

# Audit plan

London Borough of Tower Hamlets Pension Fund

Audit 2011/12



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# Introduction

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**This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.**

## **Responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

My audit of the accounting statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

## **Financial statements and pension fund annual report**

Auditing standards require me to share my plan for the audit, including those areas viewed as highest risk, with the Council. I have therefore set out in this plan the audit risks and the approach I will take for my audit of the 2011/12 pension fund financial statements and my review of the annual report.

## **Fees**

The fee for the audit is £35,000, in line with the fee charged for 2010/11. The fee has not changed since it was originally communicated to the Council in March 2011.

## Other matters

The plan also sets out:

- the planned timetable and outputs for 2011/12 audit work; and
- the audit team and the arrangements to ensure its independence and the quality of the service provided.

# Accounting statements and Pension Fund Annual Report

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I will carry out the audit of the accounting statements included within the Authority's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair.

## Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

## Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the fund, including assessing its risk management arrangements;
- considering the financial performance of the fund;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the fund's information systems.

## Identification of risks

I have considered the risks that are relevant to the audit of the pension fund financial statements.

Table 1: **Audit risks**

Risk	Audit response
The quality assurance review of the Pension Fund financial statements prior to submission for audit does not identify all the matters it should.	I will undertake analytical and substantive testing procedures to gain assurance over the entries in the accounts.
Valuation of derivatives and misclassification of investments.	I will undertake substantive procedures on derivatives and investments to gain assurance over the entries in the accounts.
The Council opened a separate bank account for the pension fund in line with LGPS Regulations 2009. However, during the early part of 2011/12, some payments and receipts were still being processed through the Council's main bank account.	I will assess the Council's arrangements for identifying and posting payments and receipts processed through the main bank account. I will also assess the arrangements for establishing and reconciling the new pension fund bank account, and maintaining its operation in accordance with the regulations.

## Testing strategy

On the basis of the risks identified above, I will produce a testing strategy that will consist of testing of key controls and substantive tests of transaction streams and material account balances at the year end. I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2011/12, I plan to rely on:

- the work of other auditors with respect to fund managers and custodians; and
- the work of experts with respect to the actuarial valuation of pension fund assets and liabilities.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

## **Pension Fund Annual Report**

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

# Key milestones and deadlines

The pension fund is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by 30 September 2012.

Table 2: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	January to April 2012	Annual governance report
Opinion: receipt of draft pension fund financial statements and supporting working papers	June 2012	N/a
Opinion: substantive testing	June to September 2012	Annual governance report
Issue annual governance report	September 2012	Annual governance report
Issue opinion on the financial statements included in the statement of accounts and pension fund annual report	September 2012	Auditor's report



# The audit team

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The key members of the audit team for the 2011/12 audit are as follows.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	<a href="mailto:j-hayes@audit-commission.gov.uk">j-hayes@audit-commission.gov.uk</a> 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion, and liaison with the Chief Executive.
Sally-Anne Eldridge, Senior Audit Manager	<a href="mailto:s-eldridge@audit-commission.gov.uk">s-eldridge@audit-commission.gov.uk</a> 07815 954026	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director of Resources and the Interim Director of Finance.
Shona Milton Audit Manager	<a href="mailto:s-milton@audit-commission.gov.uk">s-milton@audit-commission.gov.uk</a> 07812 157709	Manages and coordinates the day to day delivery of the audit. Key point of contact for the Service Head, Corporate Finance and the finance team.

# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, the Council is unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

# Fees

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**The fee for the audit is £35,000, as set out in my letter of 17 March 2011.**

## **The audit fee**

The Audit Commission has set a scale audit fee of £35,000. The scale fee reflects the Audit Commission's decision not to increase fees in line with inflation.

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

## **Assumptions**

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Corporate Director of Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## **Specific actions you could take to reduce your audit fee**

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

# Appendix 1 – Independence and objectivity

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Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 4: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*

# Appendix 2 – Basis for fee

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## Assumptions

In setting the fee, I have assumed the following:

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the pension fund financial statements on which I can rely.
- The Authority provides:
  - good quality working papers and records to support the pension fund accounting statements and the text of the other information to be published with the statements by 30 June 2012;
  - the full text of the Pension Fund Annual Report by 30 June 2012;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

# Appendix 3 – Glossary

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## **Accounting statements**

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to the Audit Committee before the auditor issues their opinion.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Internal control**

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.



**Pension Fund Annual Report**

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

**Those charged with governance**

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Council and the Audit Committee.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

