



# The Audit Plan

## London Borough of Barnet Pension Fund

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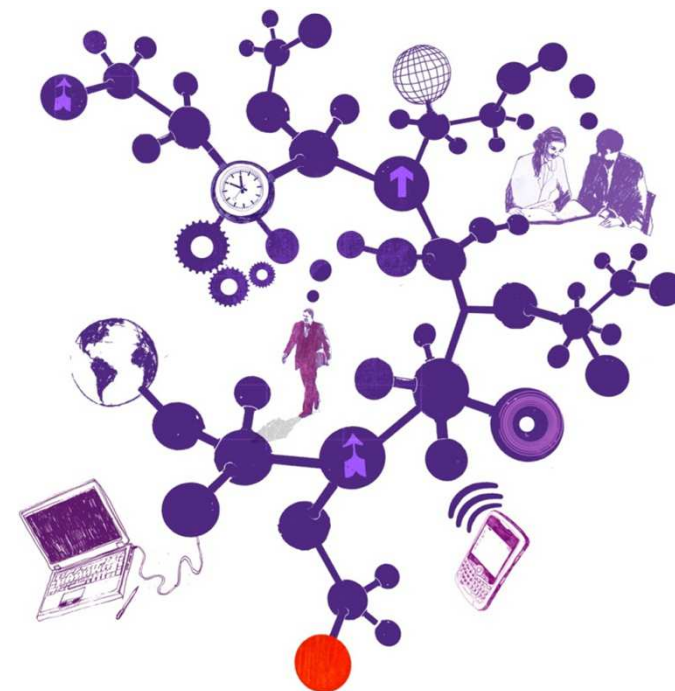
**Year ended 31 March 2014**

April 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Contents

Section	Page
1. Introduction	4
2. Understanding your business	5
3. Developments relevant to your fund and the audit	6
4. Our audit approach	7
5. Significant risks identified	8
6. Other risks	9
7. Other issues	10
8. Interim work	11
9. Logistics and our team	12
10. Fees and independence	13
11. Communication of audit matters with those charged with governance	14

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# Introduction

## **Purpose**

This Audit Plan highlights the key elements of our 2013/14 external audit strategy for the London Borough of Barnet Pension Fund. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to the Audit Committee for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

## **Our responsibilities**

As external auditors we are responsible for performing the audit in accordance with ISAs (UK & Ireland), and to give an opinion on the Pension Fund financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

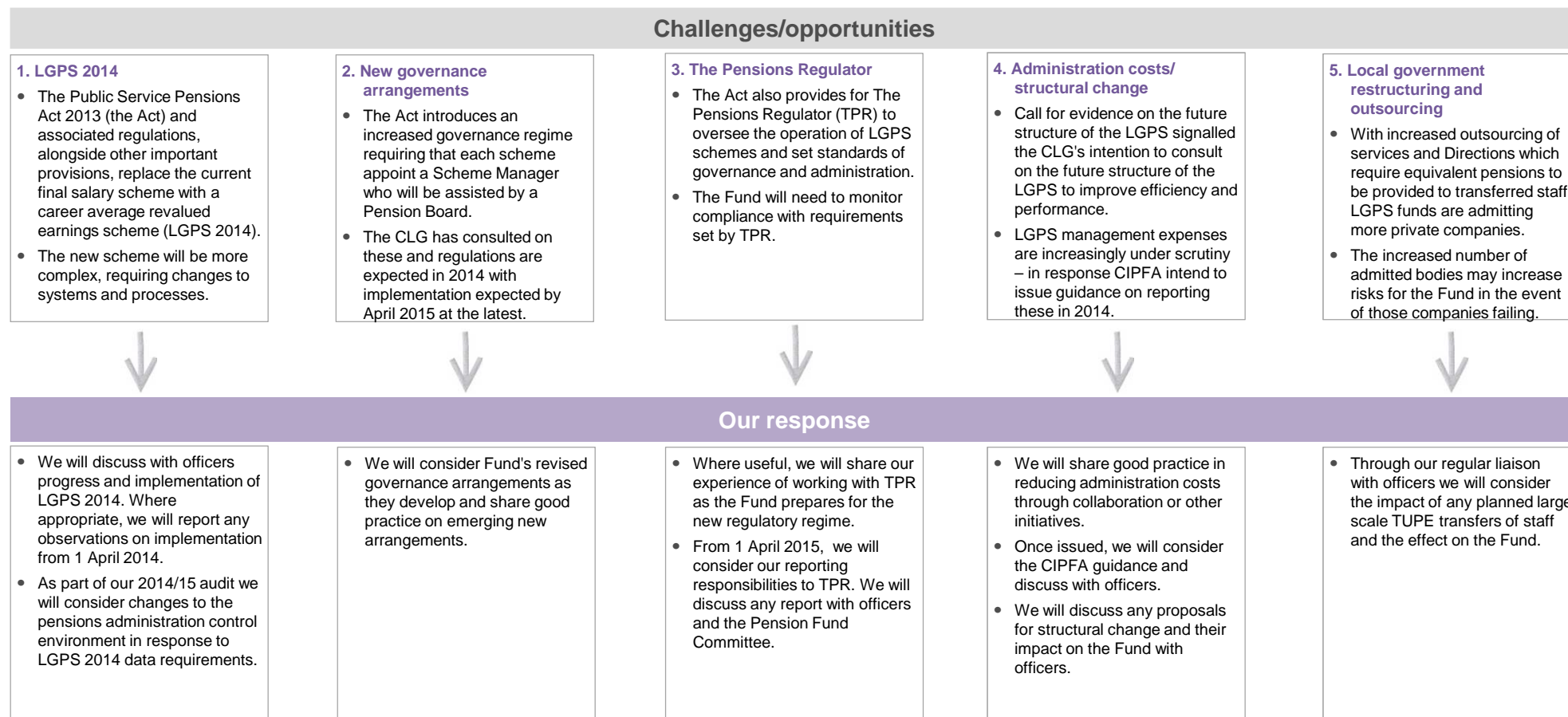
## **Communicating the results of audit work**

The findings from our interim work are communicated in this plan, and any findings from the final accounts audit will be reported following the completion of the final accounts work. Page 12 of this plan includes the timescale for the audit and audit reporting.

We look forward to working with the Pension Fund officers during this year's audit.

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension fund is facing. We set out a summary of our understanding below.



# Developments relevant to your Pension Fund and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Financial reporting

There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2014.

### 2. LGPS 2014

Planning and implementing of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014, will impact on the workload of the pensions administration team. This alongside, further developments in relation to governance may impact on the capacity to respond to audit queries.

### 3. Triennial valuation

Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of additional employer deficit contributions required and how to fund them.

### 4. Financial Pressures – Pension fund

Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

## Our response

We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

We will discuss the impact of the changes through our regular meetings with management.

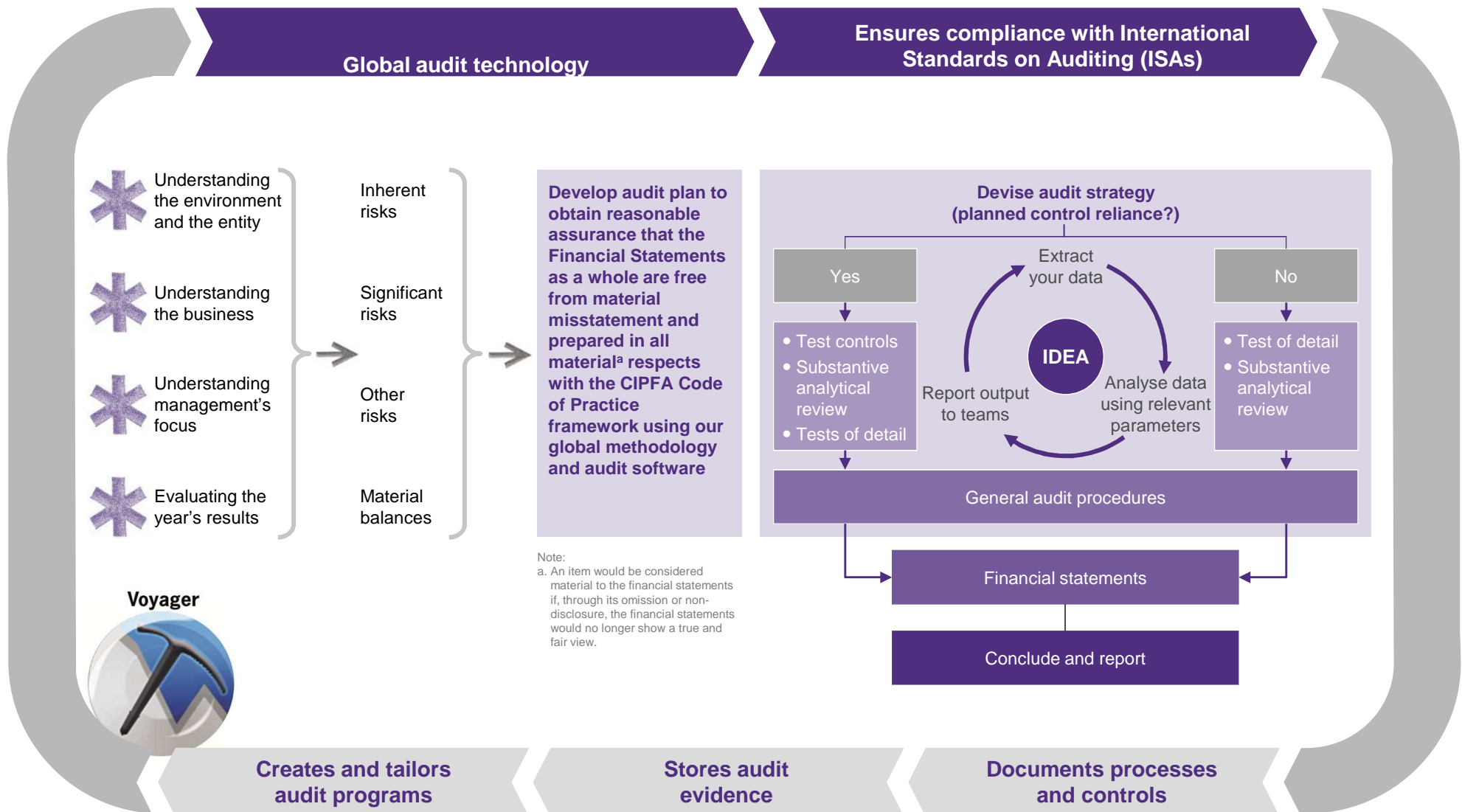
We will plan our audit and agree timetables with officers to ensure that the audit of the Fund causes minimal disruption to officers.

We will maintain regular dialogue with management to assess the impact this has on the administration of the pension fund and any required disclosures in the 2013/14 financial statements.

We will monitor the changes being made to the Fund investment strategy through our regular discussions with management.

We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

# Our audit approach



# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
<b>Revenue</b>	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for the London Borough of Barnet Pension Fund since:</p> <ul style="list-style-type: none"><li>• The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions.</li><li>• The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income.</li><li>• Revenue contributions are made by direct salary deductions and direct bank transfers from admitted/scheduled bodies, are supported by separately sent schedules and are directly attributable to gross pay, making any improper recognition unlikely.</li><li>• Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.</li></ul>
<b>Management over-ride of controls</b>	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"><li>• Review of accounting estimates, judgements and decisions made by management.</li><li>• Testing of journal entries.</li><li>• Review of unusual significant transactions.</li></ul>



# Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
<b>Investments</b>	Investments not valid Investments activity not valid Fair value measurement not correct	<p>We will review the reconciliation between information provided by the fund managers, the custodian and the Fund's own records and seek explanations for any variances.</p> <p>For unquoted investments we will critically assess the assumptions used in the valuation and check valuations to the latest audited financial statements of the respective investment fund.</p> <p>The existence of investments will be confirmed directly to relevant documentation.</p> <p>We will test a sample of purchases and sales during the year back to detailed information provided by the fund managers.</p>
<b>Benefit Payments</b>	Benefits improperly calculated/claims liability understated	<p>We have confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. With a view to reducing the level of substantive testing required, we will then test the key controls identified in these areas.</p> <p>We will then select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to member files.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p>
<b>Contributions</b>	Recorded contributions not correct	<p>We have confirmed the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from member bodies. We will substantively test contributions deductions.</p> <p>We will substantively test contributions deductions from the Administering Authority. We will also review contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained.</p>
<b>Membership Data</b>	Member data not correct	<p>We have confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records up to month 10. With a view to reducing the level of substantive testing required, we will then test the key controls identified in these areas.</p>

# Other issues

In this section we outline the other issues which we have identified as a result of our planning.

Other issues	Description	Work Completed	Further work planned
Pension fund administration	During the financial year, Capita was awarded the contract to manage the administration of pension fund. Some former LB Barnet pension fund staff transferred to Capita whilst others took redundancy.	<ul style="list-style-type: none"> <li>We have held planning meetings with Capita team responsible for managing the pension fund closedown.</li> </ul>	<ul style="list-style-type: none"> <li>We will continue to discuss the impact of the staff changes on your year end pension fund accounts, Annual Report processes and your ability to respond to audit queries through our regular meetings with senior management.</li> </ul>
Member data transfer from Axis to Hartlink	<p>The Borough used its existing pension fund member database Axis for the first 10 months of the year.</p> <p>The data was then transferred to a Capita owned system called Hartlink for the last 2 months of the year. The database is managed off site.</p> <p>Member data contributes to the information within the pension fund year end statements.</p> <p>Other system changes are imminent in the next financial year.</p>	<ul style="list-style-type: none"> <li>The testing of the completeness of pension fund data migration to the new systems as part of our IT review will be undertaken in April. We will discuss any potential impact on fees with you through our regular meetings with senior management.</li> </ul>	<ul style="list-style-type: none"> <li>We will document our understanding of the nature and significance of the services provided by the service organisation Capita and their effect on your internal controls, sufficient to identify and assess the risks of material misstatement, and then design and perform audit procedures as part of our testing of the financial statements.</li> <li>Our testing of member eligibility on Hartlink will take place at a local Capita office. We will discuss any potential impact on fees with you through our regular meetings with senior management.</li> <li>As part of our 2014/15 audit we will consider the impact of the other planned system changes to the pensions administration control environment.</li> </ul>

# Results of interim audit work

## Scope

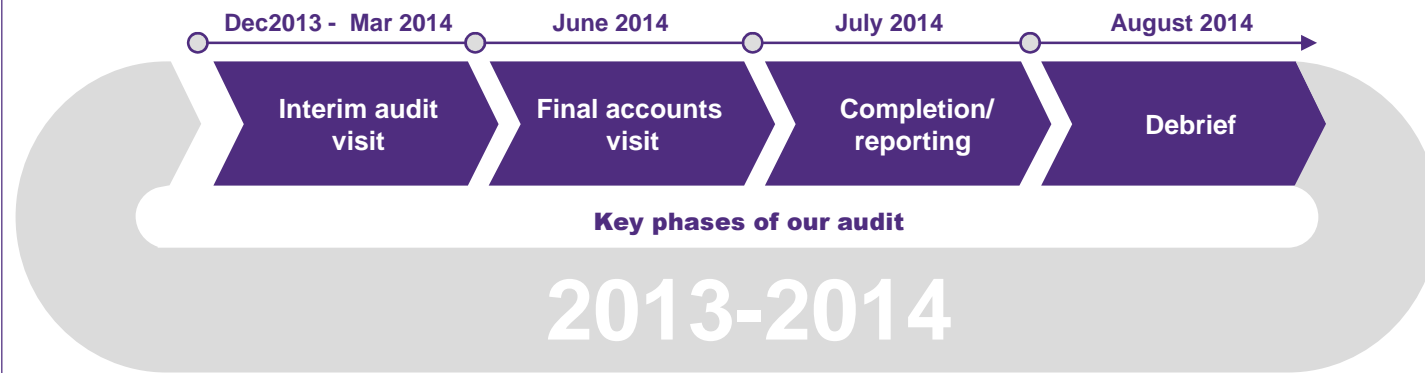
As part of the interim audit work, and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Pension Fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work to be performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Fund and that we can take assurance from their work in contributing to an effective internal control environment at the Fund.  Our review of internal audit reports to date has not identified any weaknesses which impact on our approach.
Walkthrough testing	We have completed walkthrough tests of controls in areas where we consider that there is a risk of material misstatement to the financial statements. This includes membership data up to month 10.  Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Review of information technology (IT) controls	As part of the overall review of the internal controls system, our information systems specialist has performed a high level review of the general IT control environment, including a follow up of any issues identified in the previous year. The review was undertaken as part of the main financial statements audit.	This work is currently in progress. Should any issues arise from this work, we will discuss these with management and report our findings in the Audit Findings Report.
Journal entry controls	We will review the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy. We will obtain a list of all pension fund journals raised during 2013/14 and test any 'unusual' and large journal entries.	Our work will be undertaken as part of our testing of the financial statements. The results of which will be reported to the Audit Committee in July 2014.

# Logistics and our team

## The audit cycle



Date	Activity
December 2013	Planning meeting
Dec 2013 Feb 2014	Interim site work
Apr 2014	The Audit Plan presented to the Audit Committee
June 2014	Year end fieldwork commences
July 2014	Audit findings clearance meeting
July 2014	Findings reported to the Audit Committee
July 2014	Issue audit opinion on the Pension Fund financial statements
August 2014	Audit debrief

## Our team

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# Fees and independence

## Fees

	£
Pension Fund audit	21,000

## Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension Fund and its activities have not changed significantly
- The Pension Fund will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	£
None	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council and Pension Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension Fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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