

# Audit Opinion

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# Plan

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London Borough of Tower Hamlets Pension Fund

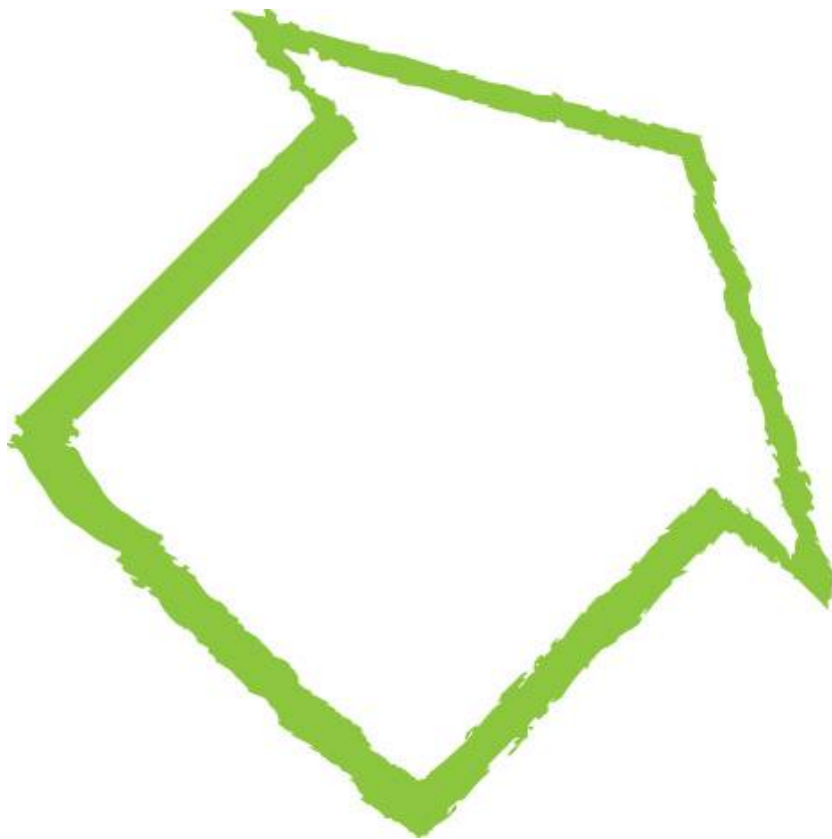
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Audit 2009/10

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March 2010

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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

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- 1 This plan sets out the audit work we propose to undertake in relation to the audit of financial statements for Tower Hamlets Pension Fund 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:
  - current national risks relevant to the Pension Fund's local circumstances; and
  - the Pension Fund's local risks.

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# Responsibilities

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- 2 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 every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.
- 5 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board Practice Note 15 on the audit of pension fund accounts.

# Fee for the audit of financial statements

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- 6 The indicative fee for the audit is £38,500, as indicated in my letter of 27 April 2009.
- 7 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the Pension Fund accounts is consistent with that for 2008/09;
  - officers will inform us of significant developments impacting on the audit
  - requested information will be provided within agreed timescales; and
  - good quality working papers will be supplied to support the entries in the financial statements.
- 8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

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

- 9 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 Council could take and to provide ongoing audit support.

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# Auditors report on the financial statements

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- 10 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 11 I am required to issue an audit report giving my opinion on whether the Pension Fund accounts give a true and fair view of the financial position of the Authority as at 31 March 2010.
- 12 I am also required to review the pension fund annual report as per the Local Government Pension Scheme (Administration) Regulations 2008.

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## Identifying opinion audit risks

- 13 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;
  - 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 Pension Fund information systems.

# Identification of specific risks

14 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	Audit response
<p><b>SORP Compliance</b></p> <p>The 2008/09 Pension Fund accounts did not comply with the SORP.</p> <p>In particular:</p> <ul style="list-style-type: none"> <li>• there was no reconciliation between the opening and closing value of investments;</li> <li>• the level of funding and commentary on the deficit was not disclosed; and</li> <li>• management expenses were not analysed.</li> </ul>	<p>Review the entries in the accounts against the SORP compliance checklist</p>
<p><b>Bank accounts</b></p> <p>In previous years the Pension Fund has not had a separate bank account from the Council. We have recommended that holding funds in a dedicated account would improve transparency and governance. Following new Pension Fund regulations coming into force on 1 January 2010, this will be a requirement from 1 April 2011.</p>	<p>Review progress in introducing a separate bank account and review Pension Fund bank reconciliation</p>
<p><b>Quality Assurance of accounts</b></p> <p>The 2008/09 financial statements contained significant errors which could have been identified by a robust quality assurance process.</p>	<p>Undertake analytical review and substantive testing procedures to gain assurance over the entries in the accounts.</p>

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# Testing strategy

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- 15 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.
- 16 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 17 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;
  - contributions;
  - year end feeder system reconciliations; and
  - related party disclosures.

Where other early testing is identified, this will be discussed with officers.



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# Key milestones and deadlines

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- 18 The Council is required to prepare the Pension Fund financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 19 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 20 Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

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**Table 2 Proposed timetable**

Task	Deadline
Control and early substantive testing	March 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to the auditor	30 June 2010
Start of detailed testing	July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	September 2010
Issue opinion	By 30 September 2010

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# The audit team

21 The key members of the audit team for the 2009/10 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.
Sally-Anne Eldridge Senior Audit Manager	<a href="mailto:s-eldridge@audit-commission.gov.uk">s-eldridge@audit-commission.gov.uk</a> 0844 798 2287	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and the Head of Pensions.
Shona Milton Audit Manager	<a href="mailto:s-milton@audit-commission.gov.uk">s-milton@audit-commission.gov.uk</a> 0207 364 4784	Manages day to day audit work. Key point of contact for corporate finance and pension fund team.
Grant Slessor Team Leader	<a href="mailto:g-slessor@audit-commission.gov.uk">g-slessor@audit-commission.gov.uk</a> 0207 364 4784	Manages the detailed audit work. Key point of contact for corporate finance and pension fund team.

## Independence and objectivity

- 22 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff
- 23 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 1.

## Meetings

- 24 The audit team will maintain knowledge of the issues affecting the audit of the Pension Fund financial statements through regular liaison with key officers.

## Quality of service

- 25 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 the District Auditor in the first instance. Alternatively you may wish to contact Les Kidner, the Head of Operations for London Region.

## The audit team

- 26 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.

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## Planned outputs

- 27 Reports will be discussed and agreed with the appropriate officers before being issued to the Pensions Committee and the Audit Committee.

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**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	March 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Final accounts memorandum	October 2010

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# Appendix 1 – Independence and objectivity

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- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into 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.

## Appendix 1 – Independence and objectivity

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
  - 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.
  - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
  - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of 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.
  - The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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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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