



PUBLIC SERVICE PENSIONS BOARD

Report to those charged with governance on the 2018 audit

5th June 2019

*To help the public service
spend wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2018 financial statements of the Public Service Pensions Board ("the Board or PSPB"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Board in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - auditors responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2018 that we consider are worthy of drawing to your attention.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the Freedom of Information Act (2018 Revision) it is the policy of the Office of the Auditor General to release all audit reports upon request.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report includes only those matters of interest which came to our attention as a result of the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. While we have no responsibility to perform any work on other information, including forward looking statements, containing audited financial statements, we read the other information contained in the Public Service Pensions Board's annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or our knowledge of the operations of the Public Service Pensions Board.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the Ms. Jewel Evans-Lindsey, Managing Director of Public Service Pensions Board on 28 September 2018, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We have issued an unmodified auditor's report with emphasis of matters dated 17, April 2019 on the financial statements. We included emphasis of matters relating to note disclosure of 2017 Actuarial Valuation Reports and discussion of the Actuary on the status of the Fund. Our opinion is not qualified on these matters.
9. A summary of misstatements corrected by management is attached in Appendix 1. The total net adjustments to the Net Assets amounted to \$848,313.49. Appendix 2 summarizes those uncorrected misstatements identified by us during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
10. As part of the completion of our audit we seek written representations from management on aspects of the accounts and judgements and estimates made. Management has provided us with written representations on 17, April 2019 in respect of our financial statement audit.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Board's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Public Service Pensions Board to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where the significant accounting practices have changed from previous year or are not consistent with general industry practice. In addition we are not aware of any new or controversial accounting practices reflected in the Board's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

12. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS

13. As a result of our audit, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Board's ability to continue as a going concern.

MATERIAL WEAKNESSES IN INTERNAL CONTROL

14. We identified a number of significant matters relating to internal controls as part of our audit. These are outlined at Appendix 3.

FRAUD OR ILLEGAL ACTS

15. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable laws and regulations rests with both those charged with governance of the entity and with management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the entity's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. In exercising oversight responsibility, those charged with governance should consider the potential for management override of controls or other inappropriate influence over the financial reporting process.

16. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

17. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

18. No serious difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

19. We have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

20. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

21. We would like to express our thanks to the staff of the Public Service Pensions Board for their help and assistance during the audit of this year's financial statements.

Yours Sincerely,



Sue Winspear, CPFA

Auditor General

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Number	Date	Name	Account No	Debit	Credit
1	12/31/2018	Undeposited Funds	1200-00		-2,656.73
1	12/31/2018	Undeposited Funds	1200-00		-2,601.37
1	12/31/2018	Undeposited Funds	1200-00		-15,608.26
1	12/31/2018	Undeposited Funds	1200-00		-15,608.26
1	12/31/2018	Undeposited Funds	1200-00		-962.11
1	12/31/2018	Undeposited Funds	1200-00	18,761.73	
1	12/31/2018	Contributions - ER	5000-00	15,608.26	
1	12/31/2018	Contributions - ER	5000-00		-18,761.73
1	12/31/2018	Contributions - EE	5020-00	15,608.26	
1	12/31/2018	Contributions - DB	5040-00	2,656.73	
1	12/31/2018	Contributions - DB	5040-00	2,601.37	
1	12/31/2018	Audit Adjustments	6304-00	962.11	
<p>JE to correct DB and ER portion of checks not reversed correctly, etc.</p>					
2	12/31/2018	Payroll Liabilities	2008-00		-9,282.31
2	12/31/2018	Salary Expense	7440-01	9,282.31	
<p>Client posted accrued leave adjustment</p>					
3	12/31/2018	Fund Surplus/Obligation Pension Expense -	1799-00		-38,000.00
3	12/31/2018	DB	7332-00	38,000.00	
<p>Increase in DB Liability for FY 2018 (OCI portion)</p>					
4	12/31/2018	Fund Surplus/Obligation	1799-00	108,000.00	
4	12/31/2018	Remeasurement of employment bene	9000-00		-108,000.00
<p>Decrease in DB Liability for FY</p>					

2018 (OCI portion)

5	12/31/2018	Post-retirement Health Care Cost	1780-00	131,000.00	
5	12/31/2018	Defined Benefit Cost - Post-reti	7448-00	47,000.00	
5	12/31/2018	Remeasurement of employment bene	9000-00		-178,000.00
Adjusting balance of PR-Healthcare DB Obligations for FY 2018 (OCI & PL)					
6	12/31/2018	Audit Adjustments	6304-00		-125,829.89
6	12/31/2018	Pensioners Payroll Cheques	8005-00	125,829.89	
Adjusting to #8005-00 to correct postings for FY2018. Per file note- Pensioners Payroll Check #8005					
7	12/31/2018	Transfer to ACH Returns/Re-issues	2040-00		-23,547.71
7	12/31/2018	Pensioners Payroll Cheques	8005-00	23,547.71	
Transfer to ACH Returns/Re-issues account from 8005-00					
8	12/31/2018	Other Income - IAS19	1550-01		-3,653.57
8	12/31/2018	Audit Adjustments	6304-00	3,653.57	
Reversal of journal entry #4909 dated 31 December 2018					
9	12/31/2018	Accounts Payable	2000-00		-4,519.13
9	12/31/2018	Pensioners Payroll Cheques	8005-00	4,519.13	
Accrual for checks #20512 & 20514 for \$410.83 & \$4,108.30 respectively.					
10	12/31/2018	CNB Pens Pay - Stale Dated Check	1044-01	8,576.88	
10	12/31/2018	BNS Pens. Payroll - Stale Dated	1050-01	35.23	
10	12/31/2018	Pensioners Payroll Cheques	8005-00		-8,576.88
10	12/31/2018	Pensioners Payroll Cheques	8005-00		-35.23
Adjustment to #8005-00 Stale dated cheques					

11	12/31/2018	Contributions - ER	5000-00		-257,400.79
11	12/31/2018	Contributions - EE	5020-00	257,400.79	
<p>Re: Transfer of revenue from EE to ER. Both portions of contributions posted to EE in error.</p>					
12	12/31/2018	Accounts Payable Recruitment	2000-00	1,080.00	
12	12/31/2018	Expenses	7390-02		-1,080.00
<p>Re: Reversing Bill dated 31 December 2018 for customer Acct No: 2536 - Advertisement re: 3x9 CPO/Chief member - run dates 12-28 Dec.</p>					
15	12/31/2018	Fund Surplus/Obligation	1799-00	10,000.00	
15	12/31/2018	Pension Expense - DB	7332-00		-10,000.00
<p>To account for the contributions received in FY 2018 for DB participants</p>					
16	12/31/2018	Accrued Liabilities - Over 60s Benefits Paid-PSP Plan: 8000-05. PSP	2011-00		-24,189.52
16	12/31/2018	Commutations	8000-05	24,189.52	
<p>To accrue for Gary Scott who retired but not yet accrued to benefits due.</p>					
				848,313.49	-848,313.49

APPENDIX 2 – SUMMARY OF UNCORRECTED MISSTATEMENTS

Number	Date	Name	Account No	Debit	Credit
1	12/31/2018	Unrealized Gain/Loss IFP	6237-00	86,663.34	
1	12/31/2018	Investment - IFPartners <i>To record difference in market value of Investment in IFP as at 31 December 2018 as a result of rounding on Forex rates.</i>	1437-00		86,663.34

APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. Results of 2017 Actuarial Valuation Reports-implementation of recommendations not timely</p> <p>The January 1, 2017 tri-annual Actuarial Valuation Reports were received and approved by the Board in April 2018.</p> <p>The new contribution rates were approved by Cabinet meeting held on 20 November 2018 and tabled before the Legislative Assembly 10 April 2019.</p>	<p>Implication:</p> <p>The delay in adopting the funding recommendations of the 2017 valuation plan may increase the impact of the unfunded deficiencies.</p> <p>Funding may not be adequately allocated among the plans resulting in over/under funding of individual plans.</p> <p>The timing of implementation may result is delays in the audit process where these are approved at the ending of the audit and calculations have to made to capture these transactions in the relevant period. It also impacts timely communication to affected entities who may not have budgeted or accrued for these changes.</p> <p>Recommendation:</p> <p>It is recommended that recommendations from the tri-annual valuation reports be reviewed and implemented in a timely manner to prevent the current deficiencies being further negatively impacted.</p> <p>On assessing the valuation reports, a clear decision should be made regarding how funding is to be allocated between the plans in line with the valuation report and this should be implemented in a timely manner to prevent overfunding/underfunding of the individual plans.</p>	<p>PSPB addresses all matters in relation to the valuation reports including submission to Government in a timely manner and will continue to do so.</p> <p>The 1 January, 2017 Actuarial Valuation Reports for the Plans were initially approved by the Board on the 9 January 2018. However, the Board took the decision to have the reports restated due to subsequent events initiated by the Government, which had significant financial implications across all three Plans.</p> <p>It is to be noted that the Board does not have the power or authority to mandate that the Government accept the Actuary's Actuarial Valuation Report, it can only provide same with the Board's Recommendations to Government to do so. Government can order their own Actuarial Valuation Report over and above what PSPB's Board presents. Thus the Board has limited power in what Government accepts and or does not accept.</p>	<p>Immediate</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. Results of 2017 Actuarial Valuation Reports-implementation of recommendations not timely (cont'd)</p>		<p>In regards to ensuring that funding is allocated between the Plans in line with the valuation reports, the PSPB can only allocate funding in line with the current accepted funding valuations until subsequent reports are accepted by Government and contributions regulations put in place. However, we will work to ensure that any necessary reallocation resulting from the acceptance of a subsequent report is done in a timely manner.</p> <p>Presentations to Caucus were had and the Minister for Finance submitted to Cabinet the 1 January 2017 actuarial funding valuation reports which were accepted in full by Cabinet in late 2018. Although the reports were not approved by Cabinet until late in the 2018 Financial Year, the contribution regulations drafted and submitted to the Ministry of Finance on 11 February, 2019 have not yet been presented to the Cabinet.</p>	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>2. Lack of formal fraud/risk assessment policy</p> <p>There were no formal policies and procedures for identifying and responding to fraud risk factors during the financial year end.</p> <p>However, it is acknowledged that PSPB has taken steps to have formal policies and procedures in place and completed the first phase of the risk and control assessment.</p>	<p>Implication:</p> <p>The absence of fraud assessment procedures increases the risk of fraud actually occurring in the future.</p> <p>Recommendation:</p> <p>An effective fraud risk assessment program should be established as a formal written policy. The result of the assessment should be communicated to those charged with governance.</p> <p>The policy should clearly outline the purpose of the policy, who it applies to, terms of reference (i.e. actions which constitute fraud, corruption and abuse), repercussions for actions of fraud. The policy should also identify how often the fraud risk assessment is to be performed (annually is recommended) and who is responsible for performing the assessment.</p>	<p>The Pension Risk Management Review initiated in 2016 is ongoing and it is currently in the finalization stage. In tandem, the Managing Director has selected a senior PSPB officer who has undertaken training and since been appointed as the Acting, Chief Risk Officer, who along with the core Chief Officer group, is working on fully establishing the risk function within the organization.</p> <p>The Mercer Report was tabled and accepted at the Board meeting held on 22 October, 2018. The Board has agreed to move forward with phase 2 of the exercise as recommended by Mercer. It has not yet been determined which firm will be utilized to assist PSPB with advancing phase 2. PSPB remains committed to developing a clear documented policy and procedure to deal with fraud risk at the appropriate stage of the exercise.</p>	<p>Immediate</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>3. Non Compliance with Public Authorities Law</p> <p>Financial Secretary is Chairman of the Board The Financial Secretary remains the Chairman of the Board under the 2017 revised Public Service Pensions Law "PSPL". PSPB has included this fact in their related party note disclosure.</p> <p>Per sec. 9 (6b) of the Public Authorities Law 2017; the chairperson shall not be a public or civil servant.</p> <p>Board Fees The Board fees (<i>non-civil servants</i>) were increased during the financial year from \$250 per meeting to a fixed fee of \$1,000 per month and \$2,000 for the independent overseas trustee.</p> <p>Although it was noted that new board fees are approved as part of the budget process; there was no evidence that Board Fees were approved by Cabinet in line with section 13 (1)(2) of the Public Authorities Law.</p>	<p>Implication: There is non-compliance with the Public Authorities Law section 9 (6b) and section 13 (1)(2).</p> <p>Recommendation: As PSPB falls under the Public Authorities Law which supersedes the PSPL in instances where there are variances between the two; PSPB should ensure its operations are in line with the Public Authorities Law.</p> <p>PSPB should review and address the non-compliance issues.</p>	<p>The Amendment Bill to remove the Financial Secretary from the Board Chairman position is drafted and with the Deputy Governor and Chief Officer for approval by Cabinet.</p> <p>The revised Board fees have the support of the Deputy Governor who will regularize the matter with Cabinet for full PAL compliance as soon as is practical.</p>	<p>Immediate</p>