

The Audit Findings for Lewisham Pension Fund

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2015

September 2015

Darren Wells

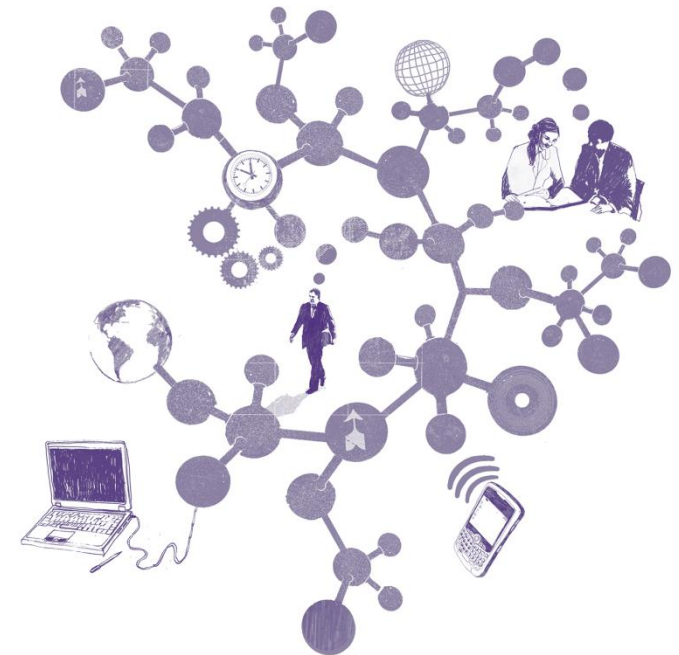
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Councillor Klier
Chair of Audit Panel
London Borough of Lewisham
London
SE6 4RU
September 2015

Dear Councillor Klier

Grant Thornton UK LLP
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Audit Findings for Lewisham Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of the Audit Panel, as required by International Standard on Auditing (UK & Ireland) 260. Its contents **have been** discussed with **management**.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Darren Wells
Director

Chartered Accountants

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Lewisham Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated June 2015. We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- dealing with closing queries arising from the final Engagement Lead review of the audit file.

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- final review of the Pension Fund annual report.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The pension fund accounts presented for audit were of a good quality overall. Management engaged positively with the audit, and this assisted the audit team to complete the audit work in a significantly shorter time scale than in previous years.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have agreed with officers some minor adjustments to correct misclassifications and to improve the presentation of the financial statements.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council as the administering authority.

Findings

The Council has continued to increase its use of the Pension Fund Bank Account to include monthly reconciliations. However it is still not fully compliant with LGPS Regulations to use the separate account for all pensions transactions.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Executive Director for Resources and Regeneration.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

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04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Panel on 18 June 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix B.

We also propose to give an unqualified consistency with opinion on the financial statements in the Annual Report.

Audit findings against significant risks

"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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We have not been made aware of, not identified any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p>Level 3 Investments – Valuation is incorrect</p> <p>Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"> • We identified and walked through the controls put in place by management to ensure investments are not materially misstated at the year end. • For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • To review the nature and basis of estimated values. 	<p>We reviewed the HarbourVest listed equity valuation and also the audited accounts for each private equity fund to ensure reliance can be placed on the valuation of each private equity fund.</p> <p>We then reconciled from the audited accounts to the fair value, taking into accounts distributions and commitments. We have also performed a reconciliation between the Custodian, the general ledger and fund manager reports.</p> <p>Based on the work performed there are no matters arising which impact on the opinion.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Valuation is incorrect	<ul style="list-style-type: none"> • Walkthrough tests of controls on investments • Tested a sample of purchases and sales to confirm they are appropriate • Tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices. 	Our audit work has not identified any significant issues in relation to the risks identified
Contributions	Recorded contributions not correct.	<ul style="list-style-type: none"> • Walkthrough tests of controls on contributions • We rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified

Audit findings against other risks continued


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit payments	Benefits improperly calculated/claims liability understated	<ul style="list-style-type: none"> • Walkthrough tests of controls on benefits payable • Controls testing over, completeness, accuracy and occurrence of benefit payments, • 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. 	Our audit work has not identified any significant issues in relation to the risk identified
Member data	Member data not correct	<ul style="list-style-type: none"> • Walkthrough tests of controls on member data • Sample testing of changes to member data made during the year to source documentation 	Our audit work has not identified any significant issues in relation to the risk identified

Accounting policies, estimates & judgements


In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Accounting policies state that income is recognised on an accruals basis, as it falls due	We did not identify any issues with the revenue recognition policy or with the application of the policy	
Estimates and judgements	Key estimates and judgements concern the valuation of investments and the valuation of the pension fund liability	<p>We reviewed the valuation of investments and concluded that relevant estimates are reasonable</p> <p>We reviewed the pension fund liability for consistency with the actuary's report and concluded that it is fairly stated in the pension fund accounts.</p>	

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient
-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We are still awaiting a reply to our letter to the Chair of the Audit Panel
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review of disclosures did not identify any non-trivial omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from banks and investment brokers which supported the values of investments stated in the accounts
7.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for the risks identified as set out on pages 9-11 above.

The matters that we identified during the course of our audit are set out in the table below.

	Assessment	Issue and risk	Recommendations
1.	●	<ul style="list-style-type: none"> In last year's Audit Findings Report we commented that the Council has been increasing its use of the Pension Fund Bank Account, but is still not fully compliant with LGPS Regulations to use the separate account for all pensions transactions. The Council has continues to increase use of the separate bank account in 2014/15, to include monthly reconciliations. 	We note the position on the pension fund bank account for your information

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	67	Note 15 – Additional Voluntary Contributions	Omission from the Additional Voluntary Contributions note
2 Misclassification	138	Note 5 – Investment Analysis	Reclassification between investment income and cash
3 Misclassification	1,074	Note 4 – Investment income	Reclassification of fixed income
4 Disclosure	Various		We identified a number of minor arithmetic, consistency and typographical errors which management has agreed to correct. While none of these was individually significant they indicate some scope to improve quality control arrangements.
5 Misclassification	TBC	Note 5 – Investment analysis	We noted a misclassification between level 2 and level 3 investments, which is to be confirmed with council officers.
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Section 3: Fees, non-audit services and independence

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Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Pension fund scale fee	21,000	21,000
Total audit fees	21,000	21,000

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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Fees for other services

Service	Fees £
Audit related services	Nil
Non audit related services	Nil

Section 4: Communication of audit matters

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Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 Fund'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.

	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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendix : Audit opinion

We anticipate we will provide the Council with an unmodified audit report on the Pension Fund

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEWISHAM PENSION FUND

We have audited the pension fund financial statements of Lewisham Pension Fund for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Lewisham Pension Fund, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director for Resources and Regeneration and auditor

As explained more fully in the Statement of Responsibilities for the Statement of accounts, the Executive Director for Resources and Regeneration is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements: give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the annual report for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

September 2015



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