

## Audit Approach Memorandum

London Borough of Haringey Pension Fund

For the year ended 31 March 2010

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To the Audit Committee of London Borough of Haringey Pension Fund.

We are pleased to be engaged to perform the audit of London Borough of Haringey Pension Fund for the year ended 31 March 2010. This memorandum highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention. This memorandum has been prepared on the basis of the limitations set out in 'The small print'.

We look forward to working with you during the course of the audit.

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This memorandum has been prepared for the benefit of discussion between Grant Thornton and the Audit Committee of London Borough of Haringey Pension Fund.

**Chartered Accountants**

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# 1 Our audit approach

## 1.1 Engagement objectives

Our engagement objectives are as follows:

- to audit the financial statements of London Borough of Haringey Pension Fund
- to produce a concise and constructive report of key issues to the Pension Fund (ISA 260 letter)
- to draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

## 1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently with the minimum of disruption to the Pension Fund's staff.

In summary our audit strategy comprises:

- updating our understanding of the operation of the Fund through discussions with management
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the highest risk areas of the financial statements

- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing appropriate audit procedures
- reviewing the adequacy of material disclosures in the financial statements
- verifying all material net asset accounts and performing analytical review of income and expenditure streams.

## 1.3 Identified high risk areas

Our audit approach in respect of high risk areas will concentrate on the following:

- the existence and valuation of investments
- the completeness and accuracy of contributions
- the completeness, accuracy and validity of benefits

These are further detailed in table 2.1

## 1.4 Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements. These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example, non-compliance with the Statement of Recommended Practice ("SORP"). An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

### **1.5 Internal controls**

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures and, where appropriate, systems walkthroughs. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

### **1.6 Reliance on internal audit**

We will work with the internal audit function to ensure our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the internal audit function.

### **1.7 Audit of IT and outsourced systems**

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Pension Fund's internal controls in the information technology (IT) environment.

## 2 Key audit issues and financial reporting matters

We will report to you the findings from our work, and the conclusions in respect of each of the risks that we have identified in our ISA 260 letter.

### 2.1 Key audit issues

Issue	Audit approach
Investments - valuation	<ul style="list-style-type: none"> <li>• obtain direct confirmations from the individual fund managers</li> <li>• agreement of the custodians' confirmations to the portfolio valuations produced by the fund managers</li> <li>• obtain independent confirmation of market prices for a sample of investment holdings using providers such as Bloomberg</li> </ul>
Investments - existence	<ul style="list-style-type: none"> <li>• obtain direct confirmation from the global custodian as to holdings which the fund managers hold on behalf of the Fund</li> </ul>
Contributions - completeness and accuracy	<ul style="list-style-type: none"> <li>• obtain confirmation from the admitted and scheduled bodies of the amounts and timing of contribution payments</li> <li>• checks that pension contribution deductions are calculated and paid over correctly for a sample of individuals</li> <li>• estimating total contributions with reference to pensionable salaries, average numbers of members, and average contributions rates and comparing to contributions receivable disclosed in the accounts</li> <li>• reviewing contributions received on a monthly basis to ensure any unusual trends are satisfactorily explained.</li> </ul>
Benefits - completeness	<ul style="list-style-type: none"> <li>• rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year</li> <li>• compare pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained</li> <li>• comparison of membership movements to transactions in the accounting records</li> </ul>
Benefits - accuracy and validity	<ul style="list-style-type: none"> <li>• for each benefit type, select a sample of transactions and agree to supporting documentation maintain on individual member files</li> </ul>

## 2.2 Financial reporting matters

Issue	Audit approach
Ensure compliance with the Pensions SORP, as applicable to LGPS	<ul style="list-style-type: none"> <li>the accounts are checked with reference to the SORP disclosure checklist</li> </ul>

Our audit last year identified certain matters which were reported to you, and are summarised below. Following our initial discussions with Nicola Webb and John Nnochiri from the Treasury team, we indicate how these have developed in the year. We will provide an update on these points in our ISA 260 letter at the end of the audit.

## 2.3 Update on previous period's detailed findings

Audit issue	Management response
In the light of impending changes to legislation, consider appropriateness of using shared bank accounts	Since January 2010, a Money Market Deposit account facility has been set-up which ensures that surplus monies relating to the pension fund held in the general funds of the Administering Authority are moved to a separate designated account. The title of this accounts remains in the name of the Administering Authority.
From time to time, contributions are received later than required by regulations.	Occasional delays still occur, but none that are considered material in the context of the Fund as whole, nor indicative of a long term underlying problem.

## 2.4 Update on previous period's financial reporting matters

Issue	Response
The revised SORP for pension funds was adopted for the first time for the year ended 31 March 2009. No issues noted.	Accounting standards for pension funds have remained unchanged from the prior year. No issues expected.

## 3 Logistics

### 3.1 Information required

The information required from management during the course of the audit will be supplied in due course.

### 3.2 Timetables and milestones

The following proposed timetable highlights the key dates of the audit process:

<b>Event</b>	<b>Date</b>
Planning meeting with management	12 May 2010
Commence fieldwork	19 July 2010
Manager visit to review work	28 July 2010
Partner to review work	18 August 2010
Issue draft ISA260 letter for management review	25 August 2010
Audit clearance	6 September 2010
Issue final ISA 260 letter	6 September 2010
Pension Committee meeting to discuss audit findings	16 September 2010

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

### 3.3 Engagement team

Overall responsibility for signing the audited financial statements rests with Paul Dossett. Our engagement team for the pension element of the audit includes:

<b>Name</b>	<b>Role</b>	<b>Contact details</b>
Subarna Banerjee	Engagement director	T: 01908 359 647 E: subarna.banerjee@gtuk.com
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Following Martin Grundy's recent departure from Grant Thornton, Subarna Banerjee has been selected to take on the role of engagement lead for the pension element of the audit.



### 3.4 Fees

Our fee estimate for the audit of the Fund, which is exclusive of VAT, is £35,000. This is based on the guidance recently issued by the Audit Commission for setting Local Government Pension Schemes fees. This represents a reduction in fees of £3,500 from previous years.

We have proposed this fee on the basis that:

- draft accounts are presented to us by 19 July 2010 for audit, subject only to routine audit adjustments
- a trial balance, and supporting schedules for all figures in the accounts are supplied by the agreed dates
- all books and records are made available to us
- your staff are available to help us locate information and to provide explanations.

Our ability to deliver to the agreed timetable and fee will depend upon this. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

Any work outside the scope of this proposal will be billed separately after discussion with you.

### 3.5 Billing and payment schedule

Our proposed schedule is as follows:

<b>Billing date</b>	<b>£</b>
By 30 June 2010	5,000
By 31 July 2010	20,000
By 31 August 2010	5,000
By 30 September 2010	5,000

Fee notes are payable within 30 days of receipt

## 4 The small print

### Engagement terms

Our engagement will be carried out in accordance with the Audit Commission's Code of Practice on auditing and the statement of responsibilities which sets out the roles of audited bodies and of auditors.

### Ethical standards

We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

### Communication of adverse or unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the Council. Such communication will be made either informally or via our ISA 260 letter.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with management and documented for the Pension Committee's consideration.

### Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council, which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton UK LLP also conducts internal quality reviews of engagements.

We would be happy to discuss further the firm's approach to quality assurance.

### Independence and robustness

To maintain our independence as auditors we ensure that:

- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Pension Fund
- our fees paid by the Pension Fund do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

### Audit and non-audit services

Other than the audit of the Pension Fund, no other services have been provided to the Fund during the course of the year.

### Communication with those charged with Governance

Communication with those charged with governance is an essential element of the audit. We will discuss with the Pension Committee the scope of our work in advance. We propose that we meet with them following the conclusion of our procedures in order to communicate the matters arising

We would also be interested to hear if there are other matters that the Pension Committee would like us to address and to understand more fully the Committee's expectations and

requirements from the audit process.

### Roles and responsibilities

The Pension Committee is responsible for the preparation of the financial statements which show a true and fair view of the Pension Fund's affairs and for making available to us all the information and explanations we consider necessary.

Legislation requires that the Pension Fund maintains such books and records as will be sufficient to show the nature of all transactions and disclose, at any time, the financial position of the Pension Fund.

The Pension Fund's management is responsible for:

- the identification, assessment, management and monitoring of risk
- developing, operating and monitoring the system of internal control
- providing assurance to the Board that this has been done.

The Audit Committee is required to review the Pension Fund's internal financial controls. In addition, the Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk. The Audit Committee should receive reports from management as to the effectiveness of the systems they have established, as well as the conclusions of any testing conducted by internal audit.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected



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