

# Wolverhampton City Council

## OPEN INFORMATION ITEM

Committee / Panel	<b><u>PENSIONS</u></b>	Date	<b>17/04/2013</b>
Originating Service Group(s)	<b><u>WEST MIDLANDS PENSION FUND</u></b>		
Contact Officer(s)/ Telephone Number(s)	<b><u>GEIK DREVER</u></b> <b><u>2020</u></b>		
Title/Subject Matter	<b><u>PWC - EXTERNAL AUDIT PLAN 2012/2013</u></b>		

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### 1. **Recommendation**

- 1.1 Members are requested to note the External Audit plan 2012/2013 prepared by PwC in consultation with Fund officers.

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# *West Midlands Pension Fund*

## Audit Plan 2012/13

Prepared for the Pensions  
Committee

April 2013



West Midlands Pension Fund  
Pensions Committee  
5<sup>th</sup> Floor  
Mander House  
Mander Centre  
Wolverhampton  
WV1 3NB

4 April 2013

Ladies and Gentlemen,

We are pleased to present our Audit Plan for the West Midlands Pension Fund, which shows how your key risks and issues drive our audit and summarises how we ensure we provide the highest level of service quality.

If you would like to discuss any aspect of our Pension Audit Plan please do not hesitate to contact Richard Bacon or Muna Rowe.

Yours faithfully,

PricewaterhouseCoopers LLP

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*In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's website. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*



# Introduction

## *The purpose of this plan*

Our audit plan has been prepared to inform those responsible for the governance of the West Midlands Pension Fund (“the Fund”) about our responsibilities as the external auditors of Wolverhampton City Council (“the Authority”) and how we plan to discharge them.

Wolverhampton City Council acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. The responsibility for this stewardship is discharged on a day to day basis by the Members of the Pensions Committee (“the Committee”). It is our responsibility to carry out an audit in accordance with the Audit Commission’s Code of Audit Practice (“the Code”).

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission’s requirements of the Authority’s Pension Fund;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2012/13 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

## *Our work in 2012/13*

We will:

- audit the statutory financial statements of the West Midlands Pension Fund, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- check whether the other information in the financial statements is consistent with the Fund’s financial statements; and
- bring any significant control issues or other points of interest to the attention of management and the Committee as soon as practicable throughout the year.

## ***Risk assessment***

We considered the Authority's operations and assessed:

- risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies, if applicable.

## ***Responsibilities***

Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code"), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

## ***Period covered by this plan***

This plan outlines our audit approach for the period 1 April 2012 to 31 March 2013 over the West Midlands Pension Fund.



# Risk assessment

## Risk Assessment Results

We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of your controls. Risks to the financial statements and our true and fair audit opinion are categorised as follows:

Significant	Risk of material misstatement in the financial statements due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.
Normal	We perform standard audit procedures to address normal risks in any material financial statement line items.

Auditing Standards require us to include the following fraud risk as significant, relating to management override of controls as explained below.

Management override of controls:

*“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” ISA 240 paragraph 31*

This is considered as part of our risk assessment below.

Risk	Significant	Reason for risk identification	Audit approach
Management override of controls	Yes	On account of the potential link to fraud, auditing standards consider the risk of management override of controls to always be a significant risk.	<p>We will perform procedures to;</p> <ul style="list-style-type: none"> <li>test the appropriateness of journal entries;</li> <li>review accounting estimates for biases and evaluate whether circumstances producing any bias represent a risk of material misstatement due to fraud;</li> <li>evaluate the business rationale underlying significant transactions;</li> </ul> <p>We will perform ‘unpredictable’ procedures; and may perform other audit procedures if necessary.</p>

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# *Audit approach*

## *Financial statements*

Our audit of your financial statements is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We are required to comply with them for the audit of your 2012/13 financial statements of the Pension Fund.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your Fund and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the financial statements into components. We assess the risk characteristics of each component to determine the audit work required.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

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## ***Materiality***

We plan and perform our audit in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. Materiality depends on the size and/or nature of misstatements we identify, judged in the surrounding circumstances. In broad terms, omissions or misstatements of items are material if they could, individually or collectively, influence economic decisions taken on the basis of the financial statement by relevant users of the financial statements. As a rule of thumb we set overall materiality for the financial statements at around 1% of net asset but there may be other qualitative or quantitative factors that influence our professional judgement of what is material to the financial statements as a whole or to specific balance or disclosures.

ISAs require us to keep a record of identified misstatements in order to assess their impact on the financial statements both individually and in aggregate. In order to avoid the need to record difference which are clearly trivial, individually or in aggregate, to the financial statements as a whole we propose a de minimis level of £4,000,000 for formal reporting to the Committee. If any differences above this limit are not adjusted we ask the Committee to explain the reason in the letter of representation.

We may still bring smaller misstatements to your attention if they are associated with control deficiencies identified or if there is any indication of possible financial loss to the Fund.

## Summary of our approach

This is not an exhaustive list of all the tests that we will perform, but summarises the main aspects:

	Overall control environment	Investments and investment return	Contributions	Benefits and expenditure
Governance controls	✓	✓	✓	✓
Administration and accounting controls	✓	✓	✓	✓
Service organisation controls	✓			
Analytical procedures		✓	✓	✓
Detailed testing		✓	✓	✓
Independent confirmations		✓		

Focus area	Planned response includes
<u>Investment assets and returns</u>	
Existence of investments	<ul style="list-style-type: none"> <li>Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes.</li> <li>Obtain independent confirmations of assets from the custodian and investment managers.</li> <li>Understand management's review and any issues identified surrounding the review of internal controls reports (AAF/SAS70) on investment management and custody.</li> </ul>
Valuation of investments	<ul style="list-style-type: none"> <li>Test valuation of quoted investments, on a sample basis, against third party sources.</li> <li>Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted.</li> <li>Review valuations for pooled investment vehicles and private equity investments, including reviewing the most recent audited accounts for the funds and any available internal controls reports.</li> </ul>
Completeness of investments	<ul style="list-style-type: none"> <li>Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments.</li> <li>Review the reconciliations performed in-house between investment manager and custodian assets.</li> </ul>
Performance of investments reported is consistent with the accounts	<ul style="list-style-type: none"> <li>Complete an analytical review of investment returns for</li> </ul>

Focus area	Planned response includes
	reasonableness compared with the Fund's benchmarks and other external indices.
Allocation of investments is in accordance with the Statement of Investment Principles ('SIP')	<ul style="list-style-type: none"> <li>Review the allocation of investments compared with the requirements of the SIP.</li> </ul>
<b>Contributions</b>	
Payment of employer contributions in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) ("the schedules")	<ul style="list-style-type: none"> <li>Review the controls over payroll and validate on a sample basis that these are operating as expected.</li> <li>Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions.</li> <li>Consider the monthly contributions received and investigate any unusual fluctuations.</li> <li>Test on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules.</li> <li>Review and test the controls, on a sample basis, over the timing of the payment of contributions according to bank details compared with the requirements of the schedules.</li> </ul>
<b>Benefits and membership</b>	
Benefits are correctly calculated according to the local government regulations	<ul style="list-style-type: none"> <li>Review the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected.</li> <li>Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase.</li> <li>Consider the monthly total pensions paid and investigate any unusual fluctuations.</li> <li>Perform substantive testing on a sample basis over material types of benefit payments.</li> </ul>
Membership statistics accurately reflect the membership of the scheme	<ul style="list-style-type: none"> <li>Review the results of any pensioner existence checking exercise completed during the year.</li> <li>Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.</li> </ul>
<b>Other areas</b>	
Current assets and liabilities are appropriately accounted for	<ul style="list-style-type: none"> <li>Review balances compared with the prior year and against our expectations from testing of income and expenditure.</li> <li>Obtain independent confirmation of cash balances.</li> <li>Review controls over cash movements and bank account authority levels.</li> </ul>

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Focus area	Planned response includes
Related party transactions	<ul style="list-style-type: none"><li data-bbox="750 257 1468 358">• Understand the controls that the Committee and management have over the identification of related parties and transactions with them.</li><li data-bbox="750 358 1468 430">• Make specific enquiries for any transactions which look to be outside of the normal course of business.</li></ul>

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# Risk of fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## Management's responsibility

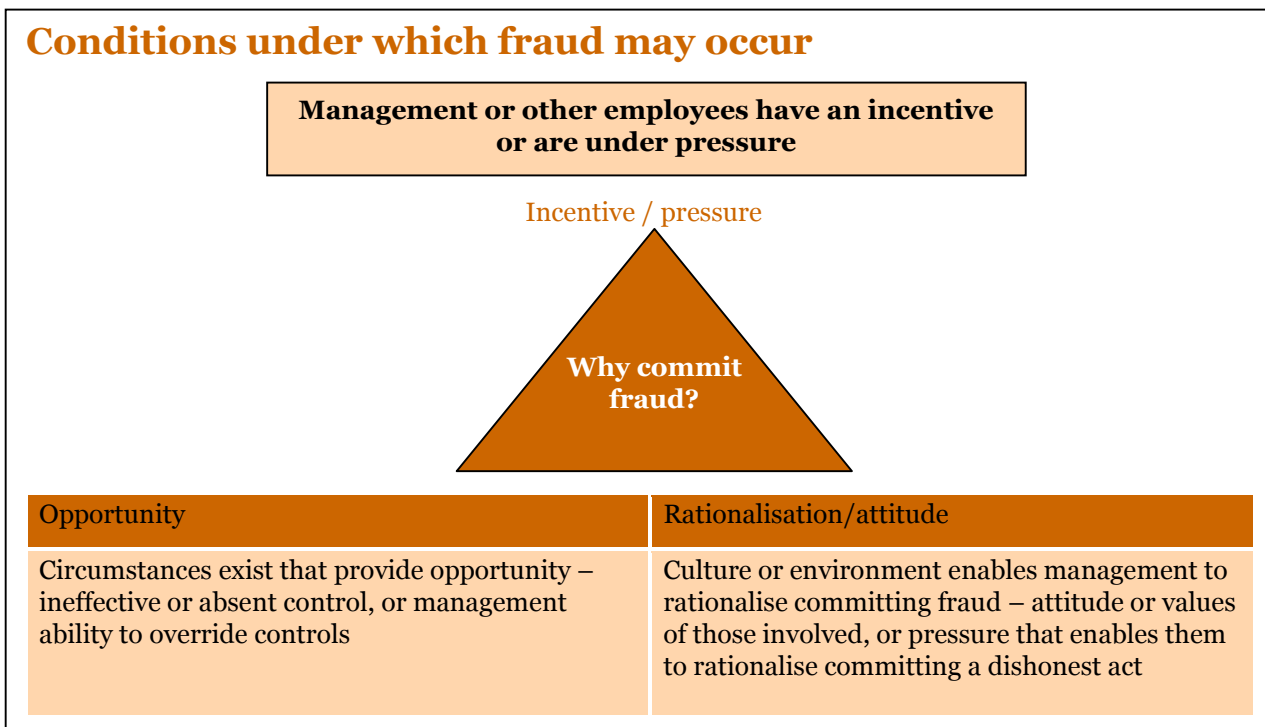
Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## Responsibility of the Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



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## *Your views on fraud*

We have discussed with management and would like you to consider:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

If any cases of fraud, either actual, suspected or alleged, come to the attention of the Committee members, we should be informed so that we can perform appropriate procedures.



# *Your team and independence*

Your audit team has been drawn from both our government and public sector and our pension assurance teams based in Birmingham. Your audit team consists of the key members listed below:

## **Audit team**

## **Responsibilities**

### **Richard Bacon**

#### **Engagement Leader**

+44 (0) 121 265 5492

[Richard.f.bacon@uk.pwc.com](mailto:Richard.f.bacon@uk.pwc.com)

Richard is responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the audit plan, the quality of outputs and signing of opinions and conclusions. Richard is also responsible for liaison with the Leader of the Council and the Executive.

### **Muna Rowe**

#### **Pensions Senior Manager**

+44 (0) 121 265 5809

[Muna.rowe@uk.pwc.com](mailto:Muna.rowe@uk.pwc.com)

Muna is responsible for providing technical guidance, and is responsible for managing the audit to ensure we meet the agreed timetable, resolution of matters arising, key liaison with senior management and managing our team.

### **Alex Stone**

#### **Audit Team Leader**

+44 (0) 121 265 5902

[Alexander.j.stone@uk.pwc.com](mailto:Alexander.j.stone@uk.pwc.com)

Alex is responsible for leading our audit team on site during the interim and final audit fieldwork visits, for coaching and briefing our staff and for carrying out audit work in complex areas.

## **Independence and objectivity**

As external auditors of the Authority we are required to be independent of the Authority in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

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### ***Relationships and Investments***

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

### ***Independence conclusion***

At the date of this plan we confirm that in our professional judgement, we are independent auditors with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

# Communicating with you

## Communications plan

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the communications and at what stage when we expect to provide the Committee with the outputs of our audit.

ISA Requirement	Audit plan	Year-end report	Separate letter
The responsibilities of the auditor to form and express an opinion on the financial statements (which does not relieve those charged with governance of their responsibilities with regard to the financial statements)	✓		
An overview of the planned scope and timing of the audit	✓		
Views about the qualitative aspects of accounting practices and financial reporting		✓	
Significant matters and difficulties, if any, encountered during the audit, including those discussed with management		✓	
Written representations			✓
Other matters, if any, which in our judgement are significant to the oversight of the financial reporting process		✓	
The form, timing and expected general content of our communications	✓		
Significant deficiencies in internal control		✓	

\*The representation letter is signed by the Council and covers the requirements for the Fund as well.

# *Audit fees*

The Audit Commission has provided indicative audit fee levels for the 2012/13 financial year. The base fee scale for our audit of the Fund is £48,618 (2011/12: £62,500).

The fees are not on a like for like basis as the 2011/12 as the 2012/13 fee has been rebased following a procurement exercise.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- Working papers and financial statements have been reviewed by officers before providing for audit;
- The quality of working papers is appropriate;
- We are able to draw comfort from your management controls where appropriate;
- We are required to review no more than a maximum of 3 drafts of the financial statements;
- There are no accounting or auditing issues of a complex nature, which involve significant input of time from senior members of the team; and
- Our Pension Fund opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

# *Appendix - Other engagement information*

The Audit Commission appoint us as auditors to the Wolverhampton City Council and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

## ***Electronic communication***

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

## ***Access to audit working papers***

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

## ***Quality arrangements***

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at our office at 7 More London, Riverside, London, SE1 2RT. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully

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and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

### ***Events arising between signature of the financial statements and their publication***

ISA (UK&I) 560 (revised) places a number of requirements on us in the event of material events arising between the signing of the financial statements and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

### ***Freedom of information act***

In the event that, pursuant to a request which Wolverhampton City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Wolverhampton City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Wolverhampton City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Wolverhampton City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This report has been prepared for and only for Wolverhampton City Council in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local Government) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.  
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