

# The Audit Plan for the London Borough of Lewisham Pension Fund

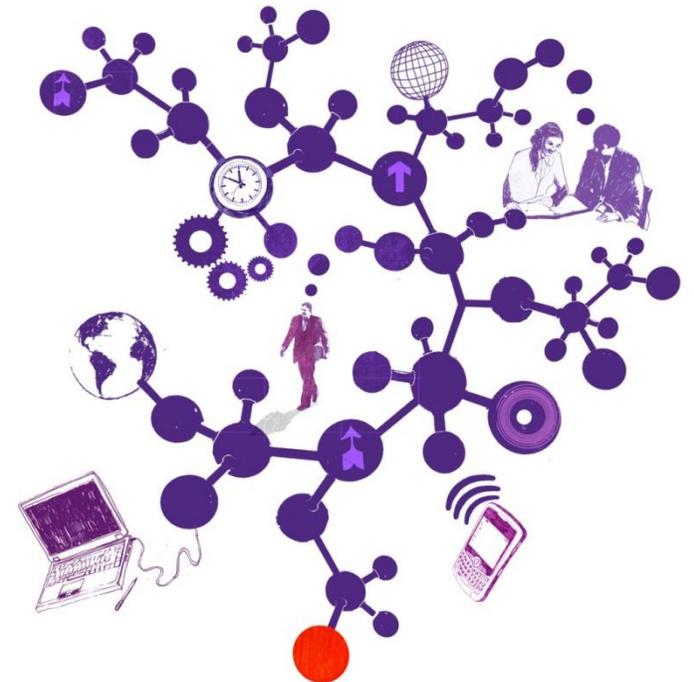
**Year ended 31 March 2014**

March 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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# Introduction

## **Purpose**

This Audit Plan highlights the key elements of our 2013/14 external audit strategy for the London Borough of Lewisham 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 Panel 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.

# Developments relevant to your 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 emerging issues affecting the Pension Fund expected for the year ending 31 March 2014. The Pensions Research Accounts Group (PRAG) has formed a working party to update the Pensions SoRP. An updated version is expected later in 2014.

### 2. LGPS 2014

Planning for the impact of the implementation of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014.

### 3. Triennial valuation

Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of 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 carry out a programme of substantive testing to gain assurance that the Pension Fund complies with the requirements of the CIPFA Code of Practice.

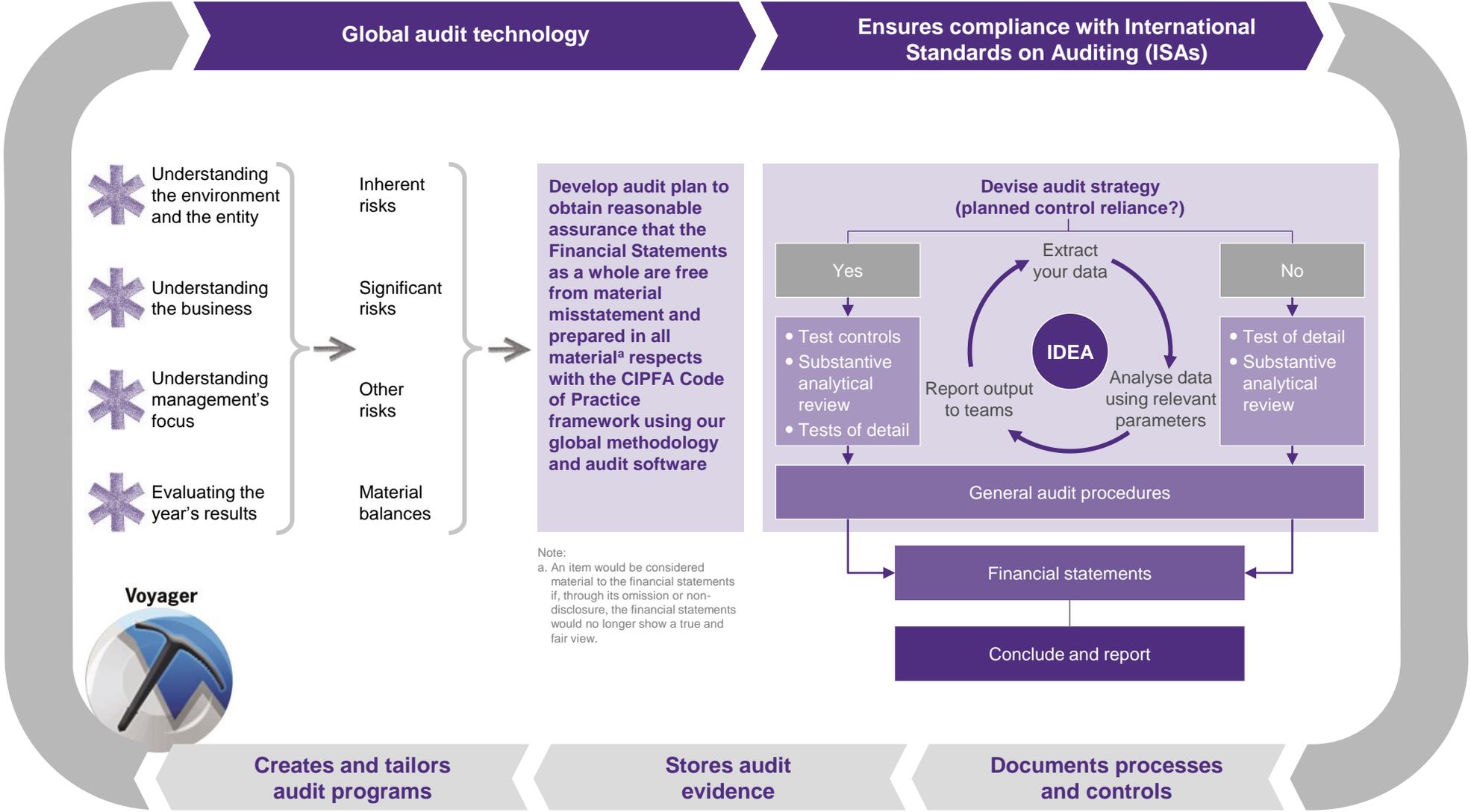
We will discuss the impact of the changes through regular meetings with management.

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 Pension Fund financial statements.

We will monitor the changes being made to the Pension 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>The revenue cycle includes fraudulent transactions</b>	Under ISA 240 there is a presumed risk that revenue (which for the purposes of the London Borough of Lewisham Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	We have rebutted this presumption and therefore do not consider this to be a significant risk for the London Borough of Lewisham Pension Fund since: <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 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 Alternative Investments not valid Fair value measurement not correct	<p>The existence of investments will be confirmed directly with the relevant fund managers/custodian or by agreement to relevant documentation.</p> <p>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.</p> <p>We will select a sample of the individual investments held by the fund at the year end and then test the valuation of this 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 private equity).</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 will confirm the existence of controls operated by the Pension Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded.</p> <p>We will then select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and death benefits and test them by reference to member files.</p> <p>We will perform substantive testing on pension payments in year.</p> <p>We will compare the movements on membership statistics to material transactions in the accounting records.</p>

# 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>Contributions</b>	Recorded contributions not correct	<p>We will confirm the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from member bodies.</p> <p>We will substantively test contributions deductions. We will also review contributions received with reference to changes in member body payroll's and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. The timing of these contribution payments will also be considered as part of this work.</p>
<b>Membership Data</b>	Member data not correct Regulatory, legal and scheme rules and requirements not met	<p>We will confirm 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. With a view to reducing the level of substantive testing required, we will then consider testing the key controls identified in these areas.</p> <p>We will undertake testing on a sample of Transfers In and Out to ensure that these calculations have been prepared and accounted for in line with the relevant LGPS Guidance.</p> <p>We will perform testing on a sample of contribution payments to ensure that these have been paid over to the Fund within 19 days of month end, as required by the LGPS Regulations.</p>

# 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:

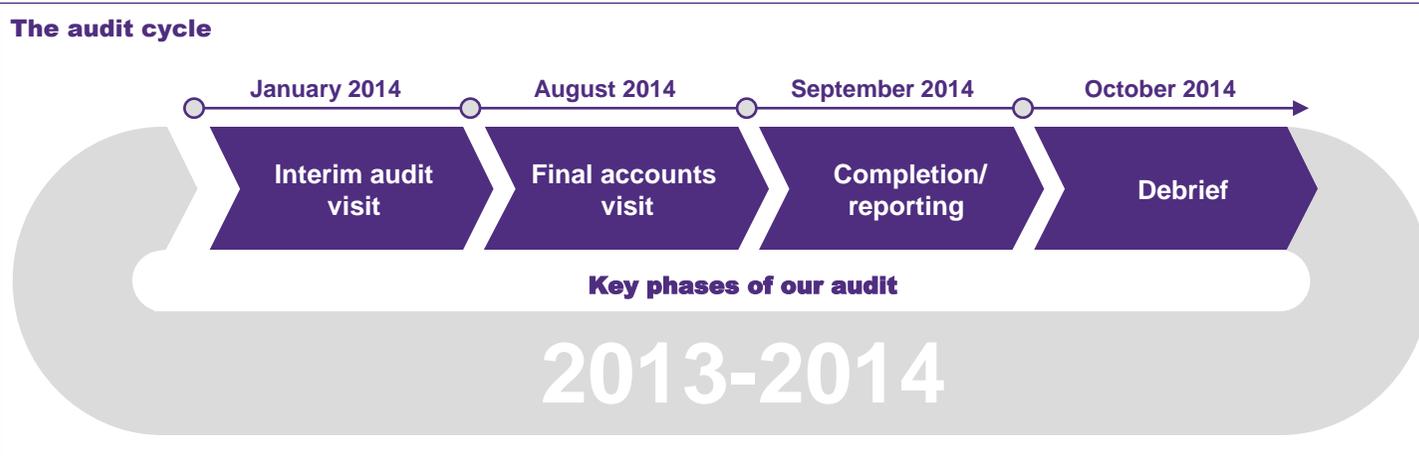
- the effectiveness of the internal audit function
- internal audit's work on the Pension Fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information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

	Work to be performed	Conclusion/ Summary
<b>Internal audit</b>	We have reviewed the Fund's Internal Audit arrangements as part of the main financial statements audit. For the purposes of the Pension Fund audit we will consider the results of specific Internal Audit work relating to the Pension Fund during 2013/14, along with work undertaken on the key systems which support the production of the Pension Fund financial statements.	<p>Public Sector Internal Audit Standards require the internal audit function to act independently and objectively. The Council's Head of Corporate Resources has responsibility for financial management of the pension fund as well as overseeing internal audit. We note the Council is aware of this potential threat to independence and has taken steps to mitigate this. Where a potential conflict exists the Internal Audit Contract Manager is able to report directly to the Executive Director of Resources and Regeneration.</p> <p>We recommend the Council keeps the appropriateness of this arrangement under review, including when the internal audit function is brought in-house.</p>
<b>Walkthrough testing</b>	<p>We have carried out walkthrough tests in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. The risk areas we have identified are as follows:</p> <ul style="list-style-type: none"> <li>• Investments</li> <li>• Scheme contributions</li> <li>• Member data</li> <li>• Benefit payments</li> </ul>	<p>In 2012 the previous auditors raised concerns that the Pension Fund was in breach of LGPS Regulations, as it was not using the separate Pension Fund bank account for pension fund transactions.</p> <p>Over the last two years the Council has been increasing its use of the Pension Fund Bank Account, but is still not fully compliant with LGPS Regulations. The Regulations are mandatory and the Council should take steps to ensure that this Bank Account is being used for all Pension Fund transactions as soon as possible.</p> <p>No other significant issues were identified from the work performed.</p>

## Results of interim audit work (continued)

	<b>Work to be performed</b>	<b>Conclusion/ Summary</b>
<b>Review of information technology (IT) controls</b>	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.	At the current date, this work is in progress. Should any issues be identified from this work, then we will feed these back to management as required.
<b>Journal entry controls</b>	We have reviewed the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy. We will then review all Pension Fund journals raised during 2013/14 and extract and test any 'unusual' and large journal entries as part of our year end testing.	All work in respect of the Pension Fund journals will be performed as part of our year end testing, where we undertake detailed work on any large and/or unusual journals identified during the year.

# Logistics and our team



Date	Activity
22 January 2014	Planning meeting
January 2014	Interim site work
June 2014	The audit plan presented to the Audit Panel
August 2014	Year end fieldwork commences
September 2014	Audit findings clearance meeting
September 2014	Findings reported to the Audit Panel
September 2014	Issue audit opinion on the financial statements and annual report
October 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.

	Audit plan	Audit findings
<b>Our communication plan</b>		
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		✓

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p><b>Internal Audit</b></p> <p>The Council should keep its Internal Audit arrangements under review to ensure that safeguards to ensure the independence and objectivity of the Internal Audit of the pension fund remain appropriate.</p>	Medium	<p>This will be kept under review as part of the assurance reporting and annual assessment of compliance with Public Sector Internal Audit Standards to the Audit Panel.</p>	<p>Head of Corporate Resources</p>
2	<p><b>Pension Fund Bank Account</b></p> <p>The Council should continue to promote the use of the Pension Fund Bank Account so that it is used for all of the Pension Fund's cash transactions, as opposed to the partial basis which is currently in place.</p>	High	<p>The work to extend use of the pension fund bank account has continued during the year. However, it is not fully used for three reasons: 1) transfer deferred to launch of upgraded Oracle system (now expected August 2014); 2) the Council is in the process of changing it's bank account from the Co-Op who have withdrawn from the Local Government market; and 3) on-going consideration of if and how to separate the liability side payments from those made by payroll through the Council's main bank account. These points should all be resolved in the 2014/15 financial year.</p>	<p>Pension Fund and Treasury Principal Accountant</p>



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