



The Audit Plan for Southwark Pension Fund

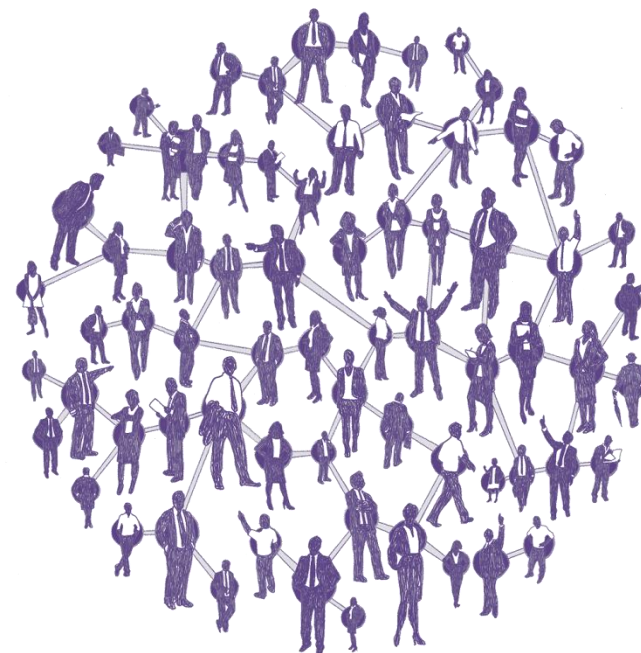
Year ended 31 March 2017

27 February 2017

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Southwark Pension Fund
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27 February 2017

Dear Members of the Audit, Governance and Standards Committee

Audit Plan for Southwark Pension Fund for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Southwark Pension Fund, the Audit, Governance and Standards Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Elizabeth Jackson

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

Triennial actuarial valuation of the fund

The results of the triennial review have now been reported. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Pooling of investments

We will continue to discuss with officers their plans for asset pooling in the London CIV and the implications that this will have on both the investment policy and governance arrangements of the fund.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

Finance team changes

There have been a staffing changes in the finance department. We understand that Council is planning to prepare its accounts by 31 May in preparation for 2017/18. We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by 31 July 2017 and will report to the Audit, Governance and Standards Committee in September. We will sign the audit opinion by 30 September.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £12,564k (being 1% of net assets at 31 March 2016). In the previous year, we determined materiality to be £12,477k (being 1% of net assets). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £628k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, 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'. We have not identified any items where separate materiality levels are appropriate.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• The culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for the Pension Fund.</p>
Management over-ride of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Further work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation• Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding <p>Further work planned:</p> <ul style="list-style-type: none"> Where we are able to apply full triangulation: We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances If we are not able to apply full triangulation: Test a sample of investment income to ensure it is appropriate Complete a predictive analytical review for different types of investments For direct property investments rationalise income against a list of properties for expected rental income.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding <p>Further work planned:</p> <ul style="list-style-type: none"> Where we are able to apply full triangulation We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances If we are not able to apply full triangulation: Test a sample of purchases and sales to ensure it is appropriate

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding <p>Further work planned:</p> <ul style="list-style-type: none"> Where we are able to apply full triangulation we will review the reconciliation of information provided by the fund managers, the custodian and the pension fund's own records and seek explanations for variances If we are not able to apply full triangulation: Test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices For direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert. For properties where a degree of judgement is required in reaching an appropriate valuation at year end, we will review Council's estimation against latest (un) audited accounts
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding <p>Further work planned:</p> <ul style="list-style-type: none"> Test a sample of contributions to source data to gain assurance over their accuracy and occurrence Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over, completeness, accuracy and occurrence of benefit payments Test a sample of individual pensions in payment by reference to member files We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. <p>Further work planned:</p> <ul style="list-style-type: none">• We will test a sample of changes to member data made during the year to source documentation

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Current assets
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

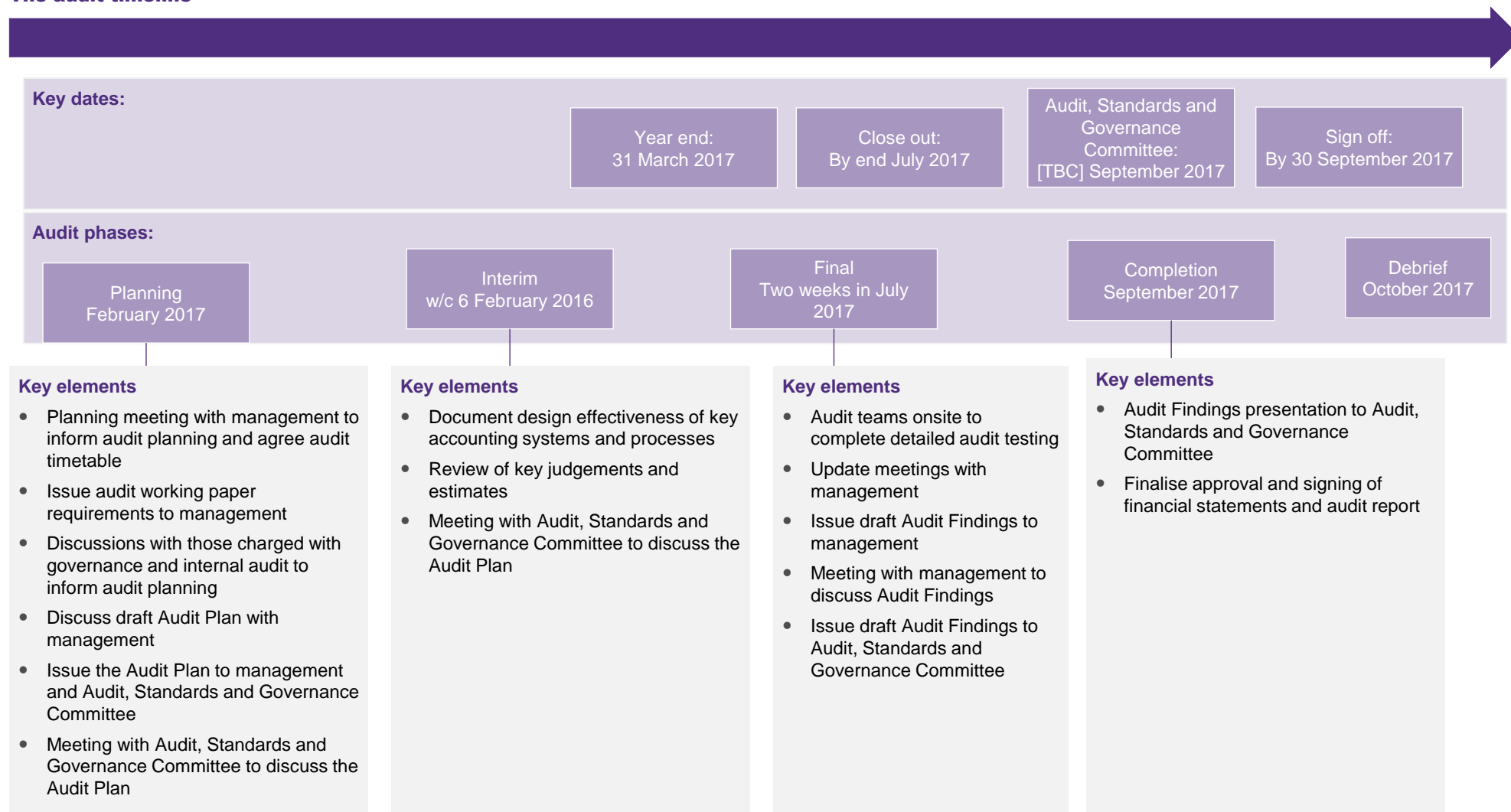
	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment at the Administering Authority.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements.
Review of information technology controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that were raised last year.	Our work is planned for March 2017. We will report any findings from the audit in the Audit Findings Report.

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Internal controls operating at the Council have been implemented in accordance with our documented understanding.</p>	<p>Our work to date of the Council's own controls has not identified any weaknesses which impact on our audit approach.</p> <p>Information received from Scheduled and Admitted bodies for its starters is sometimes incomplete and a default date of birth is entered on Altair. The Pensions Admin team are presently rolling out an IConnect portal to schedule and admitted bodies to improve this process. This will in time ensure that information requested by the Actuary is complete and accurate for the IAS26 reporting.</p> <p>Due to a senior accountant in the Pension's finance team leaving in October, some monthly reconciliations to the ledger have been deferred until the new officer joins the Council in February. The Council should ensure that all of the reconciliations and system processes are brought up to date as soon as possible and not left to year end which could have an impact on their 31 May deadline to produce the draft accounts.</p> <p>No other issues have been identified from our walk through testing that we would like to bring to your attention at this time.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. The Pension Fund journals are within the Council's general ledger.</p>	<p>Due to changes in the finance team, we have deferred early testing of journals and will carry out testing in July 2017 for the whole year. Our findings will be reported to you in the Audit Findings Report.</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Pension fund audit	21,000
Total audit fees (excluding VAT)	21,000

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services are detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the pension fund. The following audit related and non-audit services were identified for the Fund for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Audit related	Nil	
Non-audit related	Nil	

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Fund.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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