

# Audit plan

---

London Borough of Tower Hamlets Pension Fund

Audit 2010/11

**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.**

# Contents

<b>Introduction .....</b>	<b>2</b>
<b>Responsibilities .....</b>	<b>3</b>
<b>Fee for the audit .....</b>	<b>4</b>
Specific actions the Council could take to reduce the pension fund audit fees .....	4
<b>Auditors report on the financial statements.....</b>	<b>5</b>
Materiality .....	5
Identifying opinion audit risks.....	5
<b>Identification of specific opinion risks.....</b>	<b>6</b>
<b>Testing strategy .....</b>	<b>7</b>
<b>Key milestones and deadlines.....</b>	<b>8</b>
<b>The audit team.....</b>	<b>9</b>
Independence and objectivity .....	9
Meetings .....	9
Quality of service .....	10
Planned outputs.....	10
<b>Appendix 1 Basis for fee .....</b>	<b>11</b>
<b>Appendix 2 Independence and objectivity .....</b>	<b>12</b>
<b>Appendix 3 Working together .....</b>	<b>14</b>
<b>Appendix 4 Glossary .....</b>	<b>15</b>

# Introduction

**1** This plan sets out the audit work that I propose to undertake for my audit of the London Borough of Tower Hamlets Pension Fund's 2010/11 financial statements.

**2** The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to the Pension Fund's local circumstances; and
- the Pension Fund's local risks.

# Responsibilities

**3** 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.

**4** 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.

**5** I comply with the statutory requirements governing our audit work, in particular:

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

**6** 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

7 The fee for the financial statements audit is £35,000 as set out in my letter of 11 May 2010. Further detail is provided at appendix 1.

8 In setting the fee, I have assumed that:

- the level of risk in relation to Pension Fund financial statements is consistent with that for 2009/10; and
- good quality, accurate working papers are available at the start of the audit of the Pension Fund financial statements.

9 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, I will discuss this first with the Corporate Director of Resources and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

### **Specific actions the Council could take to reduce the pension fund audit fees**

10 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, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

# Auditors report on the financial statements

**11** 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).

**12** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Pension Fund as at 31 March 2011.

**13** I am also required to review the pension fund annual report, produced under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

## Materiality

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

## Identifying opinion audit risks

**15** I need to understand fully the audited body to identify any risk of material misstatement, whether due to fraud or error, in the Pension Fund financial statements. I do this by:

- identifying the business risks facing the Council and specifically the Pension Fund, including assessing your own 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 specific opinion risks

**16** I have considered the additional risks that are appropriate to the 2010/11 opinion audit and have set these out below.

Table 1:

Risk	Response
Poor quality assurance review of the Pension Fund financial statements prior to submission for audit.	I will undertake analytical and substantive testing procedures to gain assurance over the entries in the accounts.
My 2009/10 audit identified errors in the Councils accounting treatment of forward foreign exchange contracts and the classification of investments.	I will undertake substantive procedures on derivatives and investments to gain assurance over the entries in the accounts.
The Pension Fund is required under the LGPS Regulations 2009 to create a separate bank account for the Pension Fund by 1 April 2011.	I will monitor progress on the establishment of a separate bank account in meetings with key officers.



# Testing strategy

**17** On the basis of the risks identified above I will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at the year end.

**18** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**19** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- review of accounting policies;
- contributions;
- year-end feeder system reconciliations; and
- related party disclosures.

**20** Where I identify other possible early testing, I will discuss it with officers. Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

## Key milestones and deadlines

**21** The Council is required to prepare the Pension Fund financial statements by 30 June 2011. I am required to complete the audit and issue the opinion by 30 September 2011.

**22** The key stages in producing and auditing the financial statements are in table 2.

**23** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers and adequate responses to my audit queries.

**24** Every week, during the audit, the audit team will meet with the Chief Accountant and review the status of all queries. The meeting frequency will be varied depending on the need and the number of issues arising.

---

Table 2: **Proposed timetable**

Activity	Date
Controls and early substantive testing	January - April 2011
Receipt of accounts	30 June 2011
Audit working papers available	30 June 2011
Start of detailed testing	4 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	TBC
Issue opinion	By 30 September 2011

# The audit team

25 Table 3 shows the key members of the audit team for the 2010/11 audit.

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.
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 objectivity

26 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

27 I 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 2.

## Meetings

28 The audit team will ensure we have knowledge of the issues affecting the audit of the Pension Fund financial statements to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

## Quality of service

29 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, 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.

30 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).

## Planned outputs

31 My team will discuss and agree reports with officers before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	To be presented to the September Audit Committee
Auditor's report giving an opinion on the Pension Fund financial statements	By 30 September 2011
Final accounts memorandum	November 2011

## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council's Pension Fund with reference to the following.

- My cumulative knowledge of the Council and its Pension Fund:
  - planning guidance issued by the Audit Commission; and
  - the specific results of previous and ongoing audit work.
- Interviews with Council officers, especially those involved in the audit of the Pension Fund.
- Liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed the following.

- The level of risk in relation to the audit of the Pension Fund financial statements is not significantly different from that identified for 2009/10.
- You will inform me of significant developments impacting on the audit.
- Internal Audit meets the appropriate professional standards.
- Internal Audit undertakes appropriate work on systems that provide material figures in the Pension Fund financial statements sufficient that I can place reliance for the purposes of our audit.
- You provide:
  - good quality working papers and records to support the Pension Fund financial statements by 30 June 2011;
  - information asked for within agreed timescales; and
  - prompt responses to draft reports.

## Appendix 2 Independence and objectivity

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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

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.

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.

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.

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 seven years, with additional safeguards in the last two 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.

## Appendix 3 Working together

### Meetings

My proposal for regular meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Audit Committee	District Auditor and Senior Audit Manager, with Audit Manager as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> <li>■ Audit plan;</li> <li>■ Annual governance report; and</li> <li>■ other issues as appropriate.</li> </ul>
Chief Executive and Corporate Director of Resources	District Auditor and Senior Audit Manager	Quarterly	General update plus: <ul style="list-style-type: none"> <li>■ November - annual audit letter.</li> </ul>
Service Head (Corporate Finance), Head of Internal Audit, Chief Accountant	Senior Audit Manager and Audit Manager	Monthly	General update plus: <ul style="list-style-type: none"> <li>■ March - audit plan;</li> <li>■ July - accounts progress; and</li> <li>■ September - annual governance report.</li> </ul>
Chief Accountant	Audit Manager and Team Leader	As required	Update on audit issues.

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce the audit's impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.



## Appendix 4 Glossary

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with 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, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

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

The body responsible in the UK for issuing auditing standards, ethical standards and other 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, which contain basic principles and essential procedures with which auditors are required to 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.

### **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 that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial 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 is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as ‘those persons entrusted with the supervision, control and direction of an entity’.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946