

2020 Audit Plan – Cardiff and Vale of Glamorgan Pension Fund

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2020 Audit Plan

Summary

- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether Cardiff and Vale of Glamorgan Pension Fund's (the Pension Fund) accounting statements are 'true and fair'.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.

Impact of COVID-19

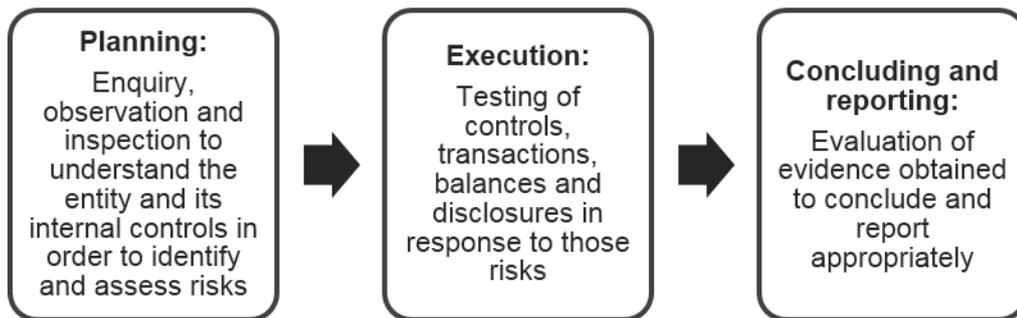
- 4 The COVID-19 national emergency has had an unprecedented impact on the UK and will significantly impact on public bodies' preparation of the 2019-20 accounts and our audit work.
- 5 Due to the UK Government's restrictions on movement and anticipated sickness absence levels, I understand that many bodies will not be able to prepare accounts in line with any previously agreed timetable. As well as the delivery of the Auditor General's statutory responsibilities, the priority is to ensure the health, safety and well-being of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.
- 6 In response to the government advice and subsequent restrictions, Audit Wales staff have ceased all on site work at audited bodies and Audit Wales offices. Staff are working from home and will continue to make whatever progress they can whilst working and engaging with you remotely.
- 7 Consequently, this audit plan does not include any details in relation to completion of my audit work. My audit team will discuss a timetable with you once the current national emergency situation is over and the pension fund is in a position to prepare its accounts.
- 8 We commit to ensuring that my audit team's work will not have a detrimental impact on you at a time when public bodies are stretched and focused on more important matters.

Audit of Pension Fund accounts

- 9 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole. My audit approach consists of three phases as set out in **Exhibit 1**.

Exhibit 1: my audit approach

This table summarises the three phases of my financial audit approach, being planning, testing and reporting.



10 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them. Also included are other key areas of audit attention my team will be focusing on.

Exhibit 2: Financial audit risks

This table summarises financial audit risks and the corresponding audit work planned in response.

Financial audit risks	Proposed audit response
Significant risks	
<p>Management Override</p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.

Financial audit risks	Proposed audit response
<p>Impact of COVID-19</p> <p>The COVID-19 national emergency will see a significant delay in the preparation and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>My audit team will undertake the following steps to ensure the risks arising from COVID-19 are adequately addressed:</p> <ul style="list-style-type: none"> • we will consider if there are areas that require management to provide further evidence due to the fast-changing nature of this issue; • we will discuss with you the key assumptions and evidence bases underlying estimates and will do this at an early stage; • we will adopt a greater focus on the following areas: <ul style="list-style-type: none"> – the financial statement closing process (in particular journal entries and other adjustments made); and – the auditor’s evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made.
<p>Other areas of audit attention</p>	
<p>Wales Pension Partnership</p> <p>The eight Pension Funds in Wales have created an ‘all-Wales’ pooled investment vehicle which will be overseen and reported on by a joint governance committee, the Wales Pension Partnership.</p> <p>2019-20 will be the first year that this joint committee will produce full financial statements overseen by the lead authority - Carmarthenshire County Council - Finance Department.</p> <p>Cardiff and Vale of Glamorgan Pension Fund transferred £218 million of funds into this new arrangement during 2019-20.</p>	<p>My audit team will work with the auditors of the joint governance committee to obtain the assurances needed on:</p> <ul style="list-style-type: none"> • the valuation of the funds transferred into the Wales Pension Partnership arrangement; and • the disclosure note provided for individual pension funds by the lead authority.

Financial audit risks	Proposed audit response
<p>A consistent disclosure note will be provided to all Pension Funds by the lead authority for inclusion in individual pension fund financial statements.</p>	
<p>McCloud Judgement</p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes. In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judges’ and firefighters’ schemes, as part of the reforms, amounted to unlawful discrimination. On 15 July 2019 the Government announced that they accept that the judgement applies to all of the main public service pension schemes.</p> <p>As reported in my Financial Statements Report 2018-19, the Pension Fund had estimated the potential impact of the judgment as increasing the fund liabilities by £17.1 million at 31 March 2019 based on an estimated 0.75% of the present value of benefits. The Pension Fund’s most recent triennial actuarial valuation as at 31 March 2019 is expected to consider the impact on fund liabilities.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review how the Pension Fund has assessed the impact of the McCloud judgement on the financial statements, including review of the triennial valuation report; and • ensure that where appropriate, this is adequately disclosed in the financial statements.
<p>Guaranteed Minimum Pension (GMP)</p> <p>GMPs were the minimum pensions employers had to provide when they opted their employees out of the State Earnings Related Pensions Scheme (SERPS) between 1978 and 1997, usually through a defined benefit scheme.</p> <p>GMPs were calculated by reference to state pension age which used to be 60 for women and 65 for men. That made</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review any provision made by the actuary relating to the outstanding GMP issues and monitor progress on the development of guidance and clarification of the potential impact; and • ensure that this is adequately disclosed in the financial statements.

Financial audit risks	Proposed audit response
<p>pension payments unequal and contravened the 1990 Barbour judgement.</p> <p>The 2018 Lloyds Banking Group judgement has provided clarification on whether and how GMPs should be equalised and this creates an obligation to equalise GMPs dating back to 1990. No allowances have previously been made for GMPs in pension liability calculations as HM Treasury made an announcement in 2019 that public service schemes already had a method in place to achieve equalisation. However, further guidance is anticipated in the coming months, including relating to the calculation of indexation/pension increases on GMPs.</p> <p>There is a risk that appropriate allowances are not made in 2019-20 pension liability calculations for the impact of GMPs.</p> <p>As reported in my Financial Statements Report 2018-19, the Pension Fund had estimated the potential impact of GMP equalisation as increasing the fund liabilities by £6.8m million at 31 March 2019, based on an estimated 0.30% of the present value of benefits. The Pension Fund's most recent triennial actuarial valuation as at 31 March 2019 is expected to consider the impact on fund liabilities.</p>	
<p>Private Equity Investments</p> <p>The year-end valuation of private equity investments is provided by investment managers. It is based upon forward-looking estimates and judgements and industry guidelines.</p> <p>Cardiff and Vale of Glamorgan Pension Fund held £82 million of private equity investments at 31 March 2019.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • confirm the investment valuation to audited financial statements; and • seek additional assurance over the valuation basis from control assurance reports.

Financial audit risks	Proposed audit response
As there is no quoted market process, there is a greater risk regarding the reasonableness of year-end valuation bases of these investments.	

- 11 I do not seek to obtain absolute assurance that the Pension Fund accounting statements are true and fair but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee and to those charged with governance for the Cardiff Council, as the administering authority of the Pension Fund as a whole, prior to completion of the audit.
- 12 For reporting purposes, I will generally treat any misstatements below a trivial level (set at 5% of materiality as not requiring consideration by those charged with governance and therefore I will not report them.
- 13 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with a timescale to be agreed following the end of the COVID-19 national emergency, to the quality expected and have been subject to a robust quality assurance review;
 - information provided to support the financial statements is in accordance with the agreed audit deliverables document¹;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver my audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me;
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements; and
 - controls assurance reports are received from fund managers in accordance with agreed timescales and action has been taken to address any controls weaknesses.

¹ The agreed audit deliverables document sets out the expected working paper requirements to support the financial statements and include timescales and responsibilities.

Statutory audit functions

- 14 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
 - Section 31 Right to make objections at audit.
- 15 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.
- 16 If I do receive questions or objections, I will discuss potential audit fees at the time.

Fee, audit team and timetable

Fee

- 17 Your estimated fee for 2020 is set out in **Exhibit 3**. There have been some increases in my fee rate structure for 2020 however my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed onto you. The proposed fee for 2020 is in line with the previous year.

Exhibit 3: audit fee

This table sets out the proposed audit fee for 2020 alongside the actual audit fee for 2019.

	Proposed fee for 2020 (£) ²	Actual fee for 2019 (£)
Audit of pension fund accounts	32,256	32,256

- 18 The fee for the financial audit is driven by the skill mix required to deliver the work, together with the daily charge rate for each grade of staff member.
- 19 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Corporate Director of Finance.
- 20 Further information on my [fee scales and fee setting](#) can be found on our website.

² The fees shown in this document are exclusive of VAT, which is not charged to you.

Audit team

21 The main members of my team, together with their contact details, are summarised in **Exhibit 4**.

Exhibit 4: my audit team

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Lead	02920 320562	ann-marie.harkin@audit.wales
Phil Pugh	Audit Manager	07964 118615	phil.pugh@audit.wales
Jon Martin	Audit Lead – Senior Auditor	02920 320692	jon.martin@audit.wales

Timetable

- 22 We will continue to undertake such remote work as is possible during the COVID-19 national emergency. However, as set out above, we will not be in a position to agree a timetable with you until the COVID-19 national emergency has passed.
- 23 We will need to discuss any amendments to the timetables for the production and audit of accounts with you but will continue to work as flexibly as we can and are supportive of 'extending' the accounts window where required. It will be vital that this close engagement continues over the next few months, against what will doubtless be a fast-changing backdrop.
- 24 Therefore, we will report on a timetable for our audit work in due course.
- 25
- 26 I can confirm that my team members are all independent of the Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.



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