



## **London Borough of Ealing Pension Fund**

Audit planning report to the Audit Committee for the year ended  
31 March 2019

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# Introduction

## The key messages in this report:

We have pleasure in presenting our Planning Report to the Audit Committee (AC) for the 2019 audit of the London Borough of Ealing Pension Fund ("the Fund"). We would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

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### Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Fund prepared under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC. We will be performing procedures to inform an opinion on the pension fund accounts, which form part of the Council's Statement of Accounts, and we will be performing procedures to inform an opinion on the consistency between those financial statements and the Pension Fund Annual report

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### Key developments

As part of our audit planning procedures we have held planning meetings with key members of management to develop our understanding of the Fund. Additionally, we have reviewed the prior year audit files held by KPMG.

To date our procedures have identified that the Fund continues to transition investments to the London Pension Collective Investment Vehicle ("London CIV") as new funds become available. Further, there has been a migration of the Fund's accounting records from the Council's general ledger to a separate general ledger specifically for the Fund. We will review the extent to which this has affected the current year when year-end information is available. We do not anticipate this presenting a significant audit risk. However, as a higher (rather than significant) risk area, we would expect to perform procedures to test the completeness and accuracy of the assets transferred.

Our planning procedures are ongoing and we will inform you of any changes to our risk assessment that result from the conclusion of these procedures.

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# Introduction (Cont.)

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**Significant  
audit risks**

As we continue to accumulate knowledge of the Fund, we have created our risk assessment so that our plan reflects those areas which we believe have a greater chance of leading to material misstatement of the financial statements.

Our significant audit risk will be management override of controls.

Auditing Standards require us to assume that management override of controls and revenue recognition are significant risks for all our audits.

There is a presumption that there is a risk of fraud in revenue recognition, however we have rebutted the revenue recognition risk for the Fund, as we consider that there is little incentive or opportunity for revenue (including investment income, transfers and contributions) to be fraudulently misstated and therefore there is limited risk of material misstatement arising due to fraud in this area. This is consistent with the approach taken by our predecessor auditor.

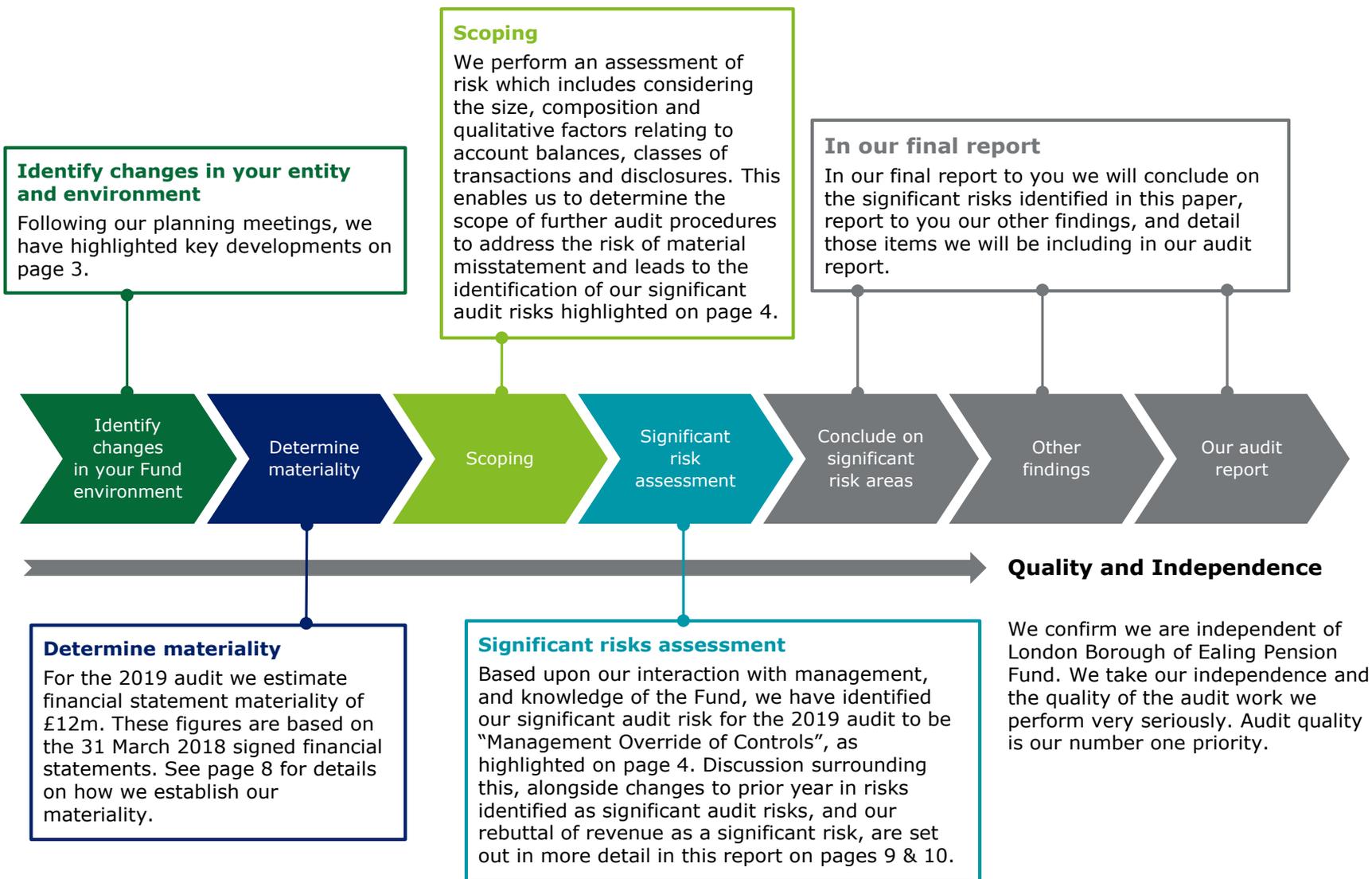
In the prior year, our predecessor identified a significant audit risk in relation to the valuation of investments. We have concluded this this is not a significant audit risk area in the current year.

Please refer to pages 9-10 for further details in respect of these matters.

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# Our audit explained

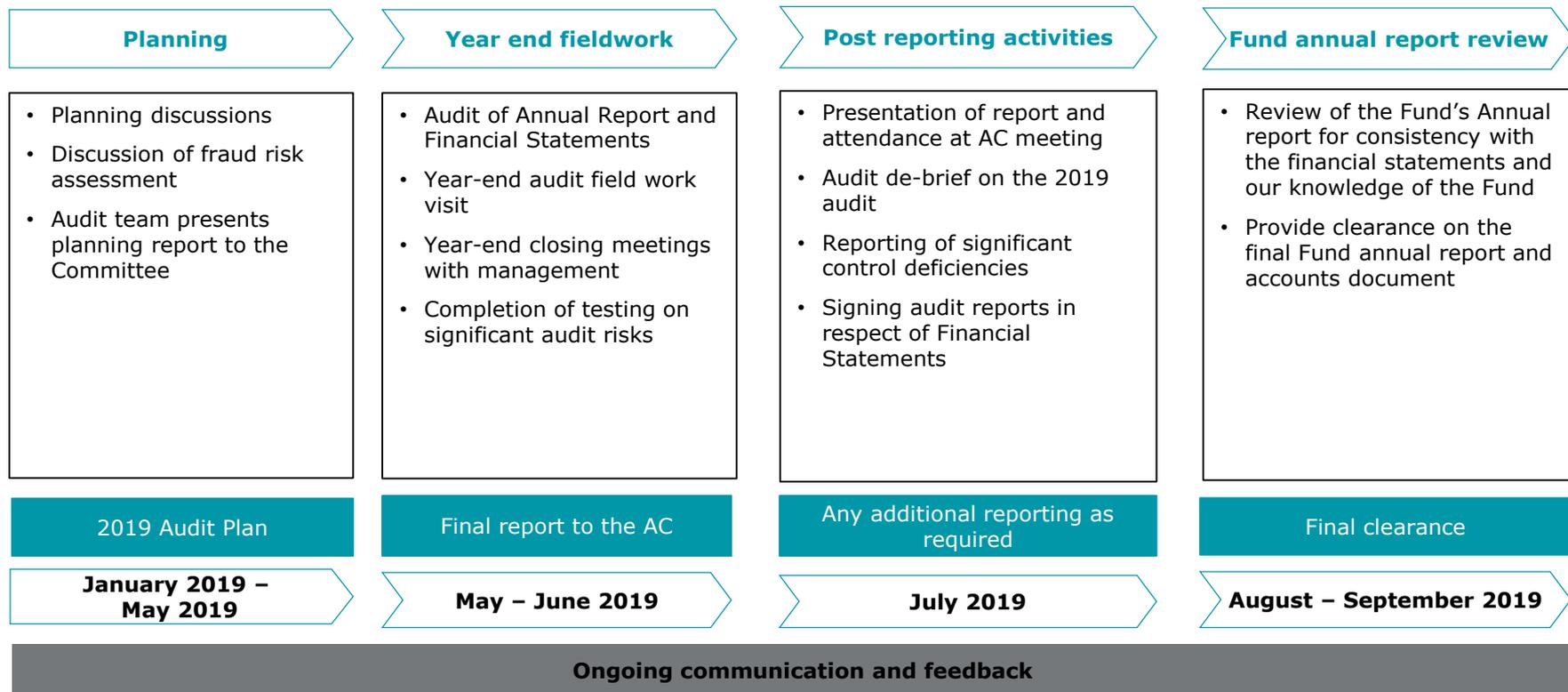
## We tailor our audit to your Fund



# Continuous communication and reporting

## Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn and initial comments from the interim and final visits will be shared with management as required. The following sets out the expected timing of our reporting to and communication with you.



# Scope of work and approach

## Our approach

### **Liaison with internal audit**

The Auditing Standards Committee's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements. We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work. Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

### **Approach to controls testing**

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I"). The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### **Promoting high quality reporting to stakeholders**

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting. We recommend the Fund completes the Code checklist during drafting of their financial statements. We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

# Materiality

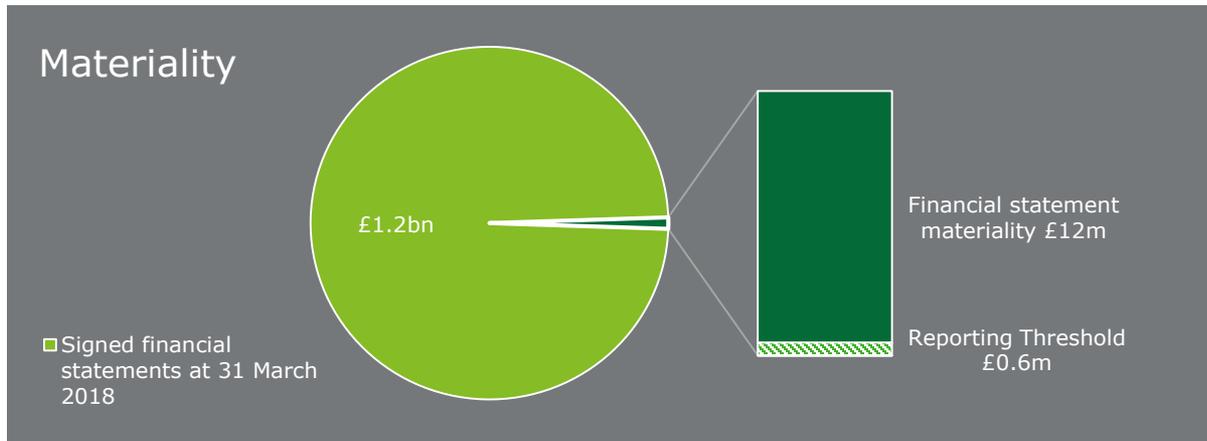
## Our approach to materiality

### Basis of our materiality benchmark

- The audit partner has estimated financial statement materiality as £12m, based on professional judgement, the requirement of auditing standards and the net assets of the Fund.
- We have used 1% of Fund net assets as the benchmark for determining our materiality levels.

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of 5% of financial statement materiality. We will report to you misstatements below this threshold if we consider them to be material by nature.
- We will determine materiality figures for the 31 March 2019 audit on receipt of the draft 2019 financial statements, and report them to those charged with governance.
- Although materiality is the judgement of the audit partner, the Audit Committee members must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.



# Significant risks

## Our risk assessment process

### **Changes to prior year in risks identified as significant audit risks**

The risks we have identified as significant audit risks are summarised on the following pages. They reflect the following change to the equivalent summary of risks identified by our predecessor for their audit of the 2017/18 accounts. In the prior year, our predecessor identified a significant audit risk in relation to the valuation of investments. We have considered the investments held in the prior year, including the nature of the instruments held and the fair value level reported in the prior year audited accounts. All the holdings appear to be either directly held quoted investments, or funds for which there is publicly available pricing. We have concluded that a significant risk should not apply to any of the investments within the portfolio as there is no significant risk of material misstatement. This assessment has been based on:

- The assumption that the portfolio has not changed significantly
- Our understanding of the lack of judgement involved in valuing these instruments
- The absence of past audit findings

We will review our risk assessment of the portfolio during the audit as the current year's reporting from the investment managers becomes available. If we conclude that the risk level should change as a result of information received, then we will inform you of the change and our reasons for it.

### **Presumed risk of fraud in revenue recognition**

Auditing standards also presume there is a risk of fraud in revenue recognition. Following an analysis of the Pension Fund's income streams, we have rebutted this presumption. The key factors considered include: the amount of annual income from each source; the transaction size; the extent of any estimates; and the complexity of the recognition principles. Our conclusion is the same as that reached by our predecessor last year.

# Significant risks

## Management override of controls

### **Risk identified**

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

### **Deloitte response to management override of controls risk identified**

In order to address the significant risk our audit procedures will consist of the following:

- We will risk assess journals and select items for detailed follow up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest. In performing the computer assisted profiling, we will interrogate 100% of the population of journals;
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
- We will review accounting estimates for biases that could result in material misstatements due to fraud; and
- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
- Assess the overall position taken in respect of key judgements and estimates;
- Perform 'Design & Implementation' testing around key controls and processes in relation to processing journals; and
- Consider our view on the overall control environment and 'tone at the top'.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies." The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary audit plan, including key audit judgements and the planned scope.

### Use of this report

This report has been prepared for the AC, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

### What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Fund.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

- We will update you if there are any significant changes to the audit plan.

**Jonathan Gooding**

for and on behalf of Deloitte LLP

May 2019

# Appendix 1: Fraud responsibilities and representations

## Responsibilities explained



### Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



### Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the management override of controls as the key audit risk for the Fund.



### Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

### We will request the following to be stated in the representation letter signed on behalf of the AC:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 1: Fraud responsibilities and representations (continued)

## Inquiries

We will make the following inquiries regarding fraud:



### Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



### Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



### The Committee

- How the Audit Committee exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of the Audit Committee on the most significant fraud risk factors affecting the entity.

## Appendix 2: Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm the audit engagement team, and other in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
<b>Fees</b>	Our audit fee for the year ending 31 March 2019 is £16,170 for the Fund. The above fees exclude VAT and include out of pocket expenses.
<b>Non-audit fees</b>	There are no non-audit fees.
<b>Independence monitoring</b>	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any service to other known connected parties.



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