

Audit Approach Memorandum

London Borough of Barnet Pension Fund

For the year ended 31 March 2012

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Grant Thornton

To the Pension Fund Committee of London Borough of Barnet Pension Fund.

We are pleased to be engaged to perform the audit of the London Borough of Barnet Pension Fund (the "Pension Fund") for the year ended 31 March 2012. This memorandum highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention. This memorandum has been prepared on the basis of the limitations set out in 'The small print'.

We look forward to working with you during the course of the audit.

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This memorandum has been prepared for the benefit of discussion between Grant Thornton and the Pension Fund Committee of London Borough of Barnet Pension Fund.

Chartered Accountants

Member firm within Grant Thornton International Ltd

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1 Our audit approach

1.1 Engagement objectives

Our engagement objectives are as follows:

- to audit the financial statements of London Borough of Barnet Pension Fund
- to produce a concise and constructive report of key issues to the Pension Fund (ISA 260 letter)
- to draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently with the minimum of disruption to the Pension Fund's staff.

In summary our audit strategy comprises:

- updating our understanding of the operation of the Pension Fund through discussions with management
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the highest risk areas of the financial statements

- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing appropriate audit procedures
- reviewing the adequacy of material disclosures in the financial statements
- verifying all material net asset accounts and performing analytical review of income and expenditure streams.

1.3 Identified high risk areas

Our audit approach in respect of high risk areas will concentrate on the following:

- the existence and valuation of investments
- the completeness and accuracy of contributions
- the completeness, accuracy and validity of benefits

These are further detailed in table 2.1

1.4 Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements. These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example, non-compliance with the SORP. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

1.5 Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

1.6 Audit of IT and outsourced systems

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Pension Fund's internal controls in the information technology (IT) environment.

2 Key audit issues and financial reporting matters

We will report to you the findings from our work, and the conclusions in respect of each of the risks that we have identified in our ISA 260 letter at the end of the audit.

2.1 Key audit issues

Issue	Audit approach
Investments - valuation and existence	<ul style="list-style-type: none">• obtain direct confirmations from the individual fund managers• obtain independent confirmation of market prices for a sample of investment holdings using providers such as Bloomberg
Contributions - completeness and accuracy	<ul style="list-style-type: none">• obtain confirmation from the admitted and scheduled bodies of the amounts and timing of a sample of contribution payments• checks that pension contribution deductions are calculated and paid over correctly for a sample of individuals• estimate total contributions with reference to pensionable salaries, average numbers of members, and average contributions rates and comparing to contributions receivable disclosed in the accounts• review total contributions received on a monthly basis to ensure any unusual trends are satisfactorily explained.
Benefits - completeness	<ul style="list-style-type: none">• rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year• compare pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained• comparison of membership movements to transactions in the accounting records
Benefits - accuracy and validity	<ul style="list-style-type: none">• for each benefit type, select a sample of transactions and agree to supporting documentation maintained on individual member files

2.2 Financial reporting matters

Issue	Audit approach
Ensure accounts format and disclosure is consistent with the requirements of IFRS	<ul style="list-style-type: none">• the accounts presentation will be compared to IFRS1 and IAS26, along with the Code of Practice on Local Authority Accounting• ‘option C’ under International Accounting Standard 26 Accounting and Reporting by Retirement Benefit Plans (“IAS26”) allows for the actuarial present value of promised retirement benefits (the pension liability) to be contained as a separate actuarial report within the financial statements. On the basis that the Pension Fund follows the presumed disclosure option for actuarial information the key will be to ensure that sufficient explanation is provided when comparing the amount attributed to the actuarial cost disclosed in the main accounts and the Pension Fund accounts. We recommend that management liaise with the actuary as necessary to obtain the information required to disclose the actuarial liability under the requirements of IAS26.
Ensure compliance with the Pensions SORP, as applicable to LGPS	<ul style="list-style-type: none">• the accounts will be checked with reference to the SORP disclosure checklist

Our audit last year identified certain matters which were reported to you, and are summarised below. Following our initial discussions with Iain Millar, we have been provided with an update on how these have developed in the year. We will provide an update on these points in our ISA 260 letter at the end of the audit.

2.3 Update on previous period's detailed findings

Issue

Update from management

Processing of investment data

Errors identified during our audit for the previous year were exacerbated by investment transaction data which had not been processed within the SAP accounting software since mid-November 2010.

Processes are now in place to ensure that investment transactions are appropriately reflected in the accounting system "SAP" and reconciled to investment manager reports and reviewed on a timely basis.

This presented a control risk relating to an overreliance on the fund manager reports and the lack of a proper and up-to-date reconciliation procedure between the accounting system and the investment manager reports.

We recommended that the pensions team implement formal processes and controls to ensure that investment transactions are appropriately reflected in SAP and reconciled to investment manager reports and reviewed on a timely basis.

Unrecorded benefits

As part of our audit procedures review, we found that approximately £1.6m of retirement benefits had not been provided for within the financial statements.

A review of benefits was carried out at the year end to ensure the full year was accounted for.

We recommended that a further review of benefits is carried out on or around 31 March each year to ensure all amounts are properly recorded.

Financial statements preparation

We noted that certain trial balance codes were not mapped to the net assets statement presented for audit. In addition, there was not a clear mapping of all the trial balance nominal ledger codes to the financial statements presented for audit.

A full review of the mapping process from the trial balance nominal ledger codes to the financial statements has taken place.

We recommended that a full review of the mapping process is performed.

Connaught Partnerships

The scheduled body, Connaught Partnerships formally entered administration on the 8th of September 2010.

We will review the current status of recovery of outstanding amounts. We recommend that the matter is continued to be disclosed in the financial statements.

Issue**Update from management****Cash balances**

Cash balances held on behalf of Pension Fund were transferred to a separate bank account held by the Pension Fund. We obtained a listing of cash balances at year end which included a series of reconciling items amounting to £4.6m and of this balance it was identified that £1.3m had not cleared after the year end.

The monthly bank reconciliation is completed and reviewed on a monthly basis and reviewed to ensure reconciling items have cleared after the month end date.

We recommended that formal bank reconciliations are prepared on a monthly basis and reviewed and evidenced as reviewed by an appropriate member of the pension team. We also recommend that bank account reconciling items are agreed as having cleared after the month end to ensure they are valid entries.

Timeliness of contributions receipts

Regulations require that contributions deducted from members' salaries are paid over to the Pension Fund by no later than the nineteenth day following the calendar month, from which the contributions have been deducted. During our review of contributions, it was noted that payments from some bodies were late ranging between 1 and 35 days.

Contribution receipts are monitored and late contributions continue to be chased if not received on time.

We recommended that the Pension Fund officers continue to remind Scheduled and Admitted Bodies of the requirement to ensure that contributions are received on time, and late contributions are chased regularly

Sundry Debtors

The sundry debtors balance included old debtors not considered recoverable by the Pensions team. Our recommendation was that a review of aged debtors is carried out more frequently.

Aged debtors are subject to periodic review and a provision made if considered necessary.

3 Logistics

3.1 Information required

The information required from management during the course of the audit has been discussed with the finance team and will be supplied in due course.

3.2 Timetables and milestones

The following proposed timetable highlights the key dates of the audit process:

Event	Date
Planning meeting with management	23 Feb 2012
Commence fieldwork	25 June 2012
Senior manager visit to review work	5 July 2012
Engagement leader to review work	6 July 2012
Second partner review	12 July 2012
Issue draft ISA260 letter for management review	20 July 2012
Issue final ISA 260 letter and audit clearance	31 July 2012
Committee meeting to approve accounts / discuss audit findings	4 September 2012

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

3.3 Engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
Giles Mullins	Engagement leader	T: 01908 359609 E: giles.m.mullins@uk.gt.com
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3.4 Fees

Our fee estimate for the audit of the Pension Fund is £35,000 (exclusive of VAT and expenses). This is based on the guidance issued by the Audit Commission for London borough Local Government Pension Schemes.

We have proposed this fee on the basis that:

- draft accounts are presented to us by 25 June 2012 for audit, subject only to routine audit adjustments
- a trial balance, and supporting schedules for all figures in the accounts are supplied by the agreed dates
- all books and records are made available to us
- your staff are available to help us locate information and to provide explanations

Our ability to deliver to the agreed timetable and fee will depend upon this. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

Any work outside the scope of this proposal will be billed separately after discussion with you.

3.5 Billing and payment schedule

Our proposed schedule is as follows:

Billing date	£
By 31 March 2012	5,000
By 30 June 2012	15,000
By 31 July 2012	10,000
By 30 September 2012	5,000

Fee notes are payable on receipt.

4 The small print

Engagement terms

Our engagement will be carried out in accordance with the Audit Commission's Code of Practice on auditing and the statement of responsibilities which sets out the roles of audited bodies and of auditors.

Ethical standards

We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of adverse or unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the Council. Such communication will be made either informally or via our ISA 260 letter.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with management and documented for the Pension Fund Committee's consideration.

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council, which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton UK LLP also conducts internal quality reviews of engagements.

We would be happy to discuss further the firm's approach to quality assurance.

Independence and robustness

To maintain our independence as auditors we ensure that:

- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Pension Fund
- our fees paid by the Pension Fund do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

Audit and non-audit services

Other than the audit of the Pension Fund, no other services have been provided to the Fund during the course of the year.

Communication with those charged with Governance

Communication with those charged with governance is an essential element of the audit. We will discuss with the Pension Committee the scope of our work in advance. We propose that we meet with them following the conclusion of our procedures in order to communicate the matters arising.

We would also be interested to hear if there are other matters that the Pension Fund Committee would like us to address and to understand more fully the Committee's expectations and requirements from the audit process.

Roles and responsibilities

The Pension Committee is responsible for the preparation of the financial statements which show a true and fair view of the Pension Fund's affairs and for making available to us all the information and explanations we consider necessary.

Legislation requires that the Pension Fund maintains such books and records as will be sufficient to show the nature of all transactions and disclose, at any time, the financial position of the Pension Fund.

The Pension Fund's management is responsible for:

- the identification, assessment, management and monitoring of risk
- developing, operating and monitoring the system of internal control
- providing assurance to the Committee that this has been done.

The Pension Fund Committee is required to review the Pension Fund's internal financial controls. In addition, the Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk. The Pension Fund Committee should receive reports from management as to the effectiveness of the systems they have established, as well as the conclusions of any testing conducted by internal audit.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected



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