

The Audit Plan

London Borough of Barnet Pension Fund

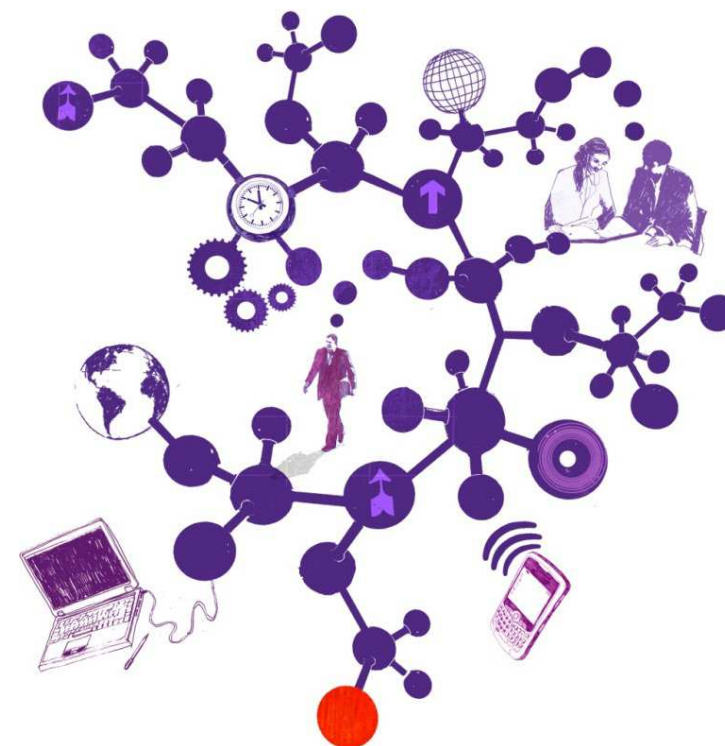
Year ended 31 March 2015

27 May 2015

Sue Exton
Engagement Lead
T 020 7728 3191
E Sue.M.Exton@uk.gt.com

Ade Oyerinde
Manager
T 020 7728 3332
E Ade.O.Oyerinde@uk.gt.com

Andy Conlan
Executive
T 020 7728 2492
E Andy.N.Conlan@uk.gt.com



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.

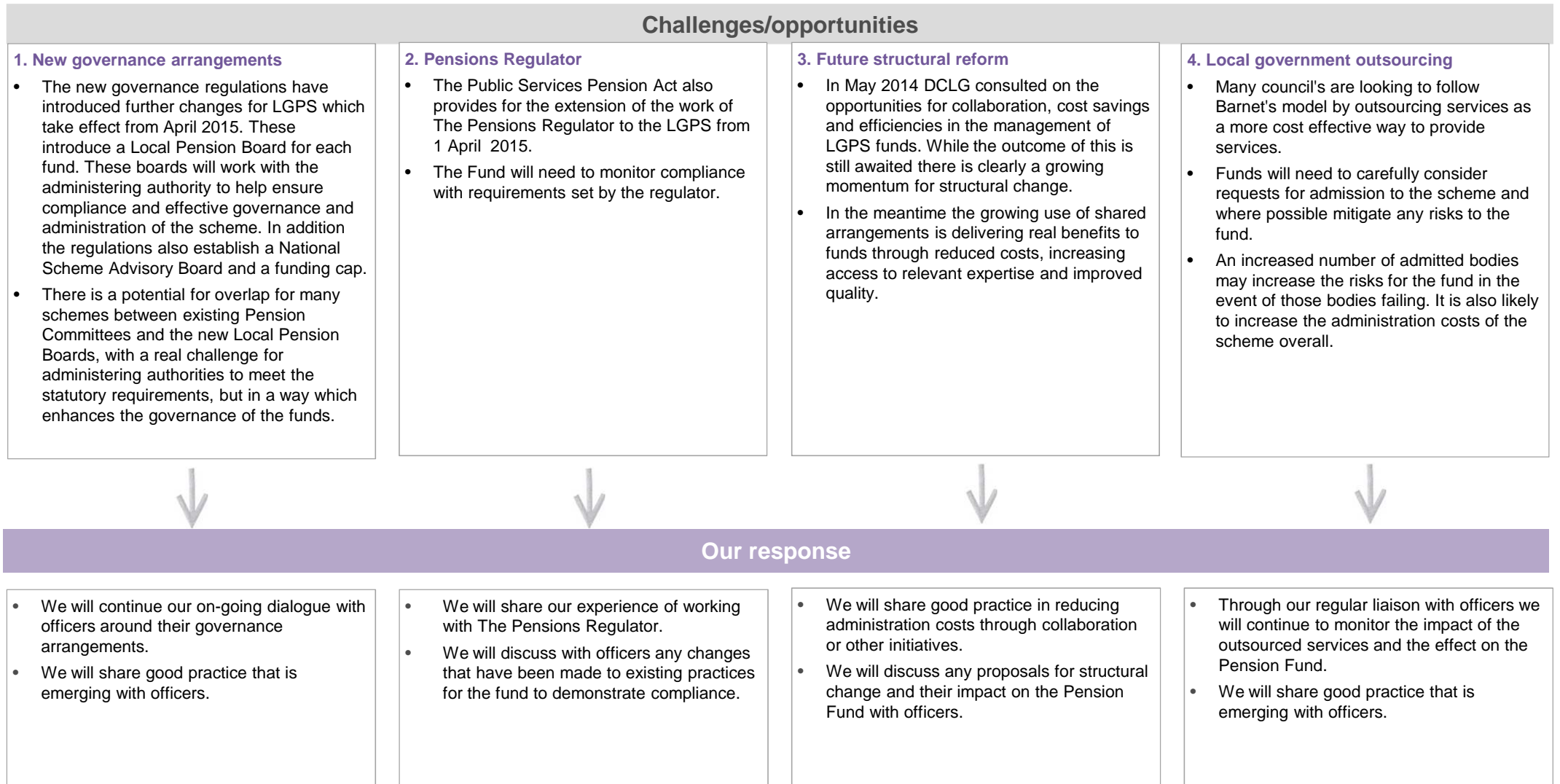
Contents

Section

1. Understanding your business	4
2. Developments relevant to your business and the audit	5
3. Our audit approach	6
4. Significant risks identified	7
5. Other risks	8
6. Results of interim work	10
7. Key dates	11
8. Fees and independence	12
9. Communication of audit matters with those charged with governance	13

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 business 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 ('the code') and associated guidance.

Developments and other requirements

1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. 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 2015, however the Pension Fund needs to ensure on-going compliance with the Code.

3. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

4. Timetable for financial reporting

- The Accounts and Audit Regulations 2015 come into effect from 1 April 2015. These bring forward the local government reporting timetable for published accounts to 31 July in 2017/18. In 2017/18 draft financial statements will need to be prepared by 31 May

Our response

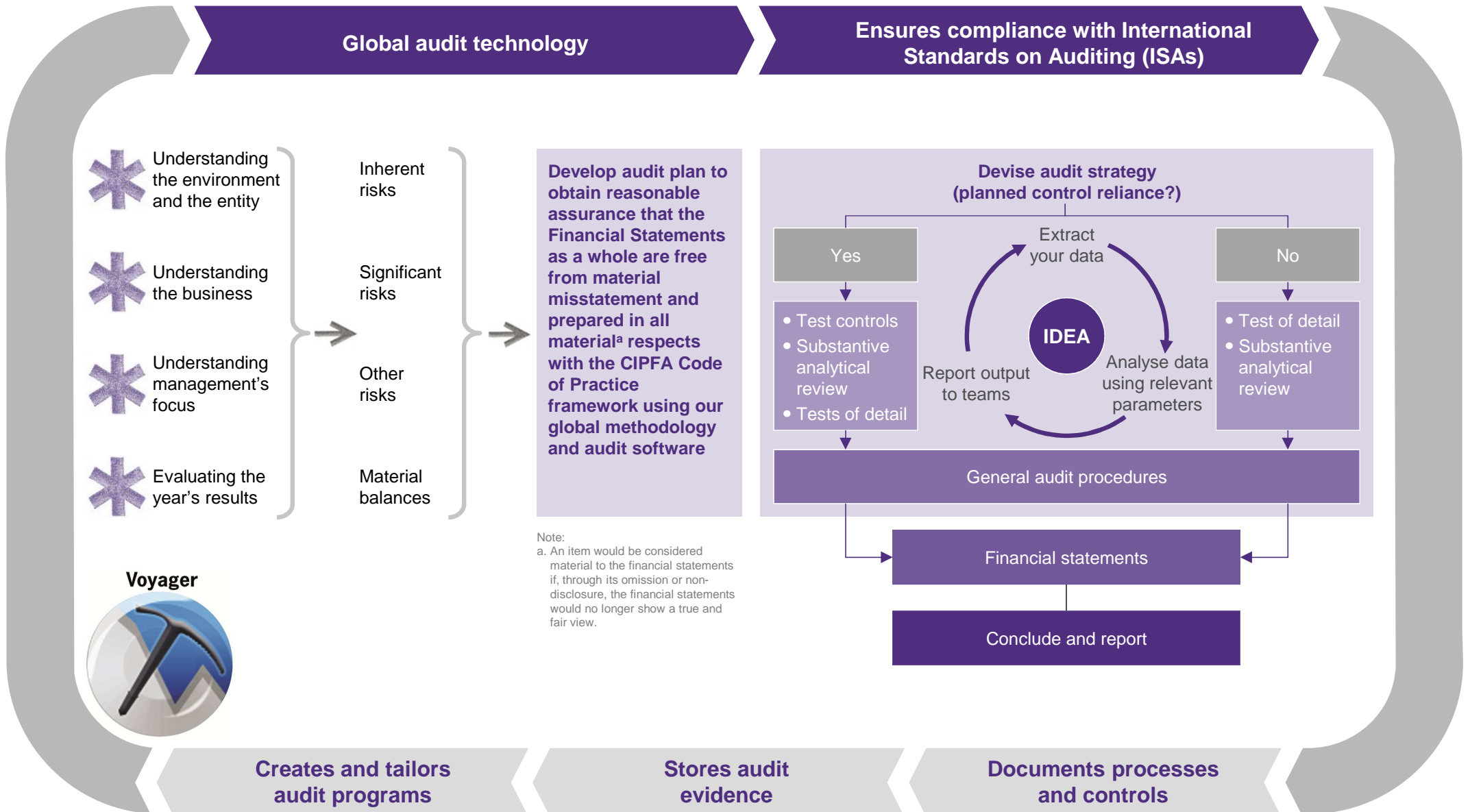
- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.
- We will confirm the existence of controls to ensure that it identifies and receives all expected contributions from member bodies and that benefits are correctly calculated and that the appropriate payments are generated and recorded

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

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

- Although not an issue for 2014/15 we will continue to work with you to help identify ways of streamlining the process for preparing the financial statements.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental 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
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at London Borough of Barnet Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including London Borough of Barnet Pension Fund who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Risk assessment of accounting estimates, judgments and decisions made by management <p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions.
Risk of new accounting system Integra produces Fund balances that are materially mis-stated	<p>As at 1 April 2014, the ledger system was migrated from SAP to Integra which is hosted by Capita.</p> <p>2014/15 will be year one the Fund accounts will be compiled on Capita's ledger system.</p>	<p>Document our understanding of the controls put in place by management over data migration.</p> <p>Work completed to date:</p> <ul style="list-style-type: none"> • Testing the completeness of data migration to the new systems as part of our IT review • Complete walk through tests of the new ledger system <p>Work planned:</p> <ul style="list-style-type: none"> • Review of subsystem reconciliations

Other risks identified

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).

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

Other risks	Description	Audit Approach
Investments	Investment activity not valid Valuation is incorrect	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have documented and confirmed the operation of controls around investment activities <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances • We will complete a predictive analytical review for different types of investments • We will test a sample of purchases and sales during the year back to detailed information provided by the fund managers.
Contributions	Recorded contributions not correct	<p>Work completed to date:</p> <ul style="list-style-type: none"> • 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 <p>Further work planned:</p> <ul style="list-style-type: none"> • We will test a sample of contributions to source data to gain assurance over their accuracy and occurrence • We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Other risks identified continued

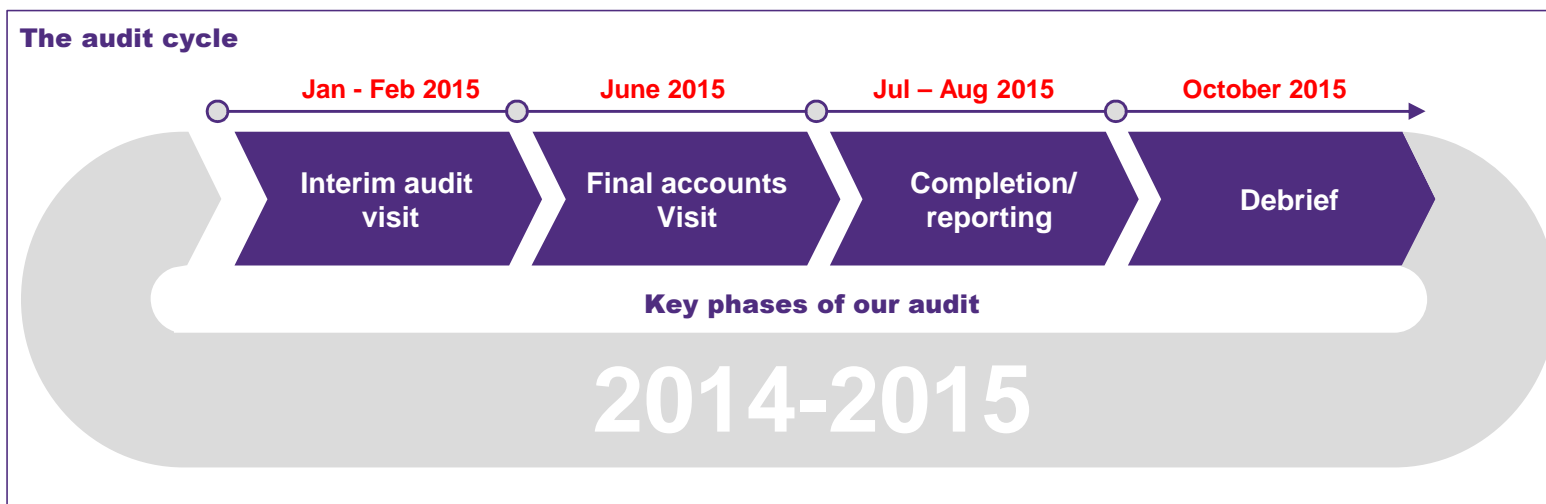
Other risks	Description	Audit Approach
Benefits payable	Benefits improperly computed/claims liability understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded <p>Further work planned:</p> <ul style="list-style-type: none"> Test a sample of individual pensions in payment by reference to member files. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct	<p>Work completed to date:</p> <ul style="list-style-type: none"> 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 <p>Further work planned:</p> <ul style="list-style-type: none"> Sample testing of changes to member data made during the year to source documentation.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	<p>We completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements other than observe or confirm the controls operating over the entry of accounting information from Acclink system into the Integra accounting system (details set out on page 10).</p> <p>At the time of our review (February 2015), we were unable to observe or confirm the controls operating over the entry of accounting information from Acclink system into the Integra accounting system.</p> <p>We understand there had been technical issues in entering journals onto the Integra accounting system. This had resulted in the delay of the following posting into the Integra system:</p> <ul style="list-style-type: none"> • monthly posting of investment journal until month 6 • monthly posting of months 1 - 10 of journal entries of contributions received and benefits paid. <p>Delays in posting of Fund transactions to the ledger increases the risk of errors not being identified and materially mis-stated in the Fund statements.</p>	<p>Subject to observing controls over subsystems are periodically reconciled to the ledger, our work has not identified any additional weakness which impact on our audit approach.</p> <p>We will ensure the accounting entries are correctly posted from Acclink into Integra during our final accounts testing.</p>
Review of information technology 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 have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our review of the Fund's journal entry policies and procedures has not identified any weaknesses which impact on our audit approach.

Key dates



Date	Activity
Jan – Feb 2015	Planning / Interim
27 May 2015	Presentation of audit plan to Pension Fund Committee
8 June 2015	Year end fieldwork commences
July 2015 TBC	Audit findings clearance meetings
30 July 2015	Report audit findings to the Pension Fund Committee
By August 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Total fees (excluding VAT)	21,000

Our fee assumptions include:

- 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, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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 the Council.

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).

We have been appointed as the Council'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 Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these 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		✓



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk