



CIPFA Pensions Network Scottish workshop 2013



Tim Bridle – Technical Adviser (Local Government)

Areas to cover



Auditor responsibilities

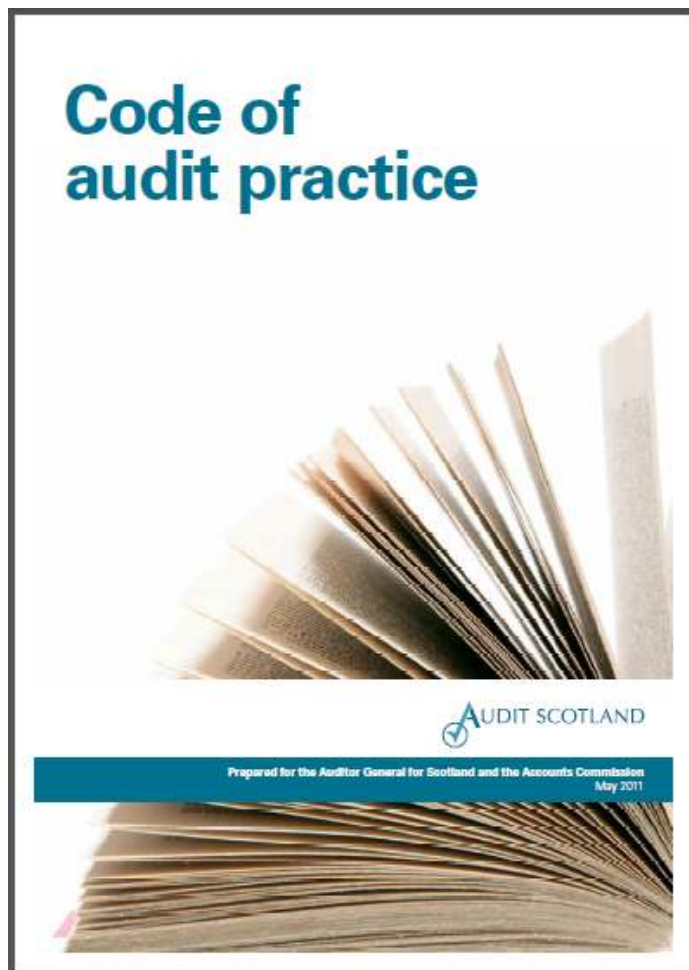
Quick recap of the story so far

2012-13 Annual reports and accounts

2012-13 Accounts issues

Wider issues / issues going forward

Auditor responsibilities Code

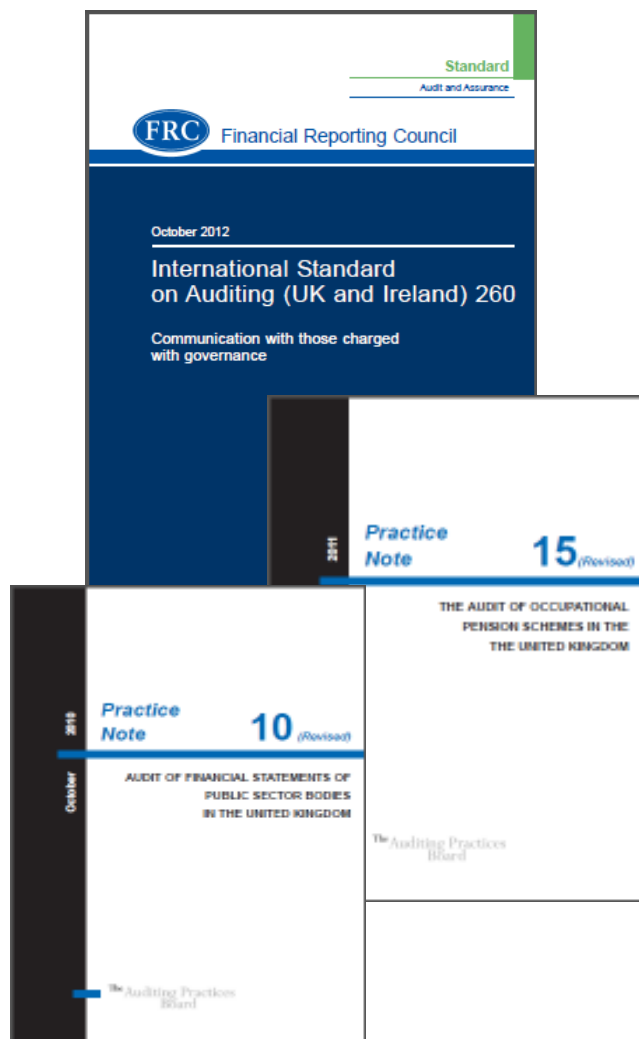


Areas included:

- Financial statements
- Corporate governance
- Fraud & NFI

- Best value
- Use of resources
- Performance

Audit responsibilities ISAs



eg

- ISA 260 Communication with **those charged with governance**
- ISA 315 Identifying and assessing risks of material misstatement through **understanding the entity** and its environment
- ISA 320 **Materiality** in planning and performing an Audit
- ISA 450 Evaluation of **misstatements**
- ISA 620 Using the work of an **auditors expert**
- PN 15 not directly applicable but useful reference PN 10 Public Sector Bodies

Audit responsibilities

ISA 320 Materiality



Materiality can be quantitative and qualitative

Quantitative levels set by auditors are based on auditor judgement

Typically something like:

- The lower of
 - 0.5% of net assets; or
 - 10% of contributions / benefits

Information is material if omitting it or misstating it could influence the decisions of users of the accounts

Audit responsibilities

ISA 450 Evaluation of misstatements



Auditors are required to accumulate **all** misstatements identified during the audit (other than **clearly trivial**)

Misstatements may relate to items of account or to disclosures

Auditors are required to request management to correct **all** misstatements accumulated during the audit

Uncorrected material misstatements would result in a **qualified audit opinion**

Auditor responsibilities

Basis for annual report, accounts & audit



Legislative basis	
Local Government (Scotland) Act 1973	Section 99 places duty on auditors to be satisfied that local authorities observe proper accounting practice
Local Government in Scotland Act 2003	Section 12 places a duty on local authorities to observe, and defines, proper accounting practice
The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008	Section 31a requires administering authorities to produce annual report including financial statements
Finance Circular 1/2011 - Guidance under section 12 of 2003 Act (and therefore proper accounting practice)	Accounts set out in the statutory PF annual report a separate 'abstract of accounts' as required by 1973 Act, PF statements not included in LA accounts (effectively requiring a separate audit).

Auditor responsibilities

Annual report



Accounts area	Auditor responsibility
Financial statements	Audit and express an opinion
Explanatory foreword	Express an opinion as to whether it is consistent with the financial statements
<i>Governance compliance statement</i>	Review and report any non-compliance with Scottish Ministers' guidance
Other specified matters	Report by exception – accounting records and consistency with, information and explanations required
Other information in annual report	Read and identify any material inconsistencies with the financial statements

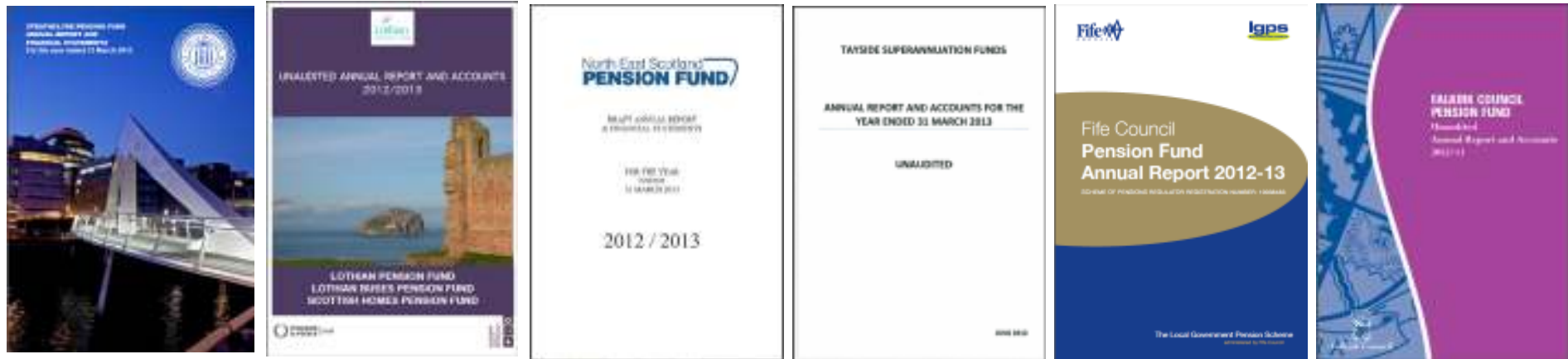
Separate accounts and audit

Overview of story so far

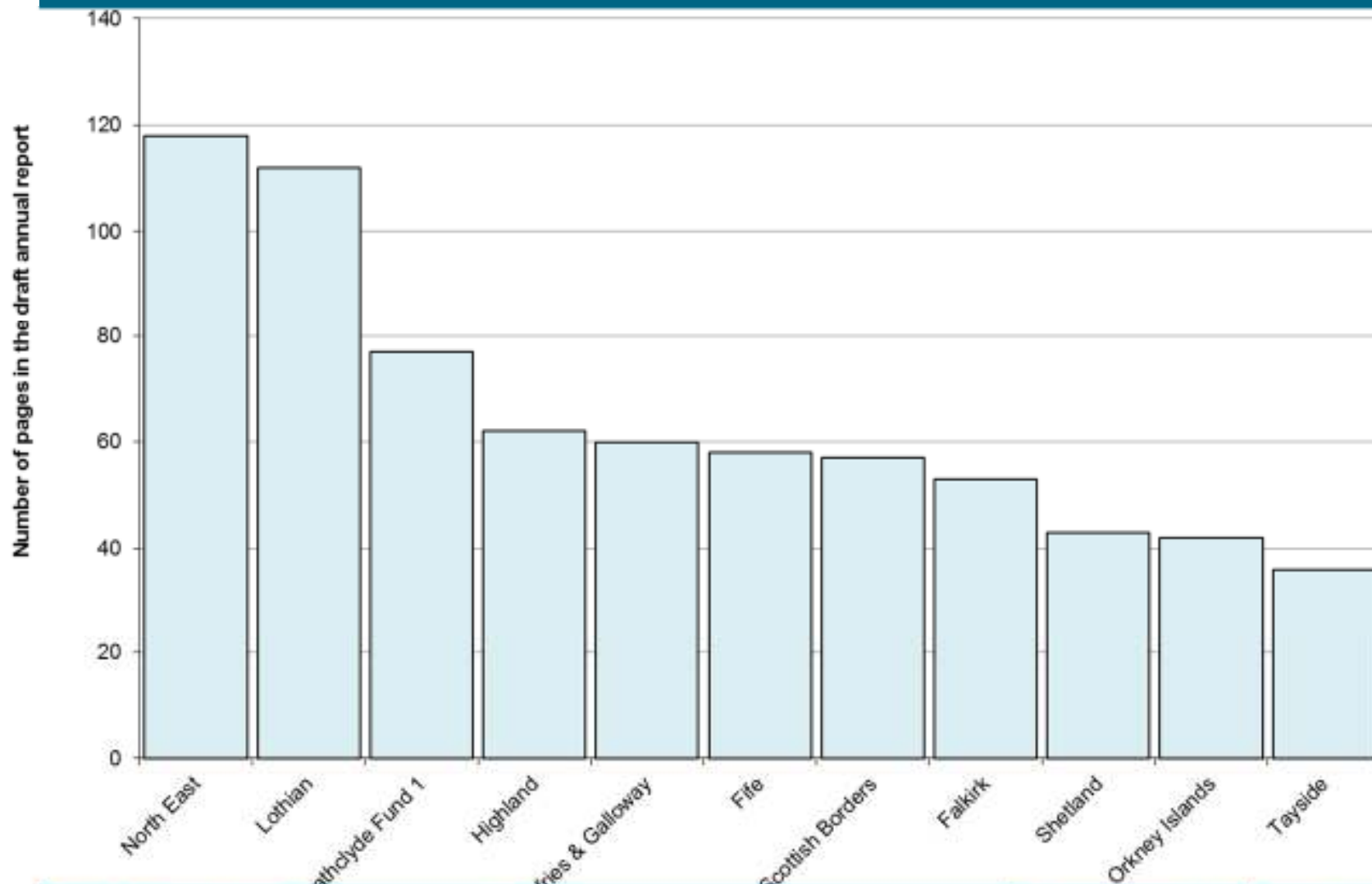


Yr	Annual reports	Audit
2010-11	<p>Yr 1 of annual reports and separate accounts and audit.</p> <ul style="list-style-type: none"> - 'Transition year'. - PV of liability reported for first time 	<p>Yr 5 of audit appointments</p> <p>Main issues / messages:</p> <ul style="list-style-type: none"> • IA and arrangements • Reconciliations • Governance • Risk management • Performance reporting • Succession planning
2011-12	<p>Yr 2 of annual reports</p> <ul style="list-style-type: none"> - clarification that all areas of Code applied eg financial instruments - separate bank accounts 	<p>Yr 1 new audit appointments</p> <ul style="list-style-type: none"> • Accruals of death benefits • Operation of bank accounts • Improved governance • Membership data • Budgetary control • Investment management expenses
2012-13	<p>Yr 3 of annual reports</p> <p>No major changes to required policies or reporting</p>	<p>Y2 of audit appointments</p> <p>Issues / messages – so far?</p> <ul style="list-style-type: none"> • Improvements in governance.....

2012-13 Annual reports Drafts submitted



2012-13 Annual reports Length – page numbers



2012-13 Annual reports

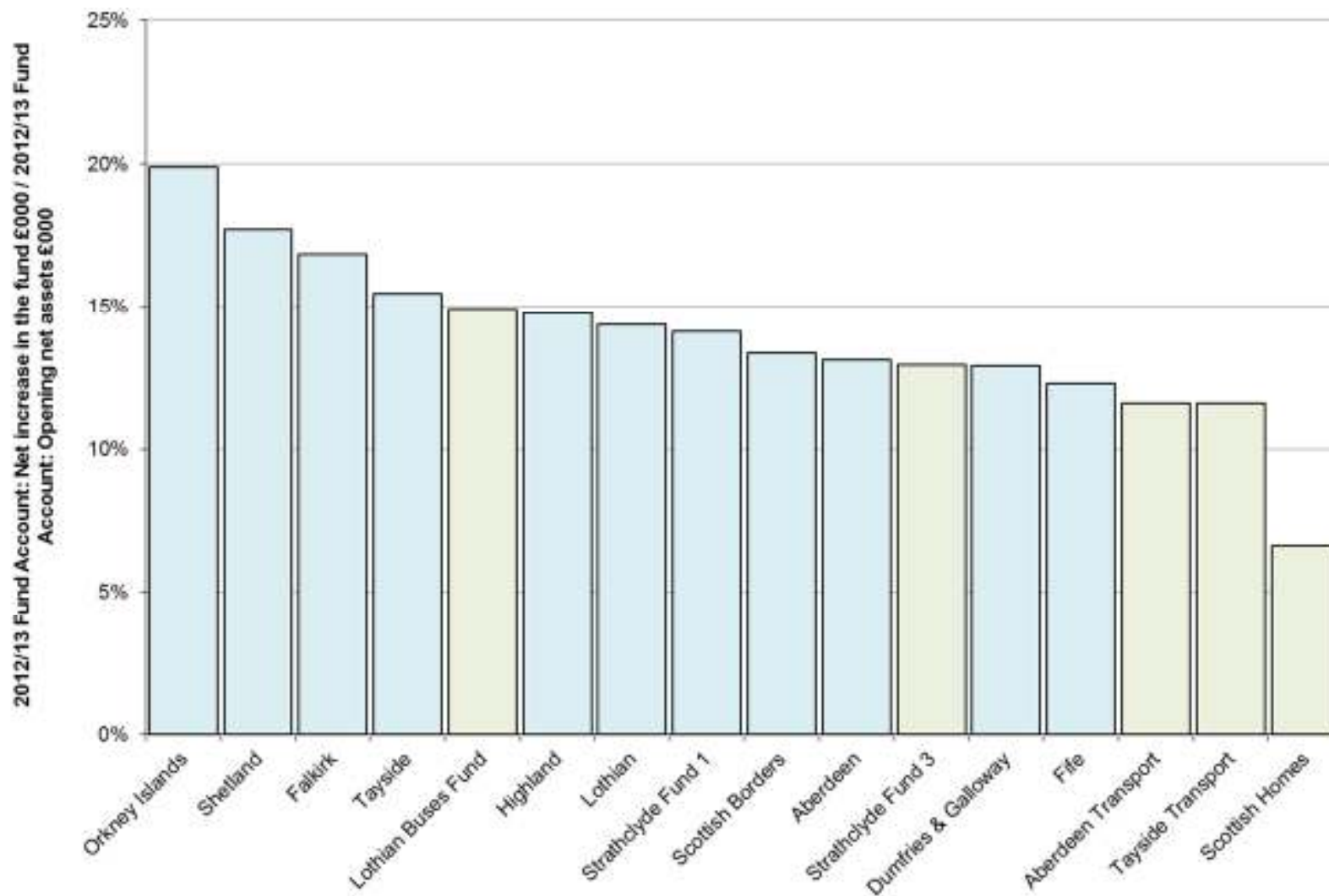
Initial compliance with regulation 31a



Areas to cover or include	Coverage (initial findings)
Management and financial performance	Often in explanatory foreword
Investment policy and performance	Covered in all reports - level of detail varies
Administration arrangements	Some coverage in all reports
Outstanding borrowing	Not applicable?
Statement by Actuary	Updated statements in most cases
Governance compliance statement*	Most included full statement – one summary statement – one omitted to mention!
Accounts	NAS, FA, Notes, Explanatory foreword, Statement of responsibilities, 'governance statement'
Administration strategy performance	Discretionary but included in a number of reports
Funding strategy statement*	Summary or link in 10/11 cases
Statement of investment principles*	Summary or link in most cases
Other material?	Included: SIFC, training, risk, Myners

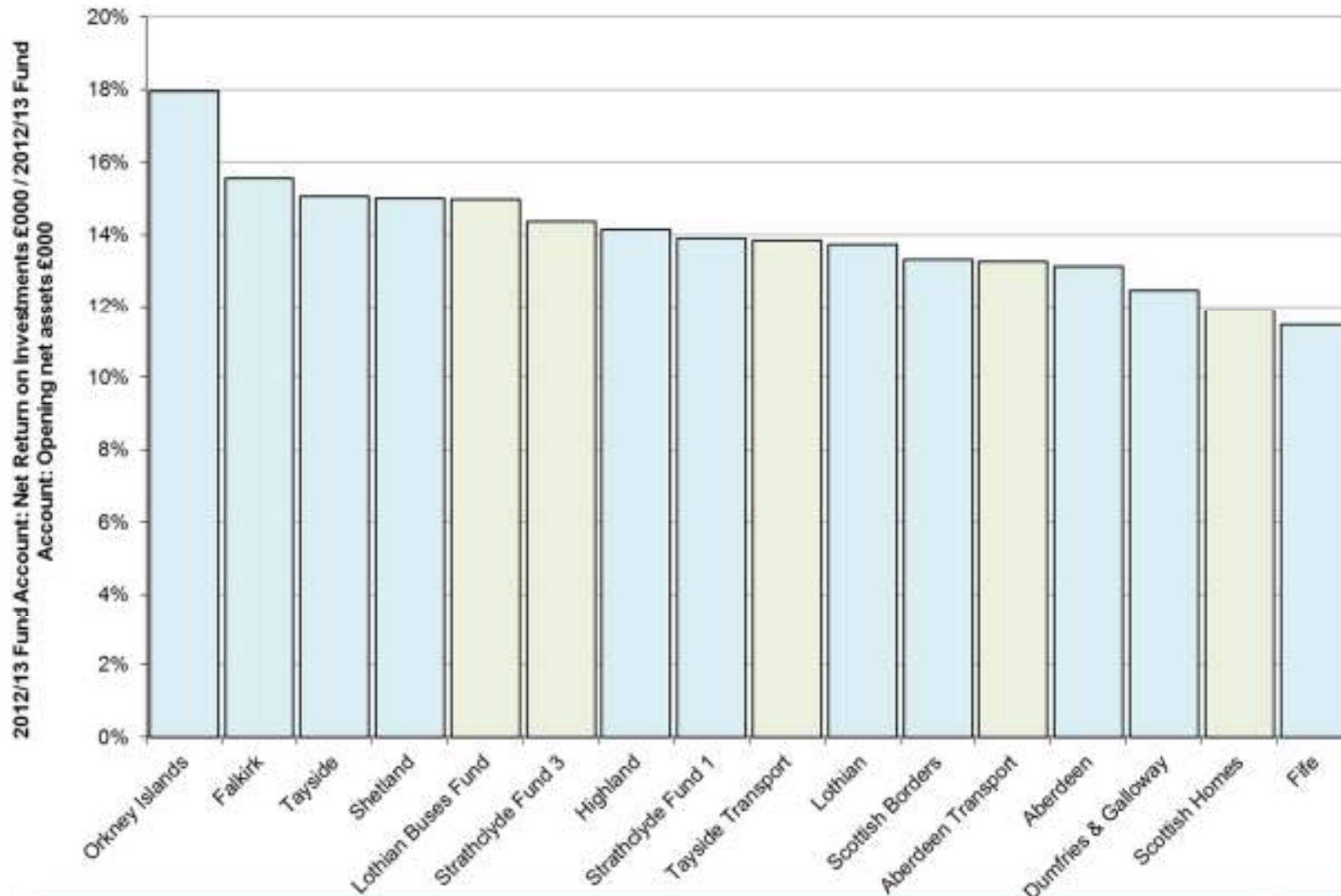
2012-13 Unaudited Accounts

Increase in net assets



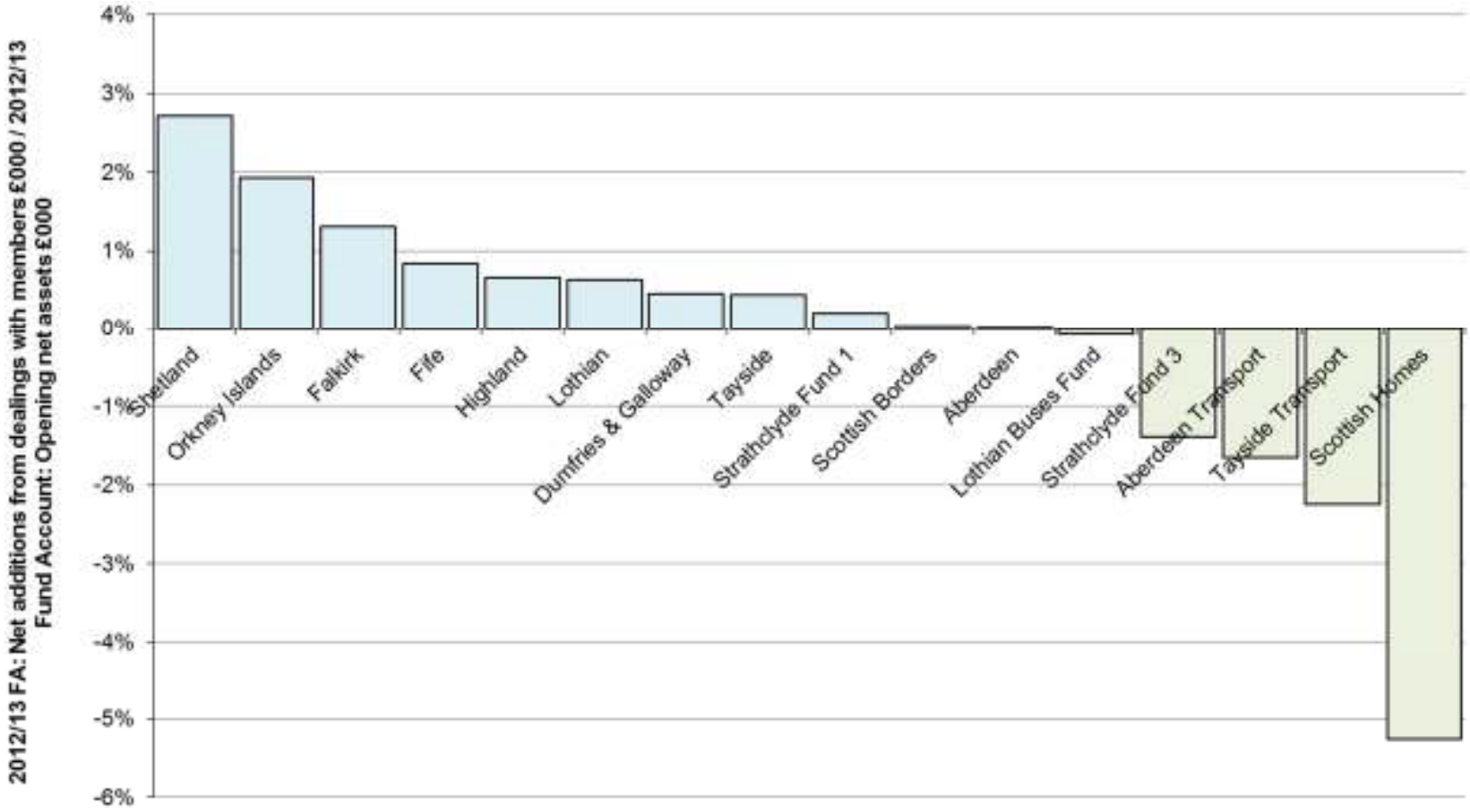
2012-13 Unaudited accounts

Net return on investments



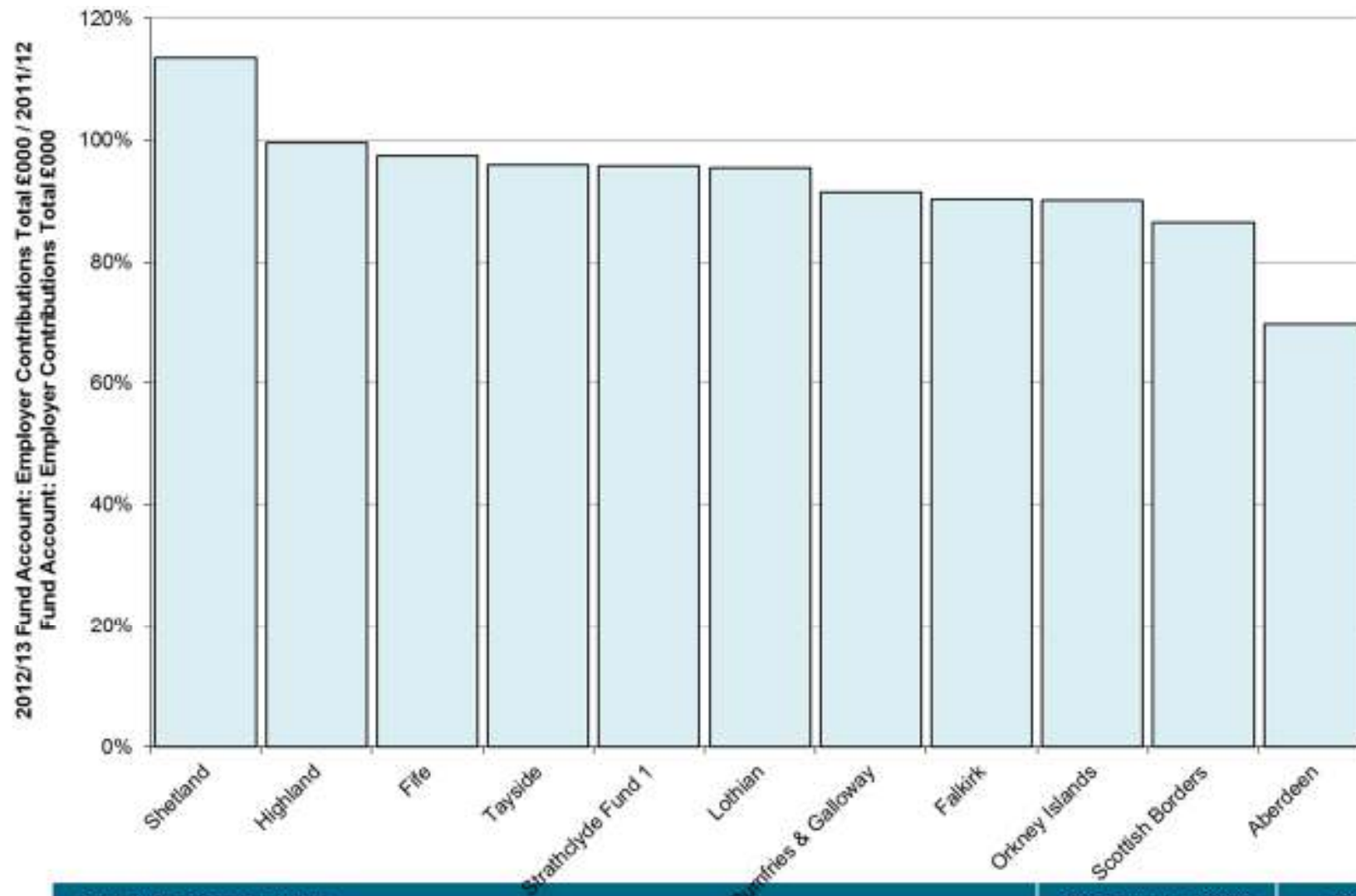
2012-13 Unaudited accounts

Net additions from dealings with members



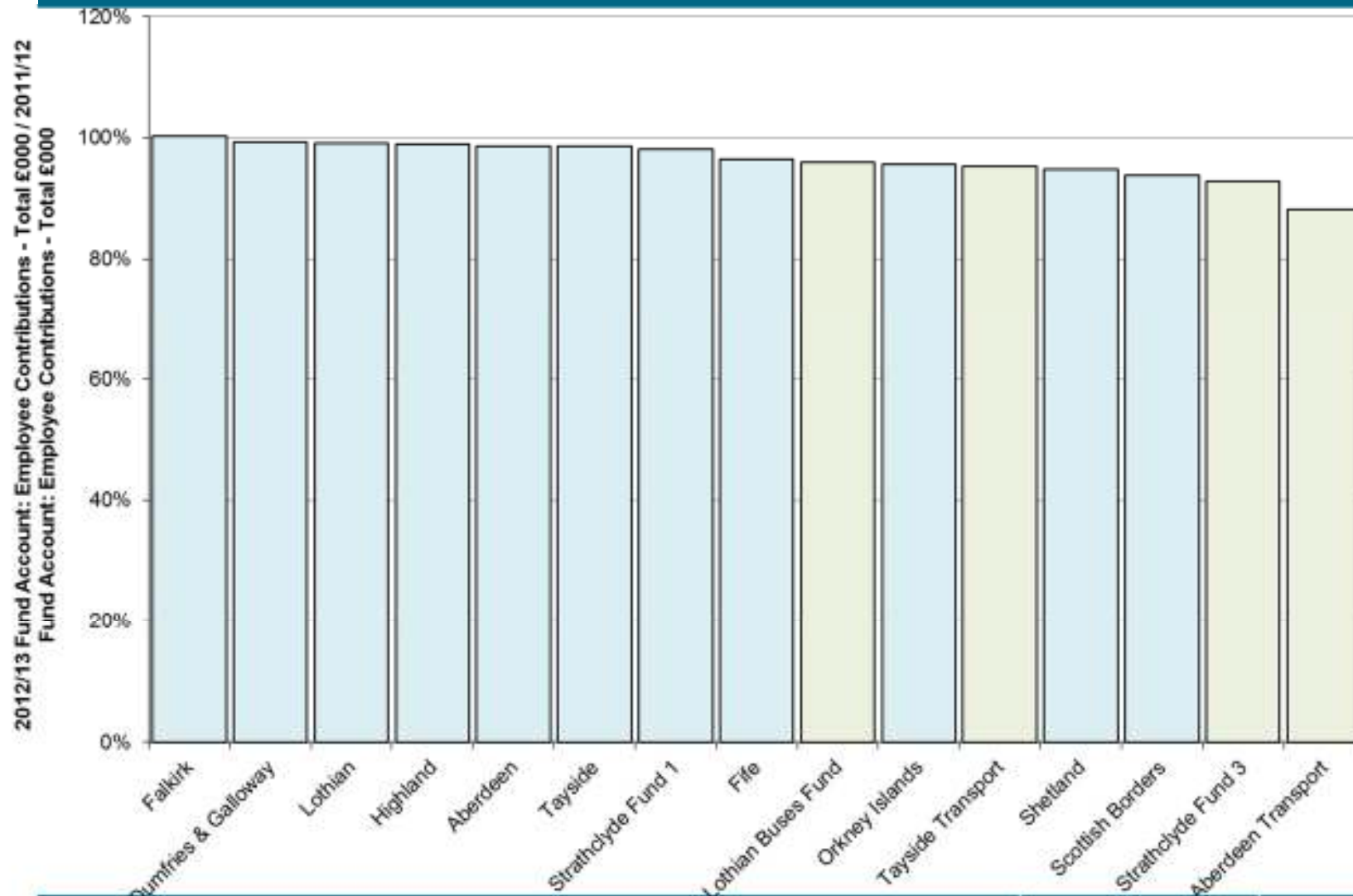
2012-13 Unaudited accounts

Employer contributions year on year



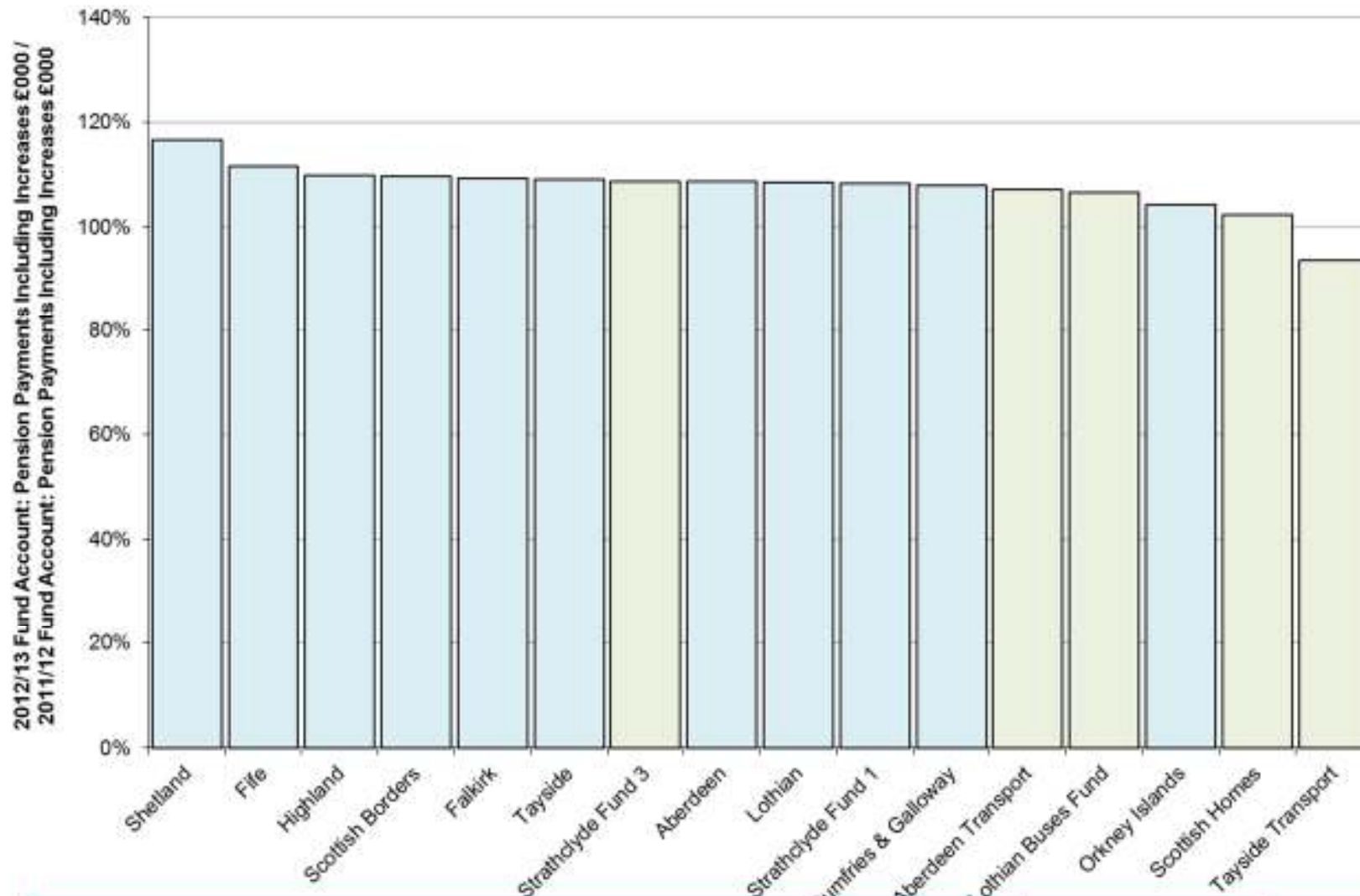
2012-13 Unaudited accounts

Employee contributions year on year



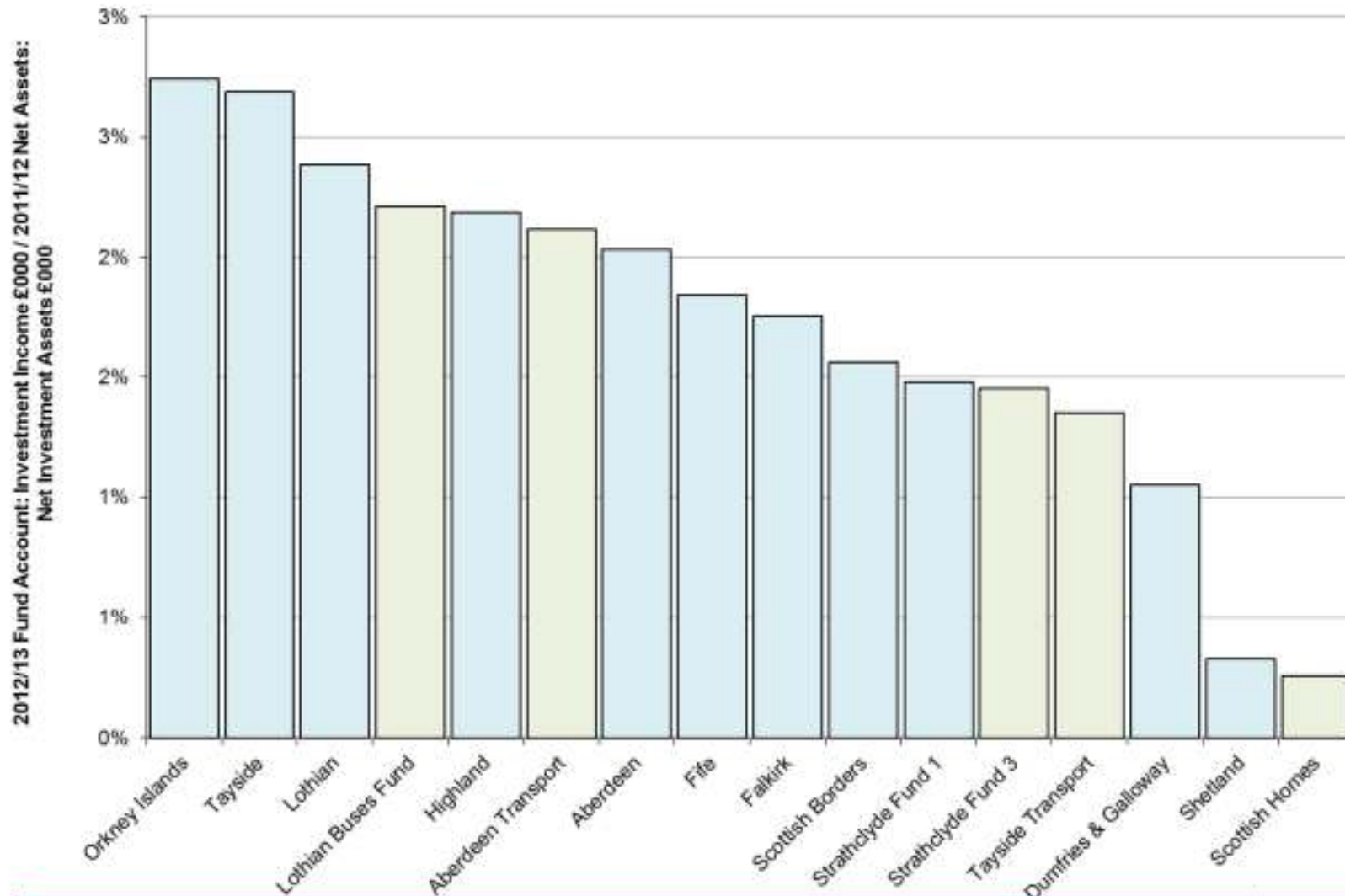
2012-13 Unaudited accounts

Pension payments year on year



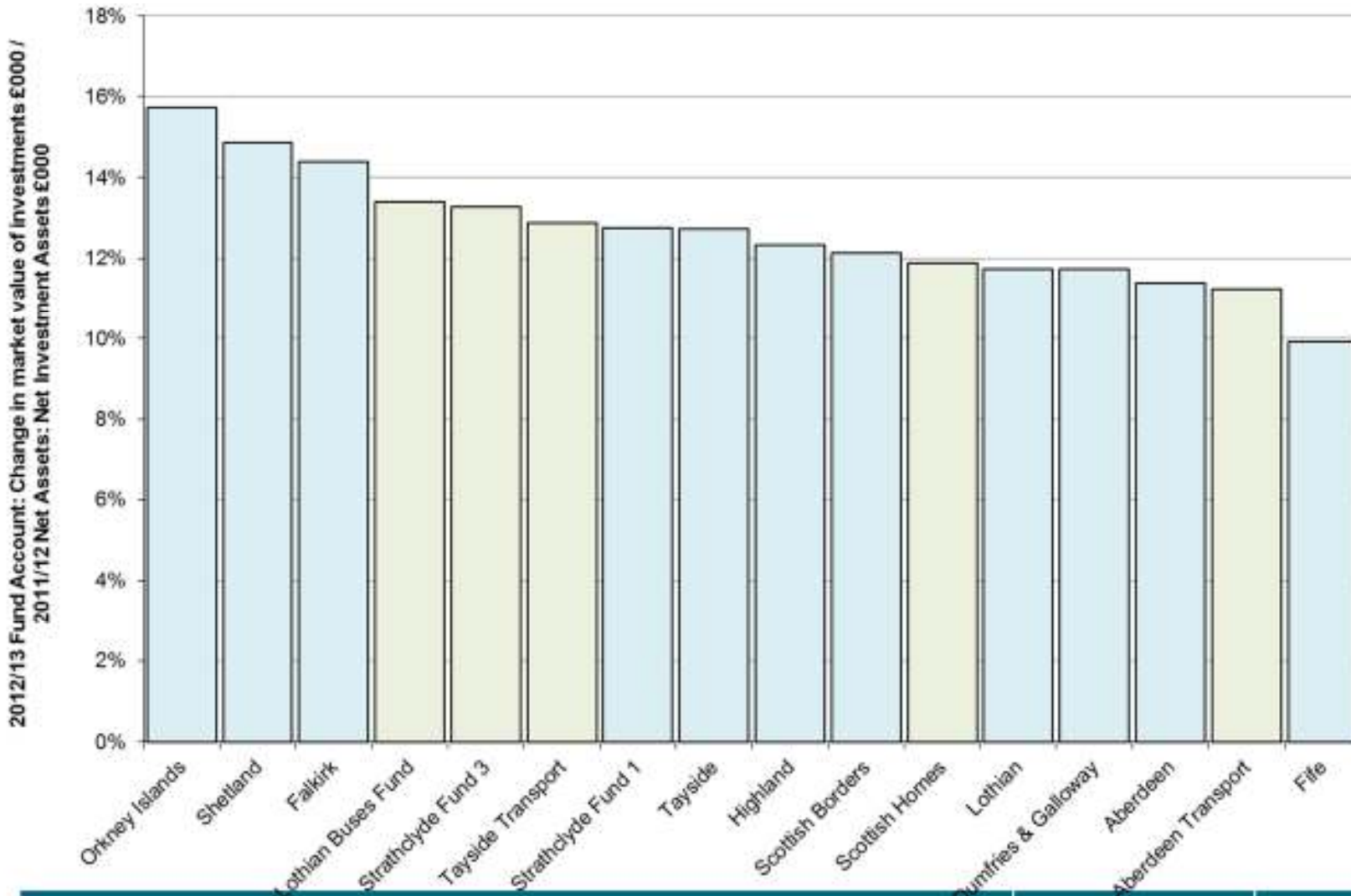
2012-13 Unaudited accounts

Investment income / opening investments



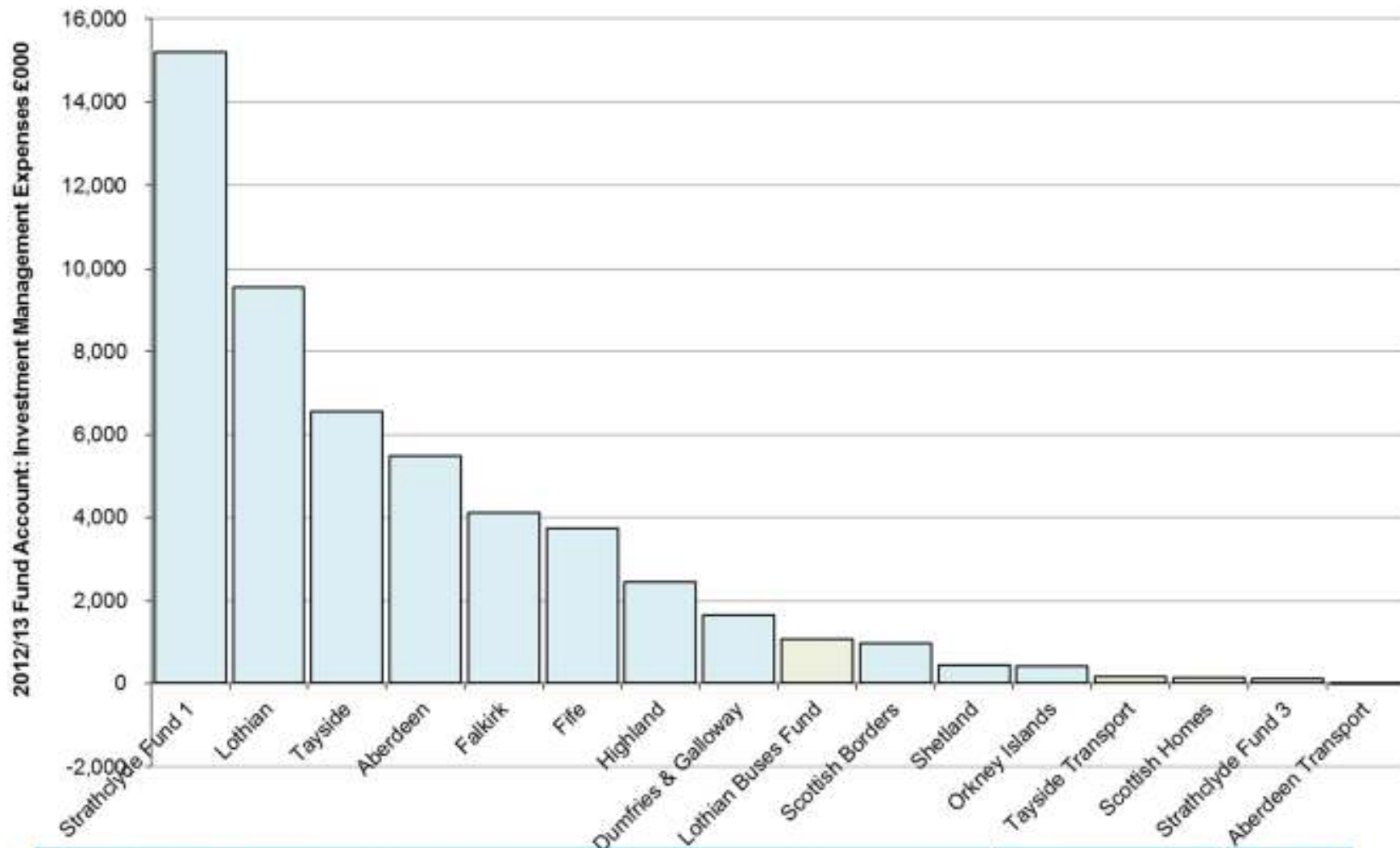
2012-13 Unaudited accounts

Change in MV of investments



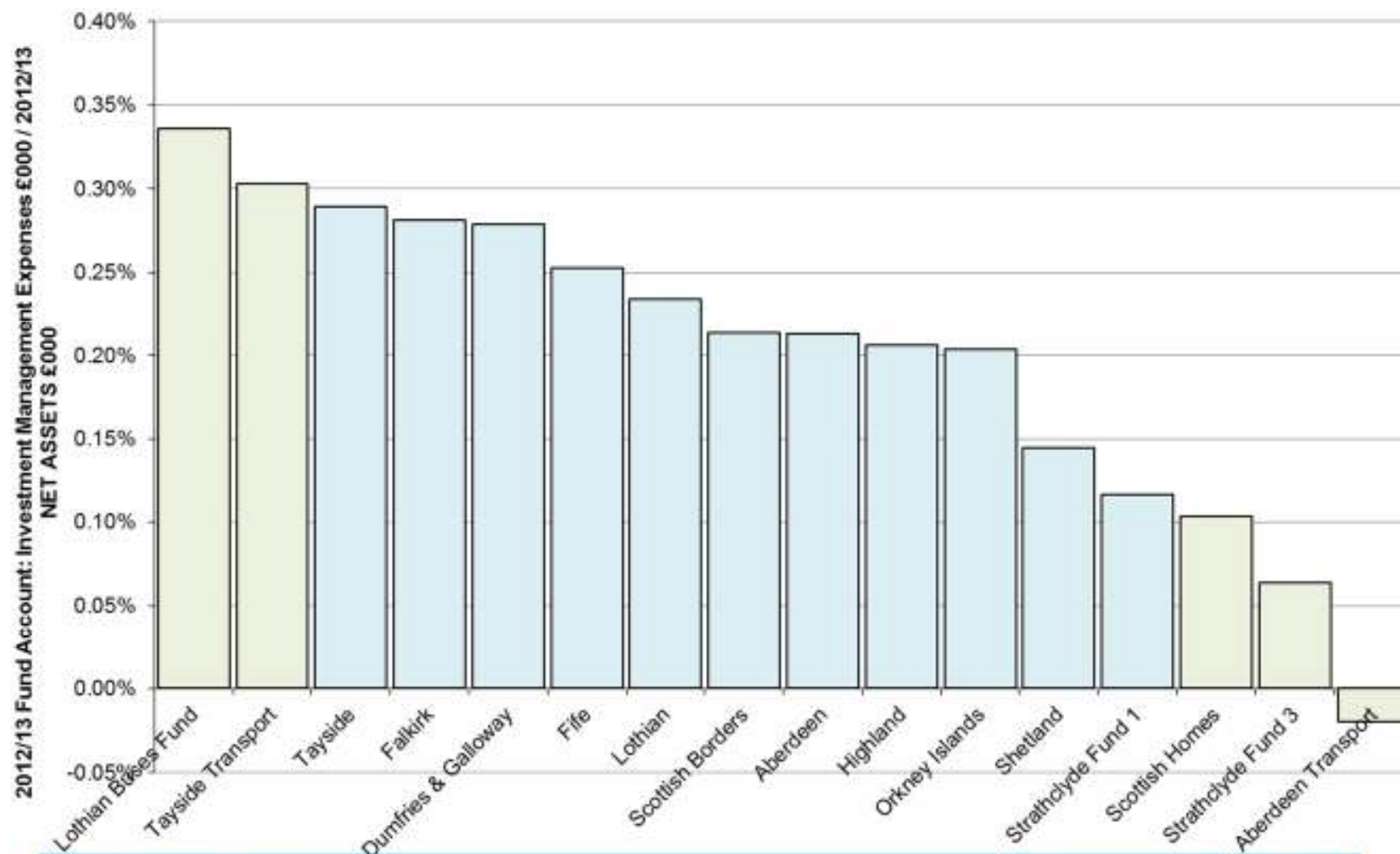
2012-13 Unaudited accounts

Investment management expenses



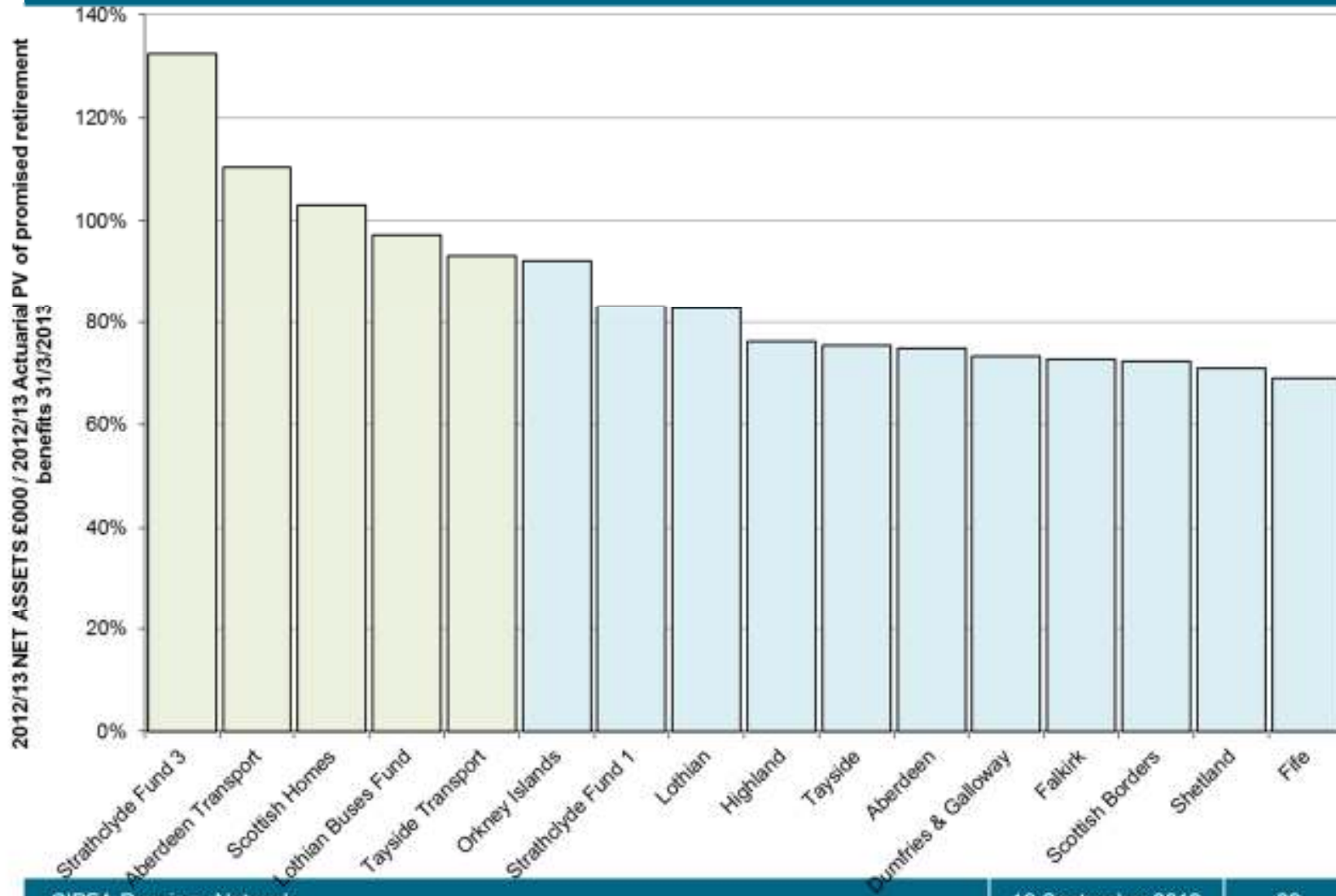
2012-13 Unaudited accounts

IME as a proportion of net assets



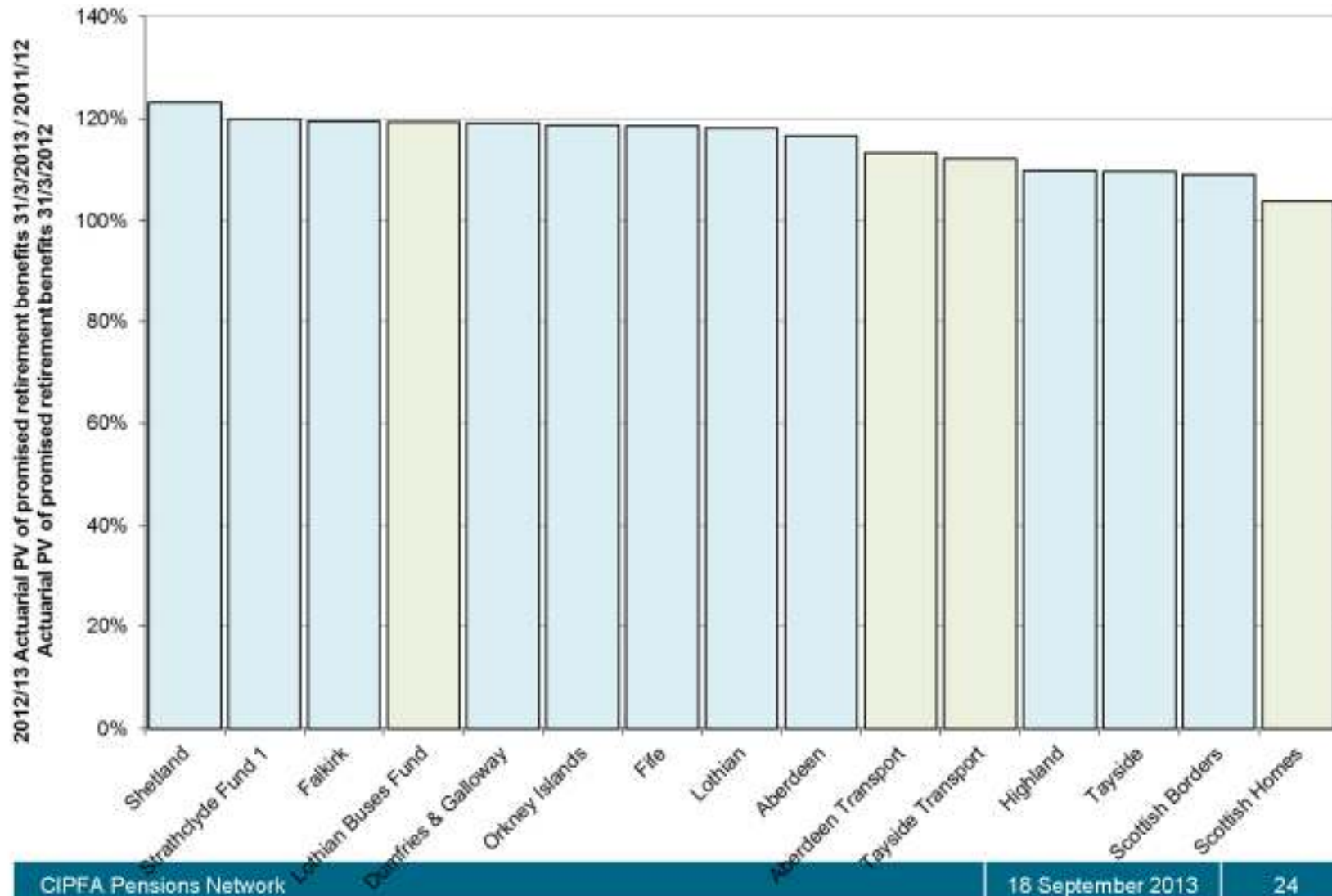
2012-13 Unaudited accounts

Net assets / PV of promised benefits



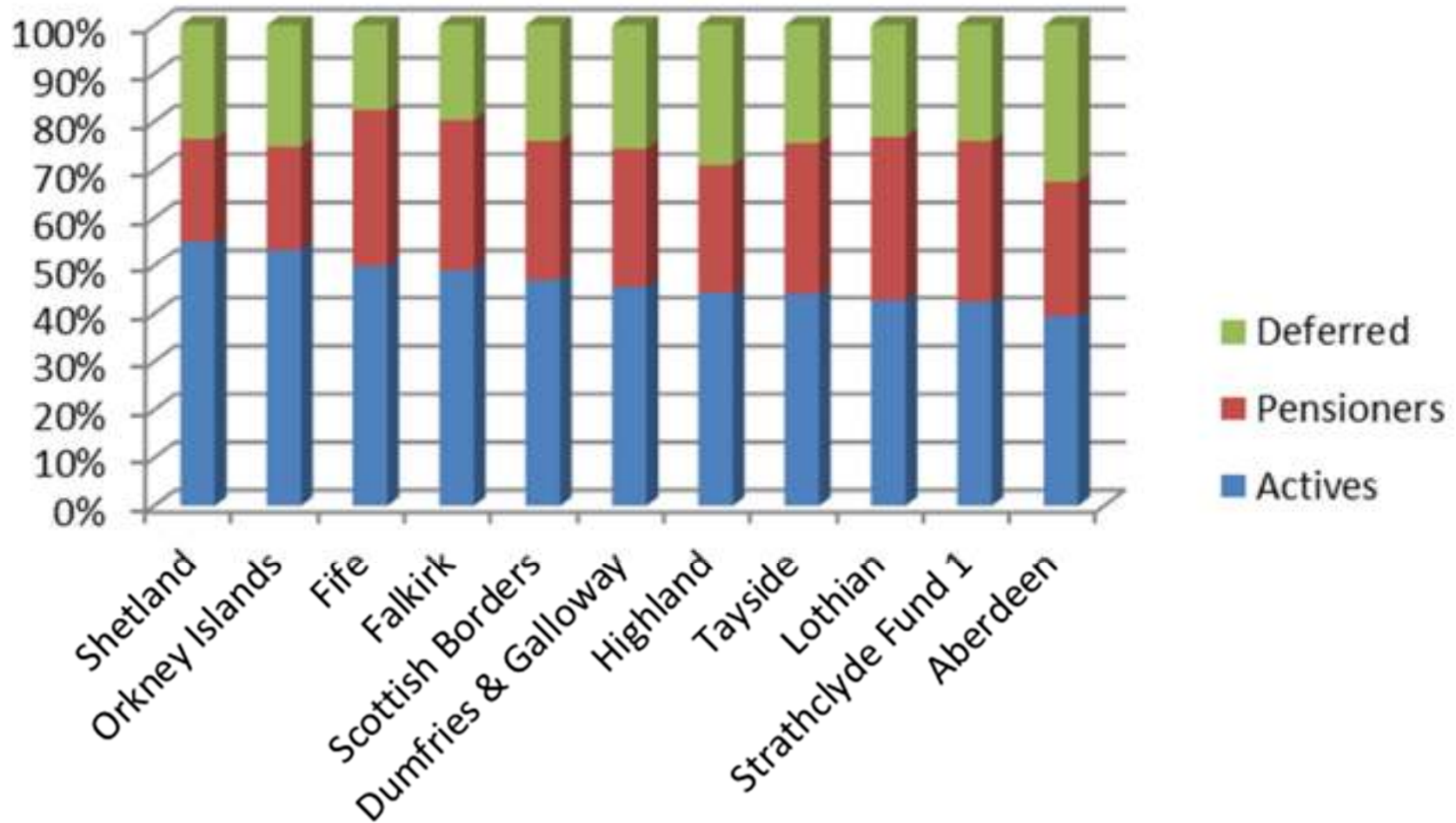
2012-13 Unaudited accounts

Increase in PV of retirement benefits



2012-13 Unaudited accounts

Membership profile



Accounts issues

- Governance statements
- Financial instruments disclosures
- Investment management expenses
- Related parties – key management personnel

2012-13 Accounts issues

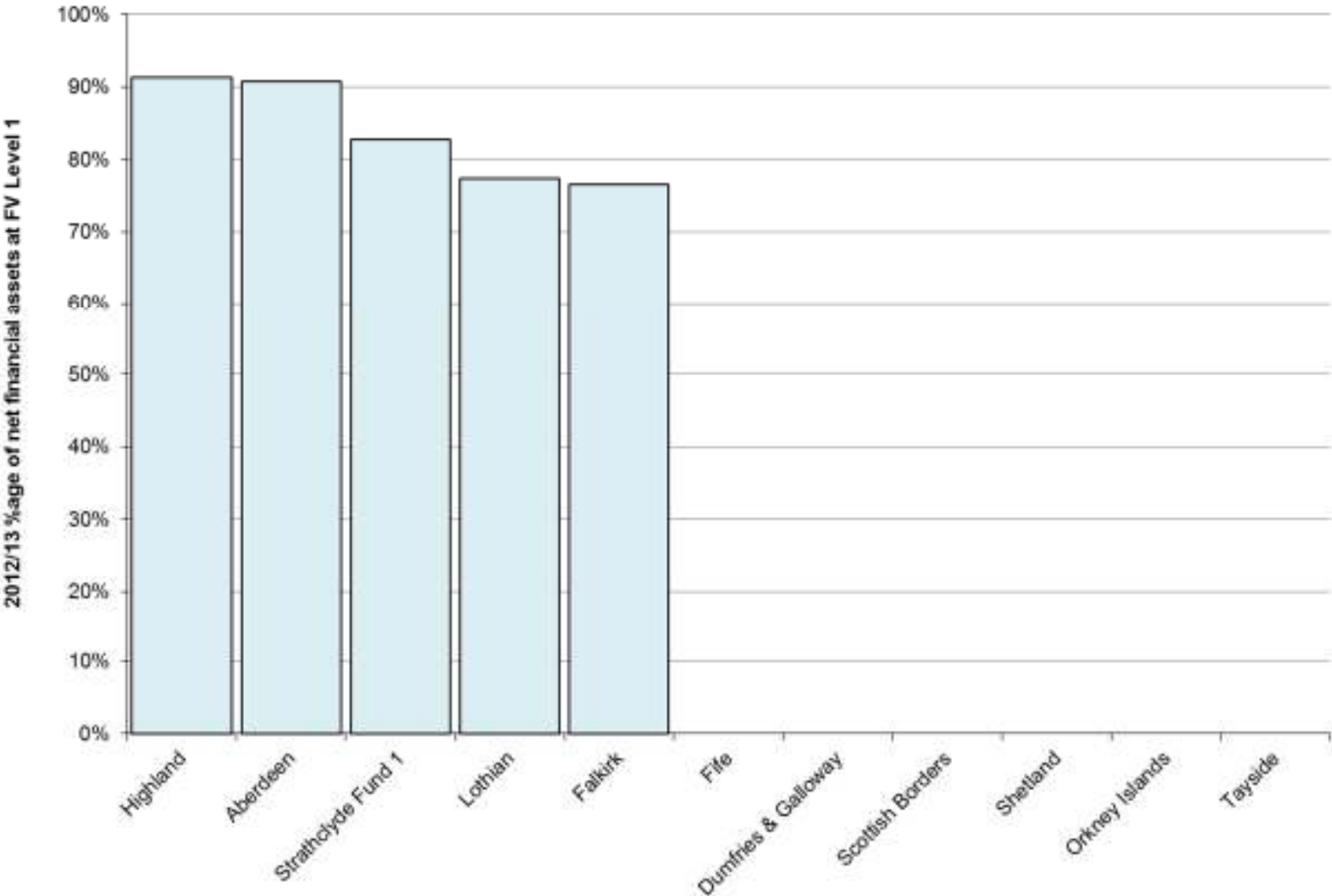
Governance statements



Governance Compliance Statement	Annual Governance Statement	Statement of Internal Financial Control
<ul style="list-style-type: none"> • Structure • Committee membership and representation • Selection and role of lay members • Voting • Training/Facility time/Expenses • Meetings (frequency/quorum) • Access • Scope • Publicity 	<ul style="list-style-type: none"> • Responsibility for system of governance and internal control • Level of assurance that systems and procedures can provide • Key elements of governance framework • Process applied in maintaining and reviewing effectiveness of arrangements including role of: <ul style="list-style-type: none"> ○ Authority ○ Executive ○ Audit committee ○ Internal Audit ○ Other mechanisms • Outline of actions 	<ul style="list-style-type: none"> • Responsibility for internal control • Level of assurance that internal financial control can provide • Main features of system of IFC • Role of IA and the management and reporting arrangements for IA • Details of any reviews informing effectiveness of IFC • Explanation of weaknesses and actions

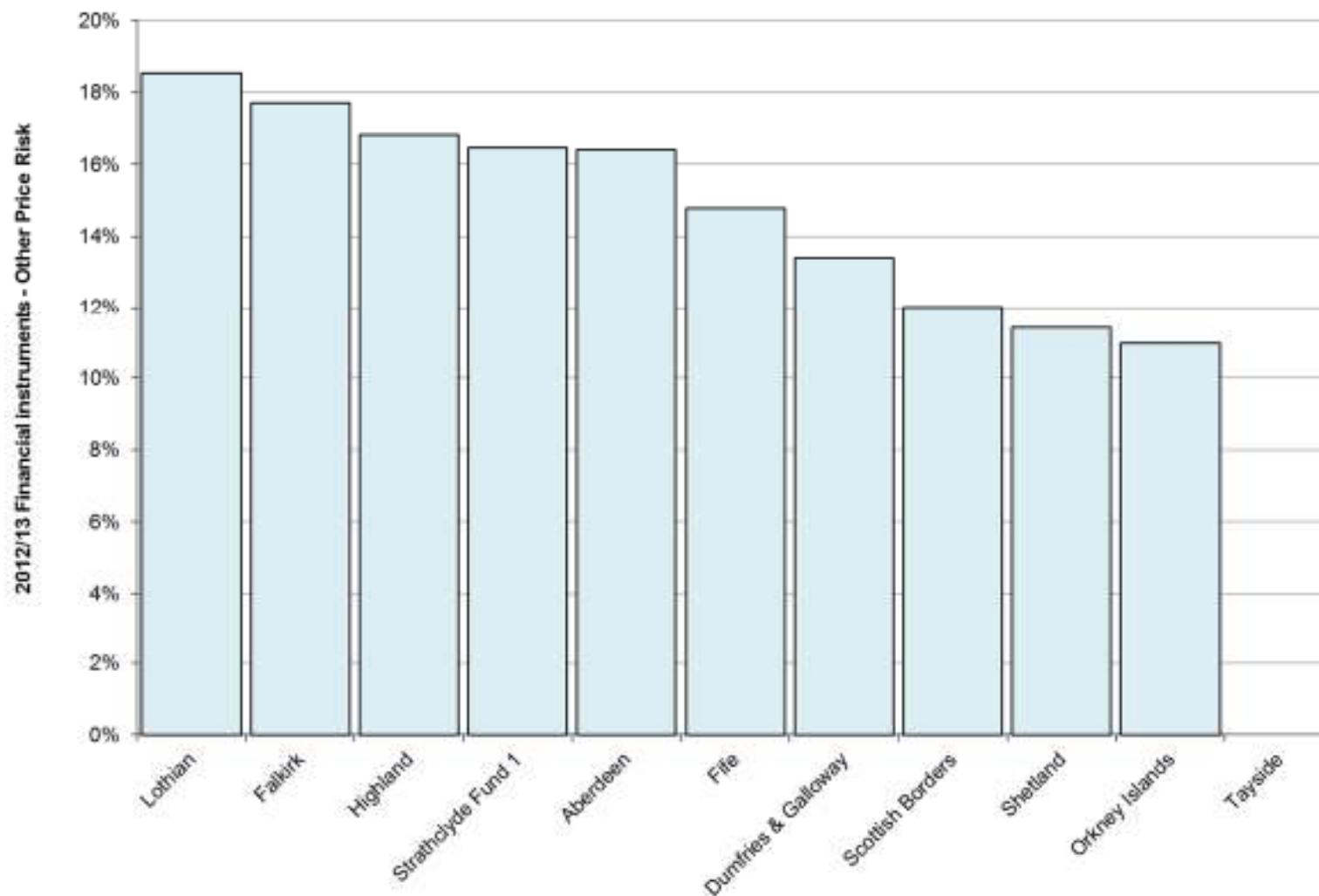
2012-13 Accounts issues

Financial instruments carried at FV level 1



2012-13 Accounts issues

Financial instruments - Other price risk



2012-13 Accounts issues

Investment management expenses



Known issue with completeness of disclosures

Not material in quantitative terms

Area of increased interest / sensitivity

Particular problem with private equity fund management fees for example

- Fee effectively netted off movement in value of investments

Fund managers need to agree a common approach to the improvement in transparency in accordance with CIPFA requirements.

2012-13 Accounts issues

Related parties - key management personnel



- 4 funds included CETV or details of accrued pension and lump sum
- 5 make no mention of key management personnel
- 2 refer the reader to the councils accounts

One council set out the basis for their approach

“Local authorities are exempt from the key management personnel disclosure requirements of IAS24 under paragraph 3.9.4.3 of the Code. The remuneration and members allowance disclosure detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24.”

Wider issues / issues going forward



PSN?

Global economic climate!

Triennial valuations 2014

Public sector pensions Act 2013 development & preparations for 2015 and beyond?

Police and fire employees transfer out to host funds 2015?

Auto enrolment?

Infrastructure investment?

Shared services / joint procurement?

Governance and training?

Employer default?

Other?

- Accounts and audit regulations - consultation
- 2014-15 Code – consultation

Contact details



Tim Bridle
Technical Manager (Local Government)
Audit Scotland
110 George Street
Edinburgh
EH 2 4LH

0131 625 1793

tbridle@audit-scotland.gov.uk