



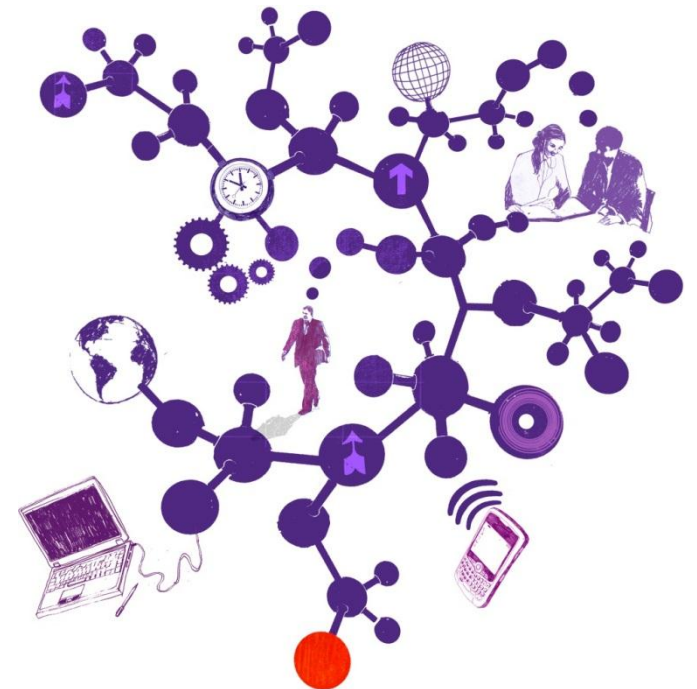
Audit Plan for The London Borough of Barnet Pension Fund

Year ended 31 March 2013

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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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Introduction

Purpose

This Audit Plan highlights the key elements of our 2012/13 external audit strategy for 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 Pension Fund Committee as those charged with governance for the Pension Fund for consideration in accordance with International Standard on Auditing (UK & Ireland) 260. We will also report it the Council's Audit Committee as the body charged with governance for the Council's financial statements overall, of which the Pension Fund accounts form part.

Our responsibilities

As external auditors we are responsible for performing the audit in accordance with ISAs (UK and 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

We will communicate progress and findings from our audit work to you at key points during the year. Page 16 of this Plan includes the timescale for the audit and audit reporting which sets this out in more detail.

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

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 and associated guidance.

Developments and other requirements

1. Financial reporting

- CIPFA publication of a revised set of example accounts for pension funds in 2013.

2. LGPS 2014

- Planning for the impact of the implementation of career average re-valued earnings scheme (CARE) from 1 April 2014.

3. Financial Pressures – scheduled and admitted bodies

- Managing pensions administration where contributing bodies are offering early retirement and redundancies placing additional workload on Council pension funds in dealing with severance arrangements.

4. Financial Pressures – Pension fund

- Pension funds are increasingly requiring to withdraw from assets to fund the demand on benefits payable that are not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

5. Triennial valuation

- Demands on pension funds' time in terms of administrating the information to pass to the actuary and regular dialogue with the actuary.

Our response

- We will ensure that the Pension Fund complies with the requirements of the CIPFA Code of Practice through our substantive testing.

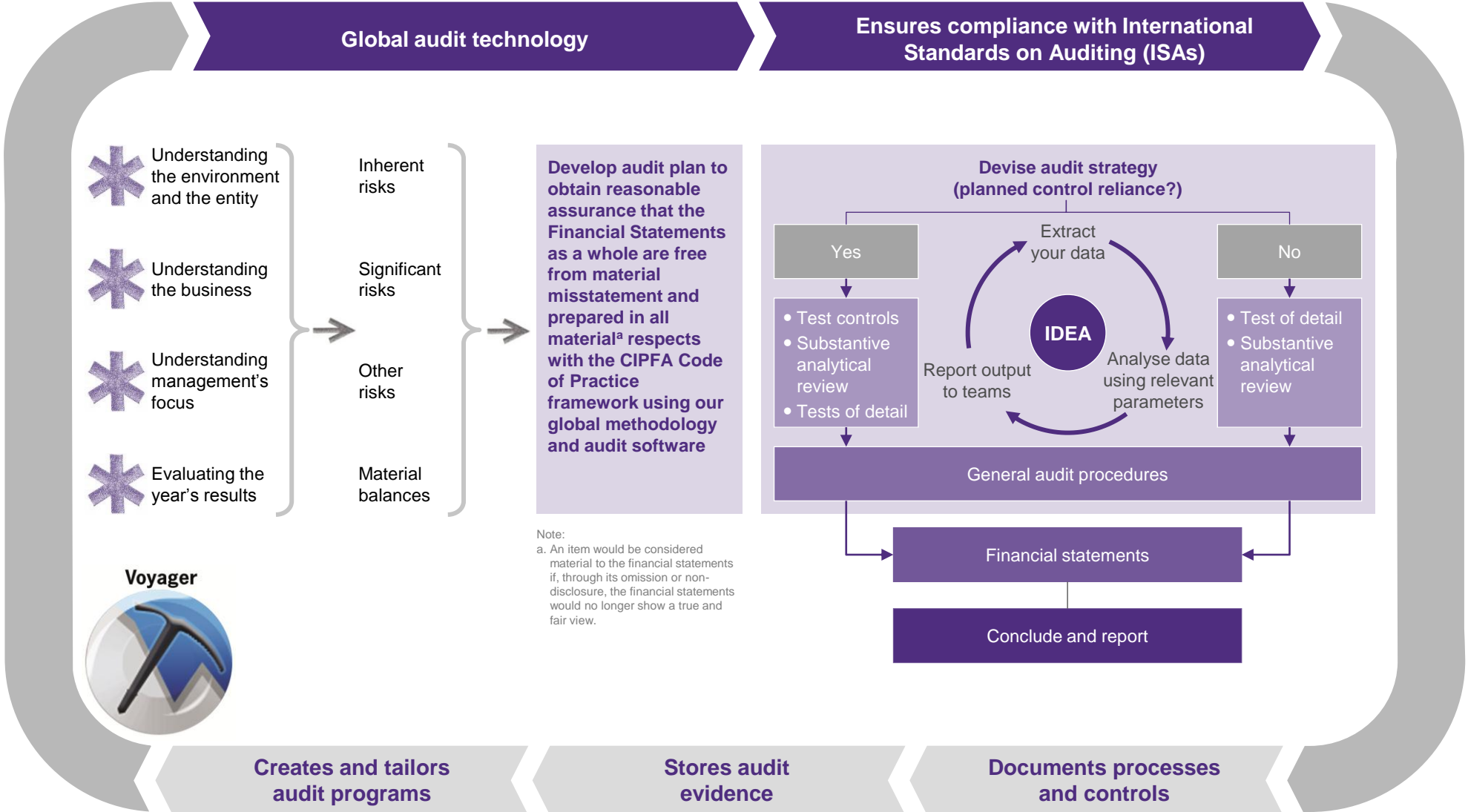
- We will discuss the impact of the changes with the Pension Fund through our regular meetings with senior management and those charged with governance, providing a view where appropriate.
- As the change applies from April 2014 we do not expect it to have any impact on the 2012/13 financial statements.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

- We will monitor any changes being made to the Pension Fund's investment strategy through our regular discussions with senior management and those charged with governance.
- We will consider the impact of any changes on the nature of investments held by the Pension Fund and adjust our testing strategy if necessary.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension Fund.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned control reliance?	Substantive testing?
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct	Yes	✓
Transfers in	Yes	Transfers in to the scheme	Low	None		No	✓ If material
Pensions payable	Yes	Benefit payments	Medium	Other	Benefits improperly computed/claims liability understated	Yes	✓
Payments to and on account of leavers	Yes	Benefit payments	Low	None		No	✓ If material
Administrative expenses	No	Administrative expenses	Low	None		No	✓ If material
Investment income	Yes	Investments	Medium	Other	Investment activity not valid	No	✓

An audit focused on risks (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Profit and loss on disposal of investments and changes in value of investments	Yes	Investments	Medium	Other	Investment activity not valid	No	✓
Taxes on income	No	Investments	Low	None	Immaterial.	No	×
Investment management expenses	No	Investments	Low	None		No	✓ If material
Investments	Yes	Investments	Medium	Other	Investments not valid Fair value measurement not correct	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	None		No	✓ If material
Current liabilities	No	Benefit payments, investments	Low	None		No	✓ If material

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
Revenue	Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	<ul style="list-style-type: none">• Review and testing of revenue recognition policies for both contributions and investment income• Performance of sample testing on material contribution and investment income streams
Management override of controls	Under ISA 240 there is a presumed risk that the risk of management override of controls is present in all entities.	<ul style="list-style-type: none">• Review of any accounting estimates, judgements and decisions made by management• Testing of journals entries• Review of unusual significant transactions

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
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	We will review the reconciliation between information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any variances. We will select a sample of the individual investments held by the Scheme at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments). The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation. We will test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.
Benefit Payments	Benefits improperly computed/claims liability understated	We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds which are tested by reference to the member files. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by the Pension Fund have been followed. We will review 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. The movements on membership statistics will also be compared to transactions in the accounting records.
Contributions	Recorded contributions not correct	We will test the controls the Pension Fund operates to ensure that it receives all expected contributions from member bodies. 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.

Interim audit work

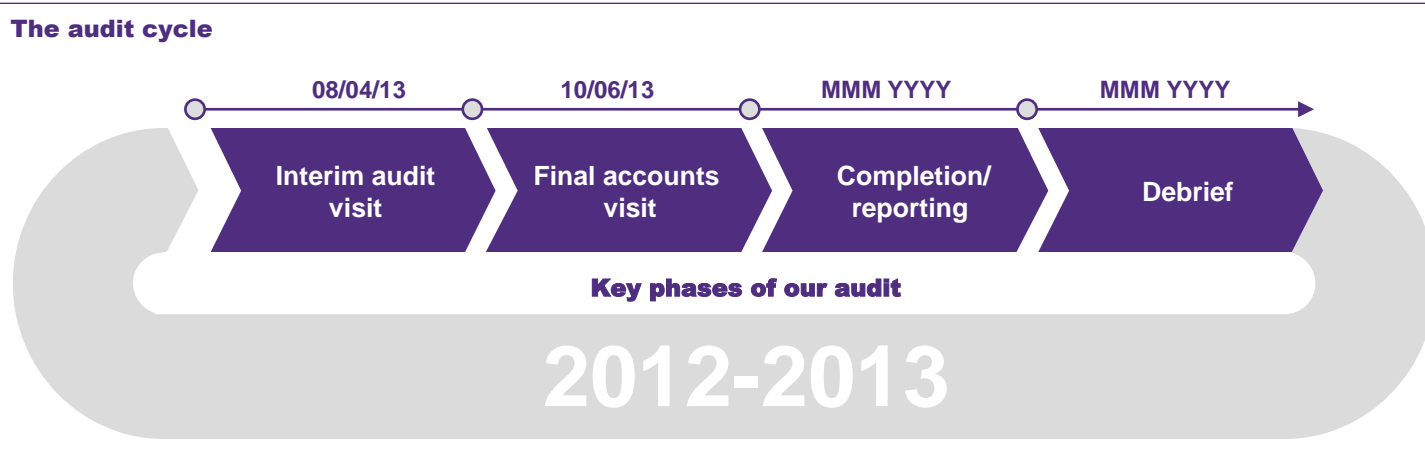
Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we intend to consider:

- 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
Internal Audit	<p>We will review Internal Audit's overall arrangements as part of our main financial statements audit. For the purposes of the Pension Fund audit we will consider the results of Internal Audit work undertaken during 2012/13 on key system controls supporting the production of the Pension Fund financial statements.</p> <p>Where Internal Audit identifies control weaknesses we will consider the impact these have on our testing and where appropriate report these and the adjustments we make to our testing strategy to management and to the Pension Fund Committee for consideration.</p>
Walkthrough testing	<p>Walkthrough tests will be completed of the key system controls for contributions receivable and benefits payable we consider to present a risk of material misstatement to the financial statements.</p>
Review of information technology (IT) controls	<p>Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the Council's system of internal control supporting both the production of the main financial statements and the Pension Fund financial statements.</p>
Journal entry controls	<p>We will review the Council's journal entry policies and procedures, including any specific requirements for the Pension Fund, as part of determining our journal entry testing strategy.</p>

Logistics and our team



Date	Activity
08/04/13	Planned Interim site work
04/06/13	The audit plan presented to Pension Fund Committee
10/06/13	Year end fieldwork commences
By 30/06/13	Audit findings clearance meeting
By 15/07/13 (date tbc)	Pensions Committee meeting to report our findings
By 26/07/13 (date tbc)	Audit Committee meeting to report our findings
By 26/07/13	Issue opinion of the financial statement and annual report

Our team

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Fees and independence

Fees

	£
Pension fund audit	20,226

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	Fees £
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).

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.

	Audit plan	Audit findings
Our communication plan		
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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