

SUPPLEMENTARY AGENDA

AUDIT AND STANDARDS COMMITTEE

Wednesday, 16 January 2019

Agenda Item 5. External Audit Plan 2018/19 (Pages 1 - 17)

Pension Fund

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LONDON BOROUGH OF BARKING AND DAGENHAM PENSION FUND

AUDIT PLAN

Audit for the year ending 31 March 2019

31 December 2018

IDEAS | PEOPLE | TRUST



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WELCOME

PURPOSE AND USE OF OUR REPORT

We have pleasure in presenting our Audit Plan to the Audit and Standards Committee. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2019 in respect of our audit of the financial statements; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

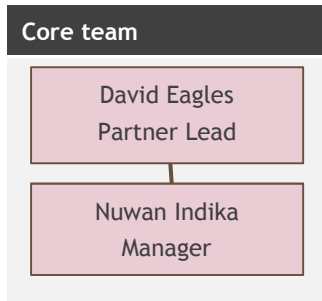
We look forward to discussing this plan with you at the Audit and Standards Committee meeting on 16 January 2019 and to receiving your input on the scope and approach.

In the meantime, if you would like to discuss any aspects in advance of the meeting please contact one of the team.

This report has been prepared solely for the use of the Audit and Standards Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.



YOUR BDO TEAM



Name	Contact details	Key responsibilities
David Eagles Engagement Lead	Tel: 01473 320728 David.Eagles@bdo.co.uk	Oversee the audit and sign the audit report
Nuwan Indika Project Manager	Tel: 01473 320807 Nuwan.Indika@bdo.co.uk	Management of the audit

David Eagles is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

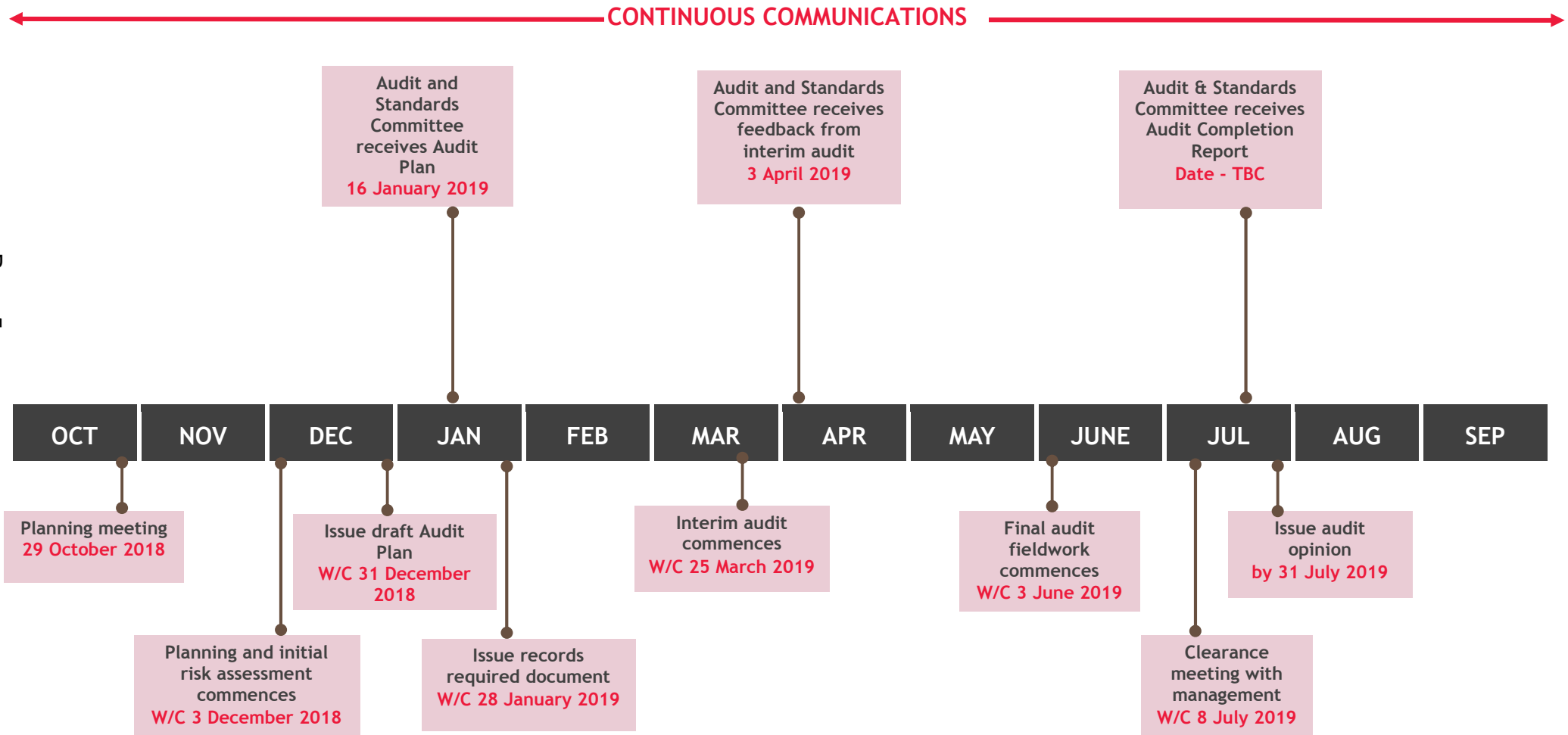
In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error.

He is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements.



AUDIT SCOPE AND OBJECTIVES

FINANCIAL STATEMENTS		OTHER INFORMATION	ADDITIONAL REQUIREMENTS
<p>1 The financial statements give a true and fair view of the financial transactions of the pension fund for the period, and the amount and disposition at the period end of the assets and liabilities, other than liabilities to pay pensions and benefits after the period end.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements and our knowledge obtained during the audit.</p>	<p>4 Review the pension fund annual report and report on the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts.</p>

MATERIALITY

PENSION FUND MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Pension fund overall materiality	£9,600,000	£230,000
Specific materiality for other financial statement areas:		
- Contributions	£2,200,000	£80,000
- Other fund account balances	£3,500,000	£120,000

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Planning materiality for the pension fund financial statements will initially be based on 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for contributions at 5% of total contributions receivable and for other fund account balances at 7.5% of the total expenditure.

At this stage, these figures are based on the prior year net assets and income and expenditure figures. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 3.5% of the materiality level, but this has been capped at the same triviality for the Council's overall Statement of Accounts.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the pension fund financial statements

This enables us to focus our work on key audit areas.

Our starting point is to obtain an understanding of the pension fund and the specific risks it faces. We review the predecessor auditor's prior year audit file and we discuss with management any changes to the fund, such as scheme regulations, and management's own view of potential audit risk, to gain an understanding of the fund's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

We also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

We then carry out our audit procedures in response to audit risks.

Audit risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The auditing standard requires us to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believes that the risk of material misstatement due to fraud in the pension fund's financial statements is low and that controls in operation would prevent or detect material fraud. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

We are required to discuss with those charged with governance their oversight of management's processes for identifying and responding to risks of all fraud.

We expect Audit and Standards Committee members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware. We will make these enquiries as part of the Audit and Standards Committee pre-meetings throughout the year.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the fund's policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Fair value of investments (infrastructure and private equity)	<p>The investment portfolio includes unquoted infrastructure and private equity holdings valued by the fund manager. The valuation of these assets may be subject to a significant level of assumption and estimation and valuations may not be based on observable market data.</p>	<p>We will:</p> <ul style="list-style-type: none"> • obtain direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund • review the valuation completed by the fund manager and any significant assumptions made in the valuation. • where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds • ensure investments have been correctly valued in accordance with the relevant accounting policies. 	<p>Direct confirmation of fund valuation and audited financial statements for infrastructure and private equity investments.</p>
	<p>In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations.</p> <p>As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.</p>		
Pension liability assumptions	<p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate • review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data • agree the disclosure to the information provided by the actuary. 	<p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

KEY AUDIT RISKS AND OTHER MATTERS

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Fair value of investments (pooled investments)	<p>The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (State Street), and reported on a quarterly basis. These funds are quoted on active markets.</p> <p>There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> obtain direct confirmation of investment valuations from the fund managers and agree valuations, where available, to readily available observable data (such as Bloomberg) ensure that investments have been correctly valued in accordance with the relevant accounting policies obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds. 	<p>Direct confirmation of investment valuations from fund managers.</p> <p>Assurance report on the operating effectiveness of internal controls within each of the fund manager organisation as well as the custodian.</p>
Consideration of related party transactions	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p>	<p>We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review senior management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	<p>Companies House searches for undisclosed interests.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Standards Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the year ending 31 March 2019.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

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INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
David Eagles - Engagement lead	1
Nuwan Indika - Project Manager	1

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2019 are:

	2018/19 Proposed fee £
Code audit fee	16,170
Fees for non-audit services	-
TOTAL FEES	16,170

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Billing arrangements

We will raise invoices for the Code audit fee in two instalments as follows:

- £8,085 in September 2018
- £8,085 in March 2019

Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Chief Operating Officer. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Standards Committee.

Our fee is based on the following assumptions

- The complete draft financial statements and supporting working papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.
- Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.
- We will receive only one draft of the financial statements prior to receiving the final versions for signing.
- Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Statutory performance targets
 - Instances when greater precision is required (e.g. related party transactions disclosures).
- International Standards on Auditing UK also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the pension fund, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Standards Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit and Standards Committee, confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory performance targets, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.

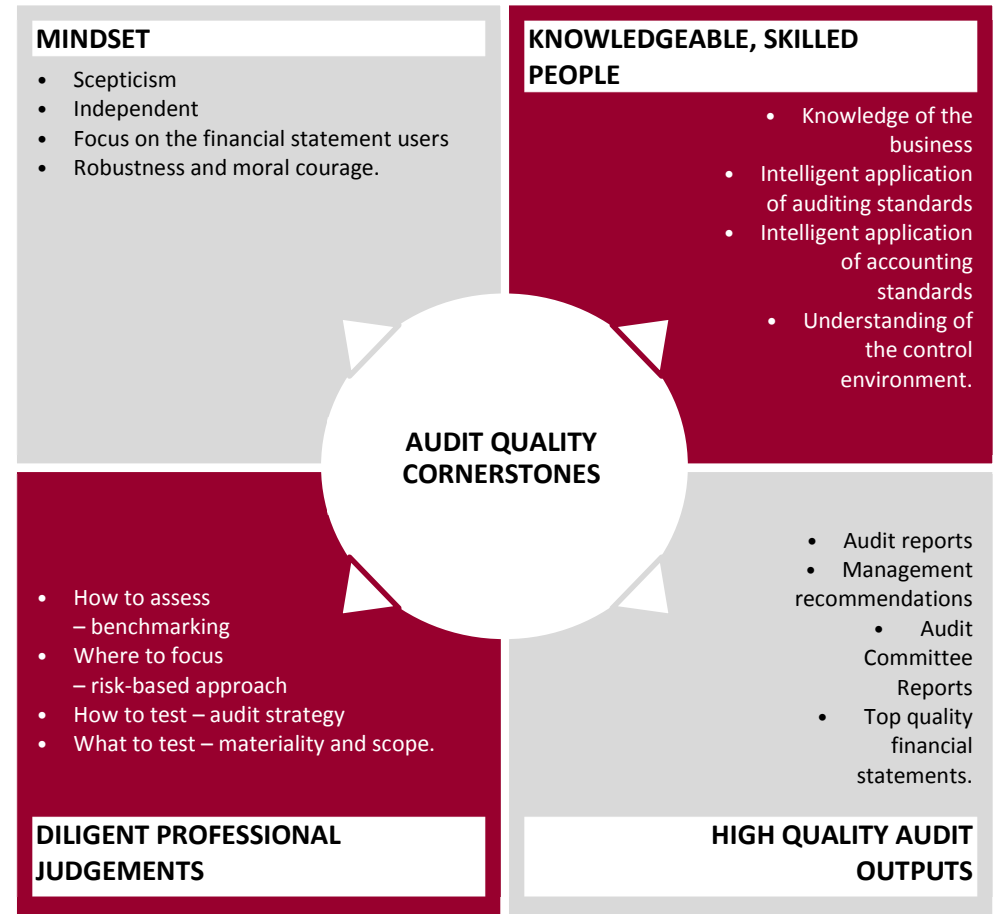
APPENDIX II: AUDIT QUALITY

AUDIT QUALITY

BDO's audit quality cornerstones underpin the firm's definition of audit quality

- BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.
- We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years.

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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