

London Borough of Bromley Pension Fund: 2009/10 Audit Plan



Audit Sub-Committee
London Borough of Bromley Pension Fund
Bromley Civic Centre
Stockwell Road
Bromley
BR1 3UH

March 2010

Ladies and Gentlemen,

We are pleased to present to you our 2009/10 Audit Plan for the audit of the London Borough of Bromley Pension Fund, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality.

We would like to thank members and officers of the Council for their help in putting together this Plan.

As well as presenting the Plan to you we propose to share its main elements with the Investment Sub Committee at the Council, to ensure that all of those responsible for the governance of the Pension Fund are aware of our audit work plan. If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Janet Dawson or Stuart Brown.

Yours faithfully,

PricewaterhouseCoopers LLP

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In April 2008 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Introduction

The purpose of this Plan

Our Audit Plan has been prepared to inform those responsible for the governance of London Borough of Bromley Pension Fund (the Fund) about our responsibilities as the external auditors of London Borough of Bromley and how we plan to discharge them.

Bromley Council (the Council) acts as the administering authority for the Fund, and as such is accountable for the stewardship of the funds. The responsibility for this stewardship is discharged by the Members of the Investment Sub Committee.

Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

Our reports follow the Audit Commission's Statement of Responsibilities for Auditors and of Audited bodies. Although reports may be addressed to officers or members of the Council, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

Reporting responsibilities

To discharge our responsibility to report to those responsible for the governance of the Fund we propose to present any detailed reports to the Investment Sub Committee and the Audit Sub Committee, where appropriate. We hope to attend the Investment Sub Committee meeting in May 2010

where we will discuss the areas within this plan. We will also include a summary of the main issues in our plans and reports to the Council, as the administering authority of the Fund.

Planning of our audit

The London Borough of Bromley Pension Fund had a deficit of £82 million (equivalent to 81% funded) at the last triennial valuation (31 March 2007). The actuary's view at that time was that the scheme was likely to meet its liabilities in the normal course of events and in the 2008/09 accounts the Council reported that it estimated that the liability could be repaid within 12 years.

The Council is due to obtain an up to date fund valuation at 31st March 2010.

We have considered the valuation of the Fund and its operations and have assessed the extent to which we believe there are potential Fund and audit risks that need to be addressed by our audit. We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements. We have considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance.

Risk assessment

Current Developments	Audit approach
<p>Valuation of the Fund</p> <p>The Council is due to obtain an up to date fund valuation at 31st March 2010. Due to the recent significant fluctuations in the market value of investments there is an increased risk that the assumptions that underpin the latest valuation are no longer reasonable.</p>	<p>As part of our audit we will review the assumptions used in the actuarial valuation of the Fund and consider the extent to which these are still reasonable, given the unexpected economic downturn since the last triennial valuation. We will compare these assumptions with our database of expected assumptions and the impact on the liability of any change in these assumptions.</p> <p>We will seek representation from those charged with governance on any significant matters of judgement.</p>
<p>Valuation of investments</p> <p>The current volatility of stock markets will impact on the valuation of investments at the end of the year and on the net assets of the fund. It is also possible that there may be significant movements in investment values between the end of year and the reporting date.</p> <p>Given the continuing turbulence in the investment markets an issue may also arise where actuaries use estimates for returns on assets based on trends before the year-end. Officers will need to ensure that out-of-date figures are identified and corrected.</p>	<p>As part of our planning work we will update our understanding of the controls and procedures in place around the monitoring of investment performance, investment decisions and compliance with the Statement of Investment Principles. We will understand the environment in which Officers control and validate the asset values provided by investment managers including those not quoted, not actively traded or where no market exists.</p> <p>We will send investment confirmations to fund managers to obtain an independent valuation of the fund's assets. We will also review the investment valuations at the date our audit opinion is issued and evaluate the impact of any material difference in valuation and consider whether there is a need for disclosure of post balance sheet events (PBSE) in either the accounts or the annual report.</p>

Current Developments	Audit approach
<p>Reliance on controls within asset managers</p> <p>The Council's Pension Fund Investment Managers operate within agreed parameters and their performance is reviewed by the Investment Sub Committee. Due to the significant fluctuations in investment values that the Pension Fund has experienced over the past 18 months, and the impact this has had on a number of financial institutions, it is important that the Council satisfies itself that the controls in place at its fund managers are robust.</p> <p>Recent Management and Investment of Funds Regulations stipulate that Officers must review the investments and the performance of investment managers at least every three months.</p>	<p>We will update our understanding the Council's investment governance arrangements and in particular how it satisfies itself that fund managers comply with the parameters and instructions set by the Council and that the risks associated with some of the more complex or alternative investments are being appropriately managed.</p> <p>We will seek to obtain and review AAF1 or SAS 70 reports for each Fund Manager which provides an independent opinion on the controls operating at the relevant fund managers.</p> <p>Following completion of the above we will assess whether there is need for additional assurance as part of our approach to the accounts.</p>
<p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, SI 2009/3093</p> <p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, SI 2009/3093, were laid before Parliament on 1 December 2009 and came into force on 1 January 2010.</p> <p>These Regulations have been updated during the year. The existing equivalent regulations, the 1998 Regulations, have been subject to numerous amendments since, and users have asked for them to be updated and (where appropriate) clarified. Three more substantive changes have also been made:</p> <p>1) New regulation 3(4) will revoke a longstanding provision – regulation 3(4) - which allows an administering authority to use money from its pension fund for any purpose for which it has a statutory right to borrow. Accordingly, new regulation 3(4) now provides that from 1st April 2010 such use will no longer count as an investment for the purposes of these Regulations.</p> <p>2) Regulation 5 gives administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cash flow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid on time and in transition management situations when the allocation of a pension fund's assets is being changed.</p> <p>3) Regulation 6 introduces a new requirement for each pension fund to have, by 1 April 2011, a bank account which is separate from any which the</p>	<p>We will discuss the impact of the changes in the regulations with management and review the actions taken to ensure compliance with the new regulations and that the relevant timescales have been met.</p> <p>The Fund does not currently have a separate bank account and the Council will therefore need to put these arrangements in place prior to 1 April 2011.</p>

Current Developments	Audit approach
<p>administering authority has in its capacity as a local authority. This change is being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a longstanding Audit Commission view on best practice.</p>	

We have also identified the following issues that are impacting on a number of London Borough Pension Funds that we will consider during the audit and perform additional procedures as necessary:

- **Disclosure and the Annual Report** – This is the second year that the Council has been required to produce a separate annual report. Since the last Annual Report Department of Communities and Local Government guidance has been produced which provides a general framework within which Funds are to operate and although not prescriptive officers must have regard to it when preparing the Annual Report. Much of the guidance reiterates the requirements of the Regulations although there is significantly more detail. Some aspects of this guidance are well understood, however, others such as the communications strategy are still developing. We will consider whether the Annual Report gives a balanced and objective view of the Pension Fund that is understandable by members of the Fund.
- **New Look Local Government Pension Scheme (LGPS) and future developments** - The LGPS was updated from 1 April 2008 to reflect the work patterns and needs of a modern workforce, and to ensure that the New Look LGPS is affordable whilst still providing an excellent level of pension benefits. The media spotlight has been trained on pensions in general and specifically on the decline in the number of private sector schemes still offering defined benefits. Therefore there is continuing speculation over whether the local government pension scheme, in its current form, is sustainable. We will continue to monitor developments in this area and will discuss any developments with officers as they arise.

Our approach to the audit

Code of Audit Practice

Under the Code we are responsible for the audit of the financial statements of the Fund. That involves

- Expressing our opinion on the financial statements of the Fund as they appear in the Statement of Accounts of Bromley Council; and
- Reviewing the accounts that appear in the Annual Report of the Fund, to give a view as to whether they are consistent with the Statement of Accounts.

Accounts

Our audit of the Authority's accounts, including the Pension Fund, is carried out in accordance with our Accounts Code objective. We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Fund. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of the operation of the fund and is risk-driven. It first identifies and then

concentrates resources on areas of higher risk.

We will take a substantive approach to our audit, and although we will understand and evaluate the controls you have in place over the Pension Fund we will not seek to place reliance on these controls. Our year end work will focus on gaining assurance over the figures included within the Pension Fund Financial Statements.

We will consider the work performed by internal audit on the Pension Fund to allow us to understand the impact of their findings on our planned approach.

Materiality

Determining materiality is a matter of professional judgement and includes consideration of both the amount and nature of transactions. We apply a method to calculating materiality, based on 1% of turnover (pension contributions and investment income). However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements. The final assessment as to what comprises a material error in the financial statements is a matter of judgement based on relevant auditing standards and guidance.

Our team and independence

Audit Team	Responsibilities
Engagement Partner <i>Janet Dawson</i> 0207 213 5244 <i>janet.r.dawson@uk.pwc.com</i>	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Report to those charged with Governance and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Senior Manger <i>Stuart Brown</i> 0207 804 7581 <i>stuart.brown@uk.pwc.com</i>	Senior Manager responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Report to those charged with Governance and Annual Audit Letter.
Audit Manager: Pension Fund <i>Penny Flint</i> 0207 804 6055 <i>penny.l.flint@uk.pwc.com</i>	Specialist Pensions Manager responsible for managing our audit work on the Pension Fund Accounts and Annual Report. Penny works in PwC's specialist Pensions Audit team and will bring the required skills and experience needed to manage the audit of a complex pension fund.

Audit Team	Responsibilities
Audit Manager: Accounts <i>Bridie Tooher</i> 0207 213 2538 <i>bridie.c.tooher@uk.pwc.com</i>	Manager responsible for managing our accounts work, including the audit of the statement of accounts, and governance issues. Bridie will coordinate the overlapping work between the main accounts and pension fund audits.

Our team members

It is our intention that wherever possible staff work on the Pension Fund audit each year, developing effective relationships and an in depth understanding of your operations. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who as a director for another audit or advisory client of the firm should notify us, so that we can appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

We plan with those charged with governance the form and timing of communications with them. We have assumed that ‘those charged with governance’ for the Pension Fund are the members of Investment Sub Committee.

We have not previously attended an Investment Sub Committee meeting at the Council but we hope to be able to do this during the year to discuss the work that we are planning to undertake in respect of the Pension Fund Accounts and Annual Report.

In 2008/09 the Pension Fund was required to produce a separate Annual Report for the first time. As last year was the first year of producing the Annual Report we audited this during the autumn and issued our opinion in November 2009, this also delayed us issuing our completion certificate until this time. As we have discussed with you we hope to be able to audit the Pension Fund Accounts and Annual Report together during the final audit period which commences on 5 July 2010. This will enable us to issue the opinion on the Pension Fund Accounts and Annual Report with the opinion on the Financial Statements, including the completion of the audit certificate.

The following table sets out the outputs that will be presented to you in respect of the Pension Fund:

Stage of the audit		Timing
Audit planning	Audit Plan for the Fund to the Audit Sub Committee	23 March 2010
	Audit Plan for the Fund to the Investment Sub Committee	May 2010
Final audit	ISA 260 Report to those charged with Governance	September 2010
Final audit	Opinion on the Financial Statements of the Fund	September 2010
Final audit	‘Consistent with’ opinion on the accounts in the annual report	September 2010
Audit Reports	<p>Annual Audit Letter to the Council which will incorporate specific comment on the Fund, including matters such as:</p> <ul style="list-style-type: none"> Any expected modifications to the audit report Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust Material weaknesses in the accounting and internal control systems of the Fund identified as part of the audit Our views about the qualitative aspects of your accounting practices and financial reporting Any other relevant matters of governance interest 	November 2010

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for pension funds for the 2009/10 financial year, which depends upon their scale and complexity. In your case, the indicative fee for the audit of the Fund is £38,500 (£38,000 in 2008/09).

As our work at the Fund is now regarded by the Audit Commission as a separate audit, we are required to report the fee directly to those charged with governance of the pension fund.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- The Pension Fund Annual Report is available to audit within the agreed timescales being available on a timely basis;

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to London Borough of Bromley and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are five further matters which are not currently included within the guidance, but our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee

that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material

events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Freedom of Information Act

In the event that, pursuant to a request which the audited body has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The audited body agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the audited body shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the audited body discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

In the event that, pursuant to a request which London Borough of Bromley has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. London Borough of Bromley agrees to pay due regard to any representations which PwC may make in connection with such disclosure and [insert client's name] shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, London Borough of Bromley discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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