



Pension Fund Committee

16 October 2018

Title	Pension Fund External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2017/18
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Draft ISA 260 report
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Summary

This report considers the detailed report from the external auditors on matters arising from the audit of the 2017/18 Pension Fund Accounts and Annual Report in line with International Standard on Auditing 260 (ISA 260).

Recommendations

That the Committee:

- 1. note the matters raised by the external auditor in respect of the audit of the 2017/18 Accounts and Annual Report; and**
- 2. consider whether there are any areas on which they require additional information or action.**

1. WHY THIS REPORT IS NEEDED

- 1.1 Under Section 151 of the Local Government Act 1972 - "...every local authority shall make arrangements for the proper administration of their financial affairs...". Additionally, in accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the council's accounts and pension fund accounts. There are also specific legal requirements in relation to the accounts and the annual report as set out in section 5.4 below.
- 1.2 The draft accounts were due to be approved at the Committee meeting on 30th July 2018. Unfortunately, because the audit was not complete and no Auditor's report was available, the Committee declined to approve the accounts and instead delegate approval to the Director of Finance.
- 1.3 The audit of the accounts has not gone as smoothly as was anticipated for several reasons, these include:
 - I. The audit was extended to cover the provision of data to the Actuary for the 2016 triennial valuation and the 2018 liability valuation. The Committee will be aware that the Actuary has previously flagged issues with the quality of data and there were protracted discussions involving Auditor and Actuary to establish the impact of data uncertainties.
 - II. Responses to audit queries from the administration team were delayed through a lack of a single point of contact.
 - III. There were extended discussions on presentation issues i.e. categorisation of financial instruments, disclosure of deficit contributions.
 - IV. The audit process could be improved if more of the testing was completed prior to the year-end and if the auditor undertook the testing at the administration centre. The process of discussing issues by email greatly extended the timescales.
 - V. When it was recognised that an end July sign off was not possible, BDO prioritised the finalising of the audits of other Local Authority clients.
 - VI. New issues arose after July from the reviews by audit manager, partner and 'independent'.
- 1.4 A post audit meeting to review the conduct of the accounts preparation and audit will be held to ensure that the 2018-19 audit is completed on time.
- 1.5 In accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the Council's accounts and Pension Fund accounts.

- 1.6 The ISA 260 report must be considered by “those charged with governance” before the external auditor can sign the accounts.
- 1.7 Attached, appendix A, is the draft Auditors report. The report is expected to be finalised before the Committee and an updated version will be circulated. The Auditor will be attending the meeting to discuss their findings and recommendations. Management have responded to the recommendations and detailed the actions to be taken to address the issues raised.
- 1.8 A draft of the Audit’s Report was discussed by the Local Pension Board on 5th September 2018. The final report will be circulated to Board members.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The Committee is requested to consider the report and recommendations to enable the Council to meet its obligations under Section 151 of the Local Government Act 1972 as set out in paragraph 1 above.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 Not applicable in the context of this report.

4. POST DECISION IMPLEMENTATION

- 4.1 None.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 A positive external audit opinion on the Pension Fund’s Annual Report and Accounts plays an essential and key role in providing assurance that the Pension Fund’s financial risks are managed in an environment of sound stewardship and control. This is in line with the aims set out in the Council’s Corporate Plan 2015-2020, to ensure that services are delivered efficiently to get value for money for the taxpayer.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 This report sets out the framework for the assessment of the Pension Fund’s financial reporting and management as well as value for money.
- 5.2.2 The external audit fees for 2017/18 are £21,000 (£28,000 for 2016/17). The auditor is likely to seek additional fees to cover the extended audit timescale.

5.3 Social Value

- 5.3.1 Arrangements for proper administration of financial affairs and contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 The Accounts and Audit Regulations 2015 require that the authority's accounts for the year 2017/18 are approved by the authority or by a committee and signed by the Chairman at the committee meeting where the accounts are approved.

5.4.2 The requirement for an administering authority to prepare a Pension fund annual report is contained in Regulation 57 of the Local Government Pension Scheme Regulations 2013.

5.4.3 The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee,

“To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts, and

To receive and consider approval of the Pension Fund Annual Report.”

5.5 Risk Management

5.5.1 The external audit ISA 260 report highlights areas of good control and areas of weakness which need to be addressed. Failure to do so carries the risk of adverse financial and/or reputational consequences.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex, sexual orientation, marriage and civil partnership. Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met

5.7 Consultation and Engagement

5.7.1 Not required.

5.8 Insight

5.8.1 Not applicable in the context of this report.

6. BACKGROUND PAPERS

- 6.1 Audit plan presented to the Pension Fund Committee 26 June 2018, agenda item 7 and the annual accounts were discussed on 30 July 2018, agenda item 7.