

Government and Public Sector

London Borough of Bromley

Pension Fund: 2010/11 Audit Plan

April 2011

Audit Sub-Committee
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Ladies and Gentlemen,

We are pleased to present to you our 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. Our approach is responsive to the many changes affecting the London Borough of Bromley Pension Fund.

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 Pensions Investment Sub Committee to ensure that all of those responsible for the governance of the Fund are aware of our work programme. 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 March 2010 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 and on the Audit Commission's [website](#).

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 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 the London Borough of Bromley Pension Fund (the Fund) about our responsibilities as the external auditors of London Borough of Bromley Pension Fund and how we plan to discharge them.

We issued our audit fee letter, setting out our indicative fees for 2010/11, on 25th March 2010 in accordance with Audit Commission requirements. This plan sets out in more detail our proposed audit approach for the year.

The London Borough of Bromley 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 on a day to day basis by the Members of the Pensions Investment Sub Committee Pension Panel. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our plan has been drawn up to consider the impact of these developments and risks.

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

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission's [website](#).

Reporting responsibilities

To discharge our responsibility to report to those responsible for the governance of the Fund we propose to present any reports to the Pensions Investment Sub Committee.

Risk assessment

Planning of our audit

We have considered the Fund's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate those risks. Based on the assessment we have scoped our core work in each of those 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. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Fund and our response to those risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, and the work of internal audit, if applicable.

Risk assessment results

The following table summarise the results of our risk assessment and our planned response.

Risks	Audit approach
Significant Risks	
Management Override of Controls <p>In any organisation, management may be in a position to override the financial controls that you have in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this significant risk and adapt our audit procedures accordingly.</p> <p>For the audit of the Fund the key area of risk of management override of controls that we have identified is around the benefits payments process.</p>	<p>We will review the controls around benefits payments and perform substantive tests on all material benefit balances, in addition to this we also performed analytical review on pensions in payment.</p> <p>In addition we will understand and evaluate internal control processes and procedures as part of our planning work.</p> <p>We will also undertake substantive testing of other management override of controls risks, including journals and management estimates as part of our final audit procedures.</p>
Elevated risks	
Valuation of more difficult to value / less liquid investments <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>We will understand the controls and procedures around the monitoring of investments, including reviewing management's minutes to ascertain/confirm the monitoring process, and their consideration of the impact of recent market volatility and compliance with the Fund's Statement of Investment Principles.</p> <p>We will understand the environment in which management 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 available up to the date of our audit opinion and evaluate the impact of any additional information these provide on fair values as at 31 March 2011.</p> <p>We will obtain an independent confirmation from the investment custodian and from the fund managers, to verify existence of the investments.</p>
Reliance on controls within asset managers <p>The Council's Pension Fund Investment Managers operate within agreed parameters and their performance is reviewed by the Director of Resources. Recent events at other authorities have highlighted the importance of the Council satisfying itself that the controls in place at its fund managers are robust.</p>	<p>We will understand and evaluate how the Council satisfies itself that controls within the Fund's asset managers are operating effectively and that they comply with the parameters and instructions set by the Council.</p> <p>We will seek to obtain and review AAF01/06 or SAS 70 reports for each</p>

Risks	Audit approach
<p>Job losses/early retirements in the public sector</p> <p>We understand that there are a number of significant structural changes occurring within the Council, which will involve a number of potential redundancies. This represents a significant additional workload for the Fund.</p> <p>Whilst the process of making calculations for employees leaving employment is not new, there is an increased potential for errors given that the resources available for managing the Fund are unchanged.</p>	<p>Fund Manager which provides an independent opinion on the controls operating at fund managers. We will assess whether there is need for additional assurance as part of our approach to the accounts.</p> <p>We will discuss arrangements to meet the additional workload with management and review the effectiveness of controls operating over employees leaving employment.</p>

Our approach to the audit

Code of Audit Practice

Under the Audit Commission's Code we will carry out an audit of the financial statements of the Fund. This audit will involve:

- Expressing our opinion on the financial statements of the Fund as they appear in the Statement of Accounts of the London Borough of Bromley; 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 Council's accounts, including the Pension Fund, is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2010/11 accounts.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. 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 a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Fund. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment. We do not plan to place reliance on any of the controls in place over the pension fund systems and processes. Our audit approach will be fully substantive, which includes the detailed testing of transactions and balances and suitable analytical procedures.

In undertaking our work we will take due account of the Auditing Practices Board Practice Note 15.

We work closely with Internal Audit and ensure that a continuous dialogue is maintained throughout the year. We receive copies of all relevant internal audit reports and meet with Internal Audit periodically to understand the findings of their work. Though we do not expect to place reliance on the work of Internal Audit we use their findings to assist in the focus of our external audit work.

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 the level of contributions, benefits and fund assets. We will confirm the level of materiality used in our audit findings report. 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 Janet Dawson – third year on the engagement 0207 213 5244 janet.r.dawson@uk.pwc.com	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report 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 Stuart Brown – third year on the engagement 0207 804 7581 stuart.brown@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.
Audit Manager: Accounts Matthew Williams – second year on the engagement 0207 212 5290 matthew.w.williams@uk.pwc.com	Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance issues.
Audit Manager: Financial statements – Pension Fund Alicia Noble Tel: 0207 212 3608 alicia.j.noble@uk.pwc.com	Manager on the assignment responsible for managing our financial statements work, including the audit of the financial statements in respect of the Fund.

Our team members

It is our intention that staff work on the London Borough of Bromley Pension Fund audit each year, developing effective relationships and an in depth understanding of your business. 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 also act as director for another audit or advisory client of the firm should notify us, so that we can put 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' are the members of the Pensions Investment Sub Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Pensions Investment Sub Committee with the outputs of our audit. We will also take the pension fund

Stage of the audit	Output	Date
Audit planning	Pension Fund Audit Fee letter	March 2010
	Final Audit Plan for the Fund	April 2011
Audit findings	ISA (UK&I) 260 report to the Council which will incorporate specific comment on the Fund, including: <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 identified as part of the audit• Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures.• Any significant difficulties encountered by us during the audit;• Any significant matters discussed, or subject to correspondence with, Management; and• Any other significant matters relevant to the financial reporting process..	September 2011
Audit reports	Opinion on the Financial Statements of the Fund	September 2011
	'Consistent with' opinion on the accounts in the annual report	September 2011
Other public reports	Annual Audit Letter to the Council which will incorporate specific comment on the Fund A brief summary report of our work, produced for Members and to be available to the public.	November 2011

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Pension Funds for the 2010/11 financial year, which depend upon their scale and complexity. In your case, the calculated audit fee is £35,000. The table below sets out the fee for both 2010/11 and 2009/10.

	2010/11	2009/10
Statement of Accounts and Annual Report	£35,000	£35,000
Total	£35,000	£35,000

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; and
- The separate Pension Fund Annual Report 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.

Appendices

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to the London Borough of Bromley Pension Fund 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 which 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, NE1 8HW, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6RH. 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 (revised) 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 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 London Borough of Bromley 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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