. I will also conduct a review of the work of Internal Audit in reviewing the individual SAS70 reports for each fund manager and the global custodian.</p>

## 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 2: **Specific risks**

Risk	Audit response
<p>Pension funds receive contributions in respect of equal pay settlements made by admitted bodies. The risk is that, where this is appropriate, the Pension Fund does not recognise all the contributions in respect of equal pay settlements receivable for the year of account.</p>	<p>I will review the management arrangements to ensure that contributions have been made (where expected to be receivable) in respect of any equal pay settlements.</p>
<p>Potential redundancies in 2011/12 may impact upon the pension fund and I will need to gain assurances as to the appropriateness of the accounting of such transactions.</p>	<p>I will review the elements of the transaction relating to the Pension Fund to ensure that the values have been properly recorded within the Pension Fund accounts.</p>
<p>My work in 2010/11 identified the need for additional reconciliations to be undertaken in respect of:</p> <ul style="list-style-type: none"><li>■ gaining assurances over accuracy of pension numbers and payments of lump sums and payments to leavers; and</li><li>■ values recorded in AXIS for areas such as lump sums and transfer in as compared to those in the general ledger.</li></ul>	<p>I will undertake a review of your year-end reconciliation procedures in relation to:</p> <ul style="list-style-type: none"><li>■ lump sum pensions / payments to leavers and membership numbers; and</li><li>■ reconciling the values of lump sums and transfers in between those recorded in AXIS, with the values in the general ledger.</li></ul>

## Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 3: **Testing**

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls testing	Substantive testing
Interim visit	Pensions payroll-review of contributions at administering body and admitted bodies.			Walkthroughs will be conducted of the following financial systems: <ul style="list-style-type: none"> <li>■ General ledger;</li> <li>■ Contributions receivable;</li> <li>■ Pensions payable;</li> <li>■ Transfers in / out;</li> <li>■ Lump sums;</li> </ul>	Completeness and accuracy of information on pension liabilities provided to the actuary.

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls testing	Substantive testing
				<ul style="list-style-type: none"> <li>■ Investment income / expenses; and</li> <li>■ Bank.</li> </ul>	
Final visit	SAS70 reports - fund managers and custodians	Accuracy of employee and employer contribution rates at Telford and Wrekin Council (KPMG).	Pension liabilities – PWC review of Actuary and their assumptions. This report is obtained centrally by Audit Commission.		All material accounts balances and amounts Year-end feeder system reconciliations Investments

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

## Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.



# Key milestones and deadlines

The Pension Fund is required to prepare the accounting statements by 18 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	December 2011 – March 2012	Annual Governance Report
Opinion: receipt of accounts and supporting working papers	18 June 2012	
Opinion: substantive testing	18 June 2012	
Present Annual Governance Report at the Pensions committee	13 September 2012	Annual Governance Report
Issue opinion on accounting statements included in the Statement of Accounts	By 30 September 2012	Auditor's report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Shropshire Council's Annual Audit Letter

# The audit team

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The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Grant Patterson District Auditor	<a href="mailto:g-patterson@audit-commission.gov.uk">g-patterson@audit-commission.gov.uk</a> 0844 798 7816	Responsible for the overall delivery of the audit including quality of reports, signing the opinion and liaison with the Chief Executive.
Erik Bagnall Audit Manager	<a href="mailto:e-bagnall@audit-commission.gov.uk">e-bagnall@audit-commission.gov.uk</a> 01743 252941	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance and Commerce.
Johanna Wong Team Leader	<a href="mailto:j-wong@audit0commission.gov.uk">j-wong@audit0commission.gov.uk</a> 01743 252941	Co-ordinates different elements of audit work. Day to day contact for Finance staff.

# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## Quality of service

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 – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

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).

# Fees

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**The fee for the audit is £38,529, as set out in my letter of 18 April 2011.**

## **The audit fee**

The Audit Commission has set a scale audit fee of £38,529 which represents a 2.8 per cent reduction on the audit fee for 2010/11.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

## **Assumptions**

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Head of Finance and Commerce and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As in previous years, I will work with staff to identify any specific actions that the Pension Fund could take and to provide ongoing audit support.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will make charges for the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£38,529	£39,625	(£1,096)
<b>Total</b>	<b>£38,529</b>	<b>£39,625</b>	<b>(£1,096)</b>

# Appendix 1 – Independence and objectivity

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Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*

# Appendix 2 – Basis for fee

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## Assumptions

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
  - internal controls are operating effectively;
  - I secure the co-operation of other auditors.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The work undertaken by other auditors is provided in a timely manner and testing confirms the correct operation of the financial system for accounting for employee and employer pension contributions.
- The Authority provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 18 June 2012;
  - the full text of the Pension Fund Annual Report by 30 July 2012;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.

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



# Appendix 3 – Glossary

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## **Accounting statements**

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Governance Statement**

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to the [Pension Panel] before the auditor issues their opinion.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out an auditor under 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.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated 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 that contain basic principles and essential procedures with which auditors must 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 issued by the Audit Commission and approved by Parliament.

**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 relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Internal control**

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting 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 accounting 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 to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

### **Pension Fund Annual Report**

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority and the Pensions Committee.

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

