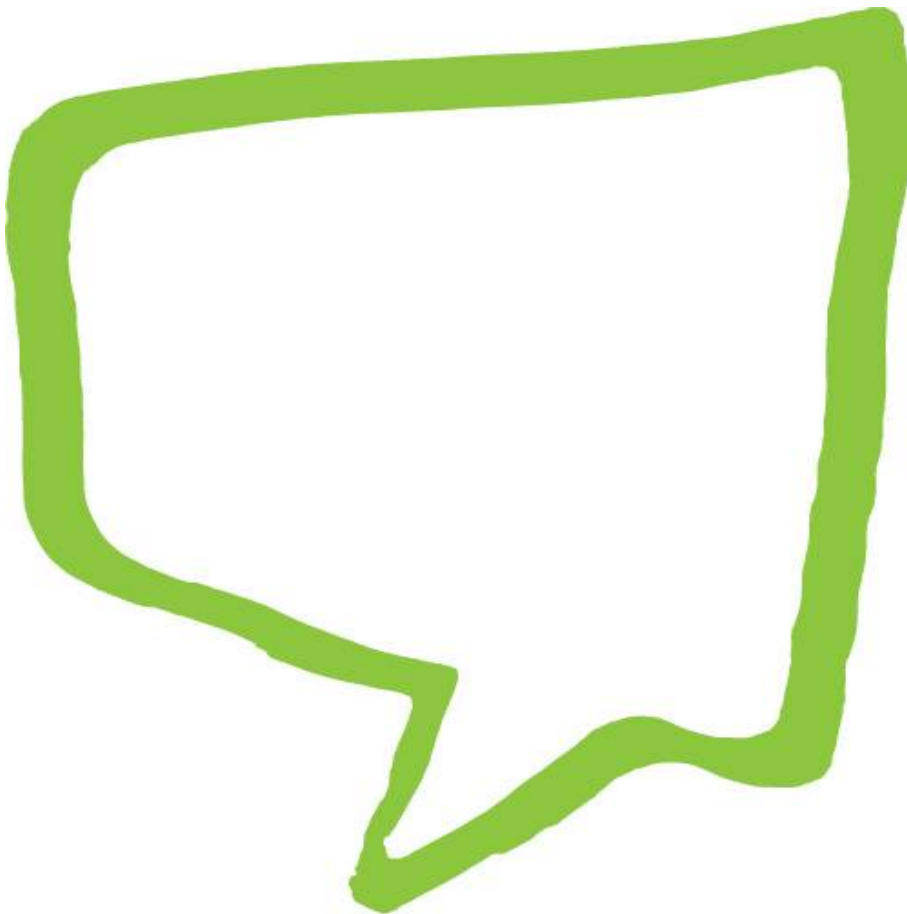


# Supplementary Opinion Plan

Tower Hamlets Pension Fund

Audit 2008/09

February 2009



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## **Status of our Reports**

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.
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# Introduction

- 1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 requires administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts, from 2008/09 onwards. The Audit Commission work programme and fee scales introduced separate fee scales for Local Government Pension Scheme (LGPS) audit work from 2008/09 to reflect the change.
- 2 The new arrangements mean that I have prepared a separate audit plan for the Tower Hamlets Pension Fund. I will discuss and agree this plan, and any reports arising from the audit, with those charged with the governance of the pension fund.
- 3 As the pension fund accounts remain part of the financial statements of the London Borough of Tower Hamlets as a whole, the Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

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## The fee

- 4 We are required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. As the initial audit plan was produced at the start of the financial year for fee purposes, it was not possible to specify these risks. We are now in a position to do this as the opinion work is about to commence. We are required to:
  - identify the risk of material misstatements in your accounts;
  - plan audit procedures to address these risks; and
  - ensure that the audit complies with all relevant auditing standards, including Practice Note 15<sup>1</sup>
- 5 We have therefore set out below our approach to identifying opinion audit risks and have considered the additional risks that are appropriate to the current opinion audit.
- 6 In my original audit plan, presented to the Audit Committee on 30 June 2008 the estimated fee for the Pension Fund opinion audit was based on my best estimate at the time and agreed at £38,000 as part of a total audit fee of £479,000.
- 7 I am satisfied that the original fee estimate for the opinion audit was appropriate and no adjustment is therefore required to the fee at this stage. However, I will keep the fee under review as the opinion audit progresses. If I need to amend the fee subsequently, I will first discuss it with you.

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<sup>1</sup> Auditing Practices Board Practice Note 15 'The Audit of Occupational Pension Schemes in the United Kingdom'.

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### Specific actions Tower Hamlets Pension Fund could take to reduce its audit fees

- 8 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Pension Fund could take and to provide ongoing audit support.

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### Process for agreeing any changes in audit fees

- 9 As set out at paragraph 8, we the initial risk assessment may change as the year progresses. Where this is the case, we will discuss this in the first instance with the Director of Resources. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

# Identifying opinion audit risks

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## Organisation level risks

- 10** As part of our audit risk identification process we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
  - considering the financial performance of the Pension Fund; and
  - assessing internal control - including reviewing the control environment, the IT control environment and internal audit.

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## Information system risks

- 11** To comply with ISA (UK&I) 315, we need to assess the risk of material misstatement arising from the activities and controls within the Pension Fund information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 12** Material systems are those which produce material figures in the annual financial statements. We have identified that the Pension Fund has five material systems. For these systems we need to demonstrate our understanding by documenting the following:
- how transactions are initiated, recorded, processed and reported in the financial statements;
  - the accounting records relevant to the transactions;
  - how the Pension Fund identifies and captures events and conditions which are material to the financial statements; and
  - the financial reporting process used to prepare the financial statements.

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## Assertions

- 13** When considering the risk of material misstatement we consider what the Director of Resources is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Pension Fund for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.

**14** These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that we have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:

- the Fund Account items;
- Net Assets Statement items; and
- disclosures and presentational elements of the financial statements.

# Identification of specific risks

15 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

**Table 1 Specific risks**  
Specific opinion risks identified

Risk Area	Assertions	Audit response
<p><b>Contributions</b> With effect from 1 April 2008 employees' contributions to the LGPS are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a considerable risk that contributions will not be being deducted and collected at the right rates.</p>	<p>Fund Account &amp; Disclosure</p> <ul style="list-style-type: none"> <li>• Accuracy.</li> <li>• Completeness.</li> </ul>	<p>We will review the systems that the Pension Fund has in place to ensure that all contributions (from all participating employers) are being collected at the right rates.</p>
<p><b>Investments</b> The volatility in world financial markets impacts upon the value of the Pension Fund's investments holdings. There are risks around accurate recording at the year end and the adequacy of funding levels.</p>	<p>Net Assets Statement</p> <ul style="list-style-type: none"> <li>• Valuation and allocation.</li> <li>• Rights and obligations.</li> <li>• Cut off.</li> </ul>	<p>We will review the Net Assets Statement and reconciliations to the Fund Manager and Custodian reports to ensure that investments are recorded correctly in 2008/09.</p>

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# Testing strategy

- 16** On the basis of risks identified above, we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 17** Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 18** Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early:
- review of accounting policies;
  - bank reconciliation;
  - year end feeder system reconciliations; and
  - transfer values.

Where other early testing is identified as being possible this will be discussed with officers.



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# Key milestones and deadlines

- 19** The Pension Fund is required to prepare the financial statements by 30 June 2009. We are required to complete our audit and issue our opinion by 30 September 2009. The key stages in the process of producing and auditing the financial statements are shown in Table 3.
- 20** We have provided a schedule of working papers required to support the entries in the financial statements.
- 21** We will meet with the key contact and review the status of all queries on a regular basis.

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**Table 2** Proposed timetable

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	February to April 2009
Receipt of accounts	No later than 30 June 2009
Forwarding of audit working papers to the auditor	No later than 30 June 2009
Start of detailed testing	TBA
Progress meetings	Weekly updates during the course of the post-statements audit
Present report to those charged with governance at the Audit committee	No later than 30 September 2009
Issue of opinion	By 30 September 2009

# The audit team

22 The key members of the audit team for the 2008/09 audit are shown in the table below.

**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 conclusion, and liaison with the Chief Executive.
Sharon Martin Senior Audit Manager	<a href="mailto:s-martin@audit-commission.gov.uk">s-martin@audit-commission.gov.uk</a> 07812 344672	Overall coordination of the different elements of audit work. Key point of contact for the Director of Resources.
Nicholas Beth Audit Manager	<a href="mailto:n-beth@audit-commission.gov.uk">n-beth@audit-commission.gov.uk</a> 020 7364 4784	Responsible for the day-to-day management of the audit. Key point of contact for the Head of Finance.

## Quality of service

- 23 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Les Kidner, London Head of Operations.
- 24 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

## The audit team

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### Planned outputs

**25** Reports will be discussed and agreed with the appropriate officers before being issued to the Pensions Committee.

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**Table 4**    **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	March 2009
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements	30 September 2009
Final accounts memorandum	30 November 2009

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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