

**General Purposes and Audit Committee
25 June 2014
Agenda item 7**

Reports from Grant Thornton

7.1 Audit Planning (Fee) Letter 2014/15

7.2 The Audit Plan for Croydon Council

**7.3 The Audit Plan for the London Borough of Croydon
Pension Fund**

Nathan Elvery
Chief Executive
Croydon Council
Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA
1 April 2014

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Dear Nathan

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Planned audit fee for 2014/15

The Audit Commission has set its proposed work programme and scales of fees for 2014/15. In this letter we set out details of your audit fee along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

Your scale fee for 2014/15 has been set by the Audit Commission at £227,880. This is unchanged from the audit fee of £ 227,880 for 2013/14.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission’s website at: <http://www.audit-commission.gov.uk/audit-regime/audit-fees/201415-work-programme-and-scales-of-fees/>

The audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that you have adequate arrangements in place to secure economy, efficiency and effectiveness in your use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess your financial resilience as part

Chartered Accountants

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of our work on the VfM conclusion.

Certification of grant claims and returns

Your composite indicative grant certification fee has been set by the Audit Commission at £34,340. This is based on the certification of the housing benefit subsidy claim only for 2014/15.

Pension Fund audit

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £21,000. Our work on the pension fund will be undertaken in July 2015.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2014	56,970
December 2014	56,970
March 2015	56,970
June 2015	56,970
	227,880
Grant Certification	
June 2015	34,340
Total	262,220
Pension Fund audit	
June 2015	21,000

Outline audit timetable

We will undertake our audit planning and interim audit procedures from January 2015. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in August 2015 and work on the whole of government accounts return in September 2015.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January 2015	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of your accounts and VfM.
Final accounts audit	June to September 2015	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.

VfM conclusion	January to September 2015	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
Financial resilience	January to September 2015	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2015	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2015	Annual audit letter	The letter will summarise the findings of all aspects of our work.
Grant certification	June to November 2015	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2014/15 are:

	Name	Phone Number	E-mail
Engagement Lead	Paul Grady	0207 728 2301	paul.d.grady@uk.gt.com
Engagement Manager	Dominic Bradley	01293 554 148	dominic.g.bradley@uk.gt.com
Assistant Manager	Chris Long	0207 728 3295	chris.long@uk.gt.com
Audit Executive	Rufaro Dewu	0207 728 3240	rufaro.k.dewu@uk.gt.com

Additional work

The scale fee excludes any work you may request that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with you.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner (paul.dossett@uk.gt.com).

Yours sincerely

Paul Grady
For Grant Thornton UK LLP

The Audit Plan for Croydon Council

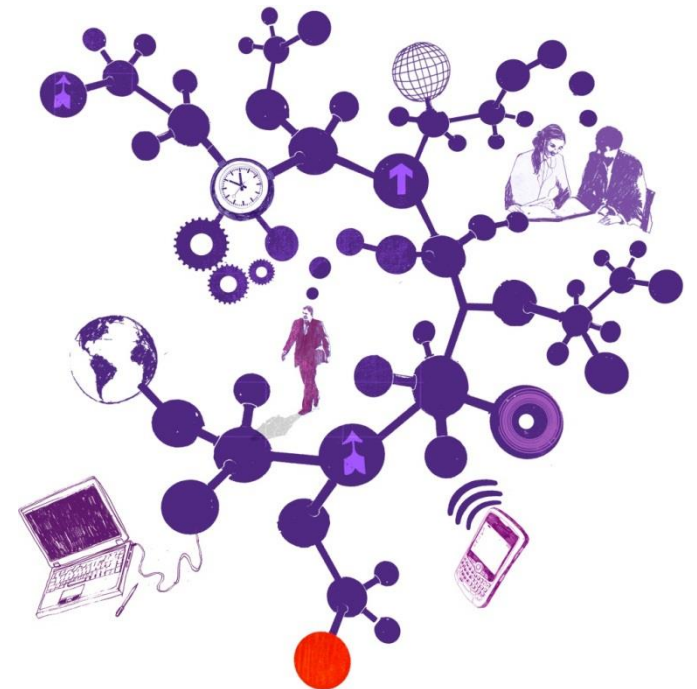
Year ended 31 March 2014

June 2014

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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 process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

Challenges / opportunities

1. Financial Pressures

- The 2014/15 local government finance settlement confirms the expected reduction in funding levels after education and public health funding has been removed.
- Future settlements in the medium term are likely to contain further reductions too.

2. Long term financial challenges

- Ongoing reductions in central funding combined with increasing demand for education, social housing and social services are putting pressure on your ability to deliver a balanced long term financial plan (LTFP).
- You have identified significant gaps in budgets from 2015/16 that will require tough decisions to be made when you fundamentally review all service provision.

3. Urban regeneration

- Croydon is undergoing significant urban regeneration led by a one billion pound business centre redevelopment. You are coordinating public and private investment in infrastructure with the aim of minimising any adverse impacts on the Croydon economy.
- You have also relocated your office into Bernard Weatherill House in the year.

4. Welfare Reform and Better Care Funding 9BCF)

- Changes to housing benefit and welfare reform continue to impact your efforts to provide social housing by increasing the rate of homelessness and demand for social housing.
- You submitted a BCF plan in April 2014 in partnership with Croydon CCG continuing Croydon's efforts to deliver better coordinated and supported adult social care within a constrained financial environment.

5. May 2014 Elections

- The 2014 United Kingdom local elections were held on 22 May 2014 and resulted in some changes to your Members including those on the General Purpose & Audit Committee.

5. De-cluttering the accounts

- Local Government accounts tend to be complex lengthy and difficult to follow. Council officers have expressed an interest in making the accounts more user-friendly by removing immaterial notes and improving the presentation.

Our response

- We will review any impact that the reduced funding levels will have on your ability to balance the short term budgets for 2014/15 and 2015/16.

- We will review your longer term financial plans, the steps you are taking to identify solutions to meet financial challenges and the impact of these solutions on service delivery.
- We will consider the implications of this on your medium term financial resilience

- We will consider your progress in addressing identified risks which will inform our considerations in respect of your VfM Conclusion.
- We will also review your accounting transactions of your move into Bernard Weatherill House.

- We will consider your progress in addressing identified risks around the Welfare Reform. and in the public health transfer. Our review of these issues will inform our considerations in respect of your VfM Conclusion.

- We will engage with the General Purpose & Audit Committee at an early stage following the election and appointments to your Committee offering assistance with induction and training as necessary.

- We will meet with your finance team and discuss methods which will assist you to improve the presentation of your accounts, provide guidance and support where necessary
- We will review the draft presentation of your accounts to help you present an understandable and clear picture of your financial position and performance.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

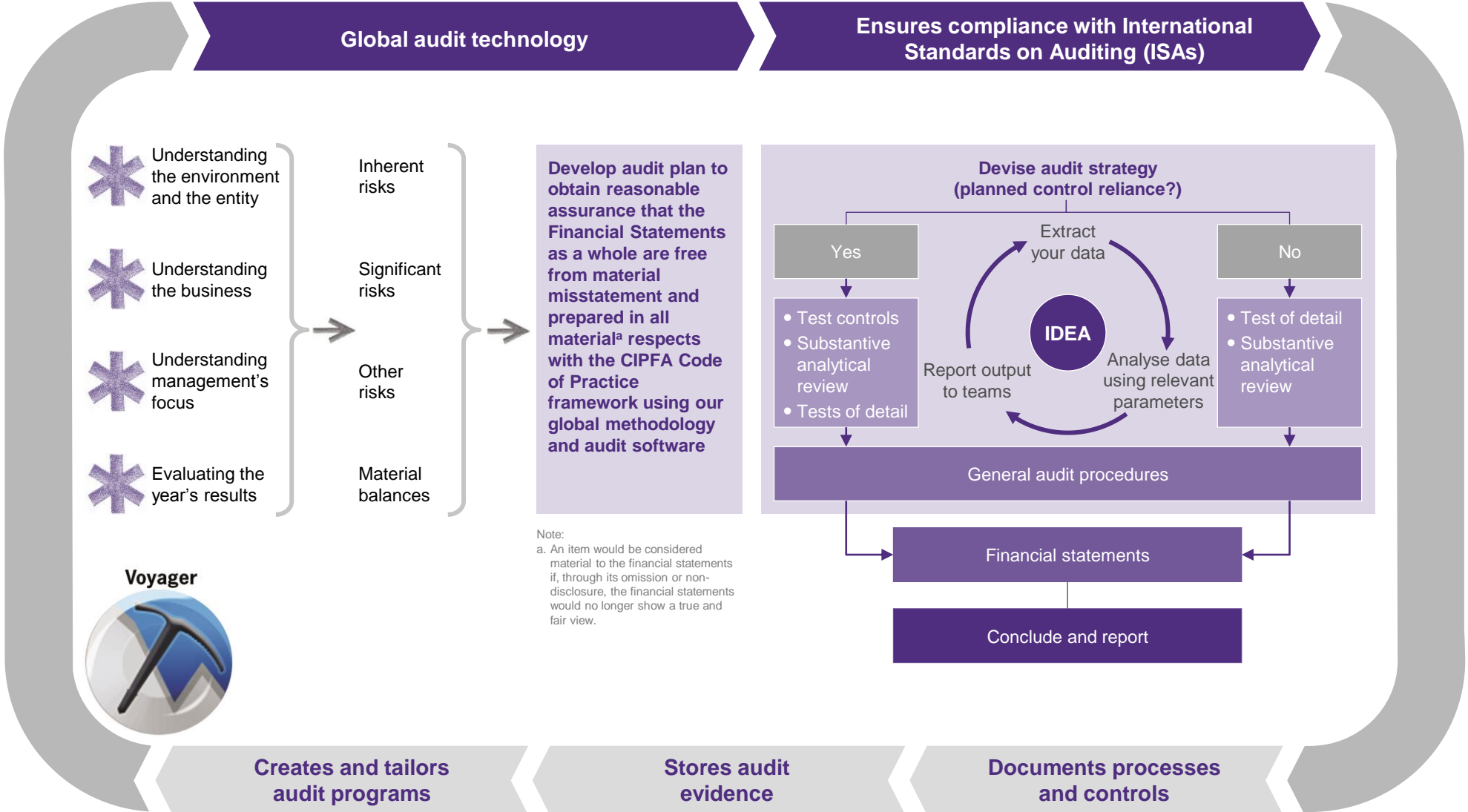
Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals • Transfer of assets to Academies 	<ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<ul style="list-style-type: none"> • You are required to submit a Whole of Government accounts pack on which we provide an audit opinion • You complete grant claims and returns on which audit certification is required

Our response

<p>We will assess whether:</p> <ul style="list-style-type: none"> • you comply with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with you through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements you have in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will review how you dealt with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review your performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our Value for Money conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements
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Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams for months 1-9 <p>Further work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies at year-end • Testing of material revenue streams for months 10 to year-end • Cut-off testing; that transactions are recorded in the correct year • Testing of accruals and unusual / unexpected receivables
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for months 1-9 • Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management at year-end • Testing of journal entries or months 10 to year-end, including review of unusual significant transactions • Review suspense accounts obtaining an understanding of the purpose of suspense accounts

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	-Creditors understated or not recorded in the correct period	<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. No issues were identified as a result of this work. We have performed detailed testing on expenditure recorded for the financial year, by testing a sample of cases for months 1-9. 	<ul style="list-style-type: none"> We will undertake testing procedures during final accounts on a sample basis for the remaining months of the year. We will verify that that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger. Testing of creditor payments, including accruals, for completeness, classification and occurrence. We will test operating expenditure to verify that cut-off has been correctly applied.
Employee remuneration	-Employee remuneration accrual understated -Payroll tax obligations understated.	<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. No issues were identified as a result of this work. We have performed detailed testing on payroll for the financial year, by testing a sample of cases for the months 1-9. 	<ul style="list-style-type: none"> We will undertake testing procedures during final accounts on a sample basis for the remaining months of the year. We will verify that that the employee remuneration included within the financial statements are complete via review of the reconciliations between the Liberata payroll system and the General Ledger. Cut-off testing to ensure transactions recorded in correct accounting period.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Welfare Expenditure	-Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> We have walked through part of the system to gain assurance that the in-year controls were operating in accordance with our documented understanding. The final part of our walkthrough will be completed in the second half of June 2014 when we undertake our work on the Housing Benefit certification claim. To date, no issues were identified as a result of this work. 	<ul style="list-style-type: none"> We will complete our walkthrough of the Welfare Expenditure system when we undertake our work on the Housing Benefits claim in June 2014. Substantive testing of Housing Benefit claim via the HB COUNT modules. Substantive testing for Council Tax Support.
Housing Rent Revenue Account	-Revenue transactions not recorded	<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. No issues were identified as a result of this work. 	<ul style="list-style-type: none"> We will undertake a sample of testing covering validity, appropriateness and classification of rental revenue. We will verify that the HRA rental revenue included within the financial statements is complete via review of the reconciliations between the HRA system and the General Ledger. Rental Income cut-off testing.
Property, Plant & Equipment	- PPE activity not valid - Revaluation measurement not correct - PPE improperly expensed	<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. No issues were identified as a result of this work. We have tested a sample of PPE assets selected from the Month 9 asset register, and physically verified that the assets exist, and also checked your ownership of those assets to the deeds. 	<ul style="list-style-type: none"> Complete substantive testing of PPE records for existence and to deeds for the remainder of the year Reconciliation of PPE records. Review of the revaluation exercise. Check that operating expenditure already selected for testing is not capital in nature.

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
CCURV LLP	Yes	Targeted	The accounting period for CCURV LLP was the year ended 31 December 2013 and is therefore not co-terminus with that of the Council. The Group Accounts will be prepared to include the CCURV LLP statutory accounts for the year ended 31 December 2013, adjusting for the period to 31 March 2013 and adding the management accounts for the three months to 31 March 2014.	The CCURV accounts to 31 December 2013 are audited by Deloitte LLP. We will undertake review and testing of the group transactions for the adjustments and management accounts which you make to turn these into compatible group accounts with a 31 March 2014 year end.
Croydon Care Solutions Limited	No	Analytical	n/a	Perform desktop review

Value for money

Value for money

The Code requires us to issue a conclusion on whether you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review of your medium term financial plan and longer term financial resilience, especially your ability to close the budget shortfalls in budgets from 2015/16 to 2017/18 which are estimated to be circa £100m.
- review of your regeneration and redevelopment plans and the impact on the Boroughs infrastructure; including housing and education places and your office relocation into Bernard Weatherill House.
- review of your plans and actions to mitigate the impact on homelessness and housing resulting from the Welfare Reform Act
- review of your Public Health Services reform and Better Care funding arrangements
- review of the shared IT Oracle R12 programme and any value for money impact that slippage to the project timetable has had.
- follow up of issues raised in FR in 2012/13, such as capital slippage against capital plan and the monitoring and benchmarking against sickness absence rates.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will issue a separate report in respect of our key Value for Money findings.

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:

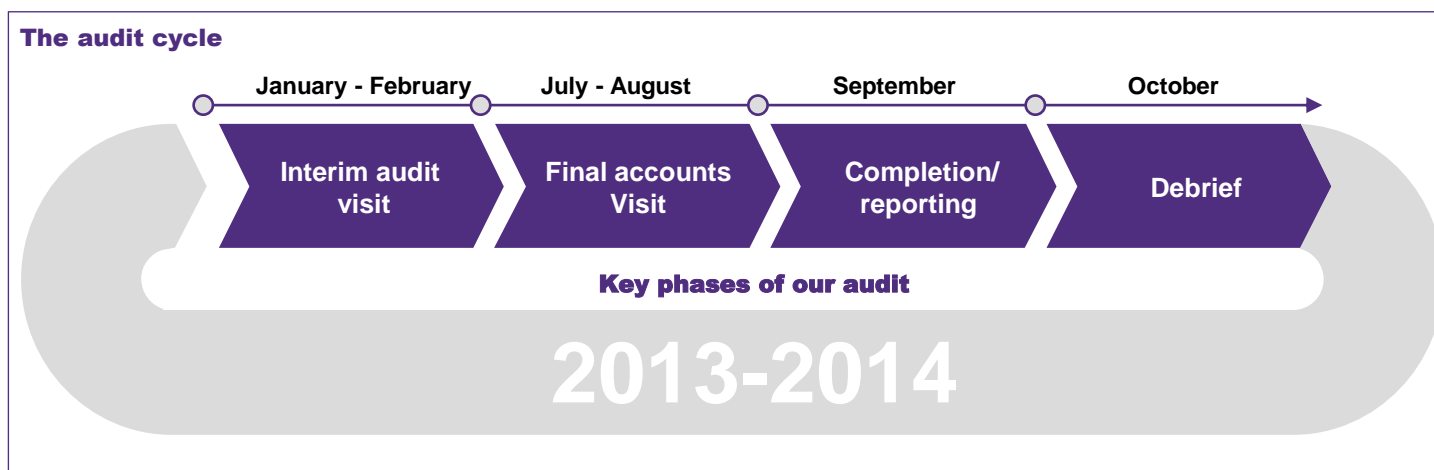
	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed the overall arrangements in place regarding the Internal Audit service. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements.</p> <p>Reports on key financial systems have been reviewed and will inform our approach were appropriate to our year end testing.</p>	<p>The overall arrangements for internal audit are considered appropriate. We have concluded that the Internal Audit service continues to provide you with an independent and satisfactory service and that we can take assurance from their work in contributing to an effective internal control environment.</p> <p>Reports provided to date will be used to inform our approach at year end.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements:</p> <ul style="list-style-type: none"> • Operating expenses • Employee remuneration • Housing Revenue Account (HRA) • Property Plant and Equipment <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>Note that we will complete out walkthrough of the Welfare Expenditure system during our work on the Housing Benefit claim at the end of June 2014.</p>
Review of information technology (IT) controls	<p>Our information systems specialist is performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We are also performing a follow up of the user accounts and associated permissions within the Active Directory which, in 2012/13, were not being formally and proactively reviewed for appropriateness.</p> <p>Our work is not yet fully complete, but from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on your financial statements.</p>	<p>Our work to date has identified no material weaknesses which are likely to adversely impact on your financial statements.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p> <p>We will complete our review and report any findings in our Audit Finding Report in September 2014.</p>

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
Journal entry controls	<p>We have reviewed your 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 your control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>No issues have been identified that require reporting.</p> <p>We will undertake substantive testing of the journals for the remainder of the year as part of our opinion audit.</p>
Early substantive testing	<p>We have undertaken testing for income and expenditure for months 1-9.</p> <p>We have undertaken testing for payroll for months 1-9.</p>	<p>No issues have been identified from our work on income and expenditure and payroll for months 1-9.</p> <p>We will complete our substantive testing procedures for the remainder of the year for Income, expenditure and payroll during final accounts.</p>
Property, Plant & Equipment (PPE). Early existence and ownership testing	<p>A sample of PPE assets was selected from the Month 9 asset register, and we have physically verified that the assets exist, and also checked your ownership of those assets to the deeds.</p> <p>We will revisit the asset register at the year end outturn and top up with any further testing should this be required for any movements in the last quarter of the year.</p>	<p>No issues were noted. The sampled assets were in existence and ownership rights confirmed.</p> <p>We will undertake further substantive testing on PPE as part of our opinion audit.</p>

Key dates



Date	Activity
December 2013	Planning
January – February 2014	Interim site visit
24 June 2014	Presentation of audit plan to the General Purpose & Audit Committee
July and August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Director of Finance and Assets
16 September 2014	Report audit findings to those charged with governance (General Purpose & Audit Committee)
By 30 September 2014	Sign financial statements opinion
October 2014	Annual Audit Letter

Fees and independence

Fees

	£
Council audit	227,880
Grant certification	33,712
Total fees (excluding VAT)	261,592

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 your activities, have not changed significantly
- You will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

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 therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, 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 you.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as your independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. 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 Audit Commission and includes nationally prescribed and locally determined work. Our work considers your key risks when reaching our conclusions under the Code.

It is your responsibility 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 you are fulfilling these responsibilities.

	Audit plan	Audit findings
Our communication plan		
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 issue 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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The Audit Plan for the London Borough of Croydon Pension Fund

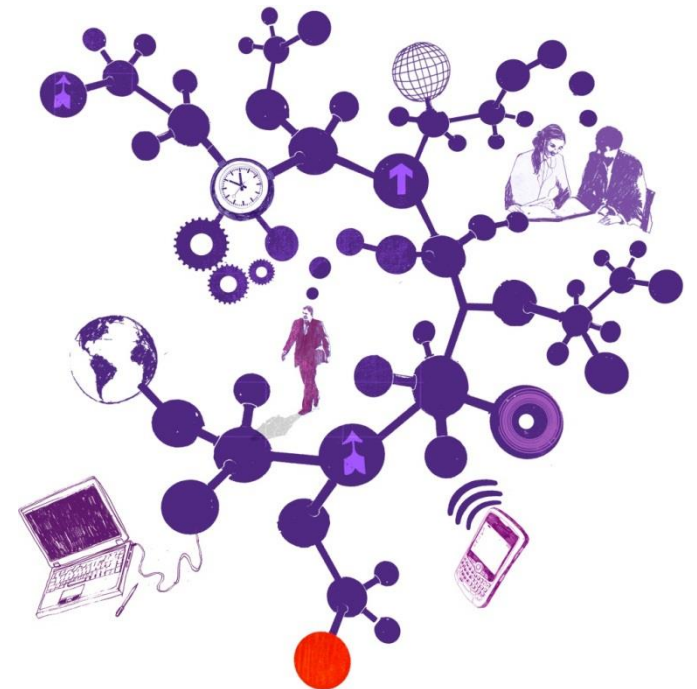
Year ended 31 March 2014

June 2014

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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 process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Introduction

Purpose

This Audit Plan highlights the key elements of our 2013/14 external audit strategy for the London Borough of Croydon Pension Fund. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to the General Purpose and Audit Committee for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

Our responsibilities

As external auditors we are responsible for performing the audit in accordance with ISAs (UK & Ireland), and to give an opinion on the Pension Fund 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.

Communicating the results of audit work

The findings from our interim work are communicated in this plan, and any findings from the final accounts audit will be reported following the completion of the final accounts work. Page 10 of this plan includes the timescale for the audit and audit reporting.

We look forward to working with the Pension Fund officers during this year's audit.

Developments relevant to your fund and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

There are no significant emerging issues affecting the Pension Fund expected for the year ending 31 March 2014 although the Pensions Research Accountants Group (PRAG) has issued an exposure draft of an updated Pension SORP for consultation. The consultation period ends in July 2014, with a final SORP expected in the Autumn of 2014.

2. LGPS 2014

Planning for the impact of the implementation of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014.

3. Triennial valuation

Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of additional employer deficit contributions required and how to fund them.

4. Financial Pressures – Pension fund

Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

Our response

We will carry out our usual substantive testing to obtain comfort that the pension fund's compliance, in all material respects, with the requirements of the CIPFA Code of Practice.

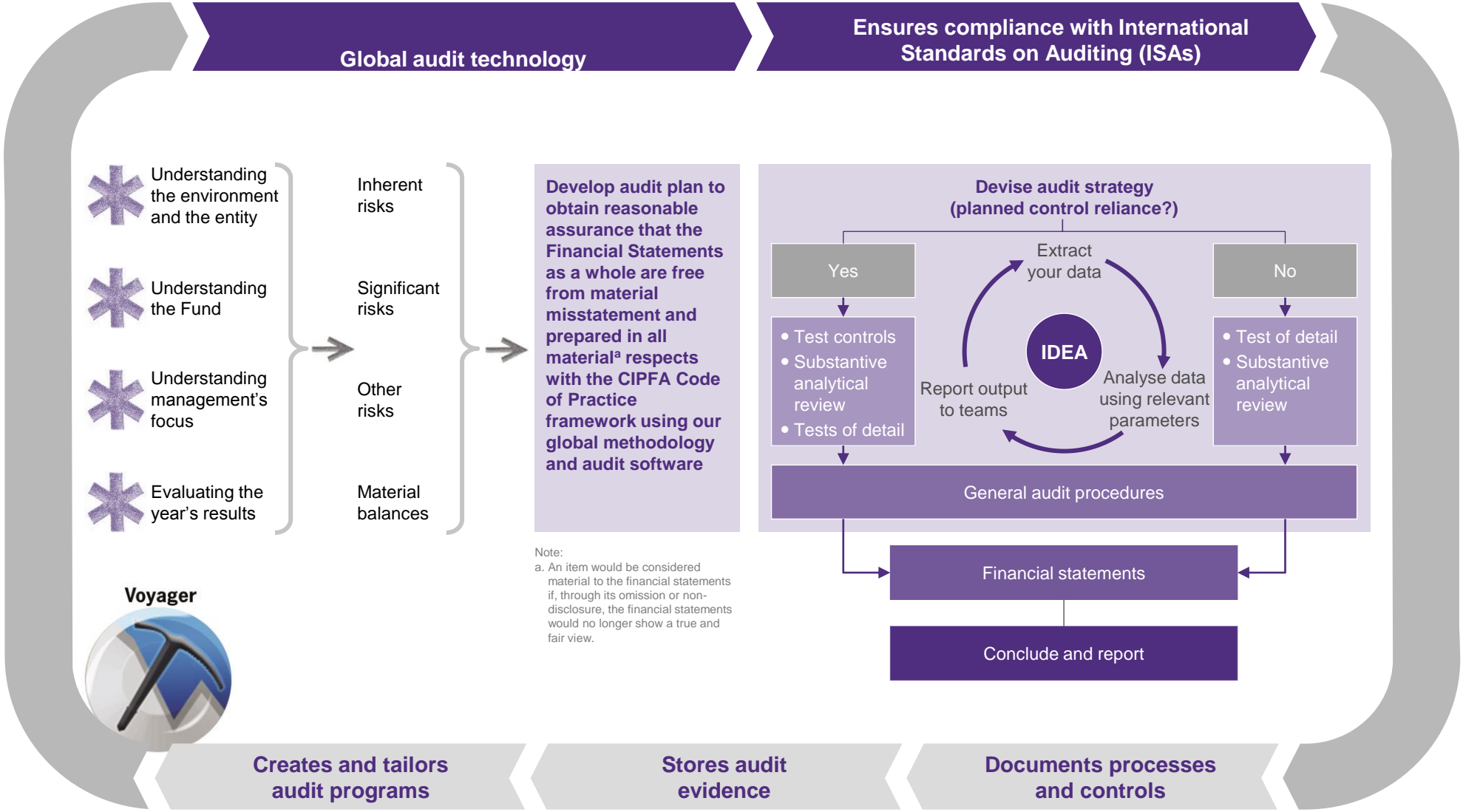
We will discuss the impact of the changes through our regular meetings with management.

Where appropriate, we will report any observations we have from our work and the implementation of new administration systems software to successfully process benefit payments under both the old and new schemes from 1 April 2014.

We will maintain regular dialogue with management to assess the impact this has on the administration of the pension fund and any required disclosures in the 2013/14 pension fund financial statements.

We will monitor any material changes being made to the pension fund investment strategy through our regular discussions with management. We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue (which for the purposes of the London Borough of Croydon Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for London Borough of Croydon Pension Fund since:</p> <ul style="list-style-type: none"> • There is no external pressure to hit a year end financial performance target for the Pension Fund. • There is a strong governance environment which demonstrates that controls exist to prevent fraud. • There is no history of fraud in revenue recognition. • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension fund, the custodian and its fund managers provide a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investments	<p>Investments not valid</p> <p>Alternative investments not valid</p> <p>Investments activity not valid</p> <p>Fair value measurements of securities quoted using prices (unadjusted) in active markets for identical securities not correct</p> <p>Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct</p> <p>Fair value measurements priced using inputs not based on observable market data (using models or similar techniques) not correct</p>	<p>We will review the reconciliation between information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any variances.</p> <p>We will select a sample of the individual investments held by the fund at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments).</p> <p>Direct confirmation of the ownership, existence and valuation of the segregated asset portfolio will be obtained from both the Custodian and the respective investment managers.</p> <p>We will obtain direct confirmation of income receivable on Investments from fund managers.</p> <p>We will also review the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian, where available.</p> <p>We will test a sample of purchases and sales during the year back to detailed information provided by the fund managers.</p>
Benefit Payments and payments to leavers	Benefits improperly calculated/claims liability understated	<p>We will confirm the existence of controls operated by the pension fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. With a view to reducing the level of substantive testing required, we will then consider testing the key controls identified in these areas.</p> <p>We will then select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to member files.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p>

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Contributions	Recorded contributions not correct	We will confirm the existence of controls operated by the pension fund to ensure that it identifies and receives all expected contributions from member bodies. We will substantively test contributions deductions. We will also review contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained.
Membership Data	Member data not correct	We will confirm the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. With a view to reducing the level of substantive testing required, we will then consider testing the key controls identified in these areas.

Interim audit work

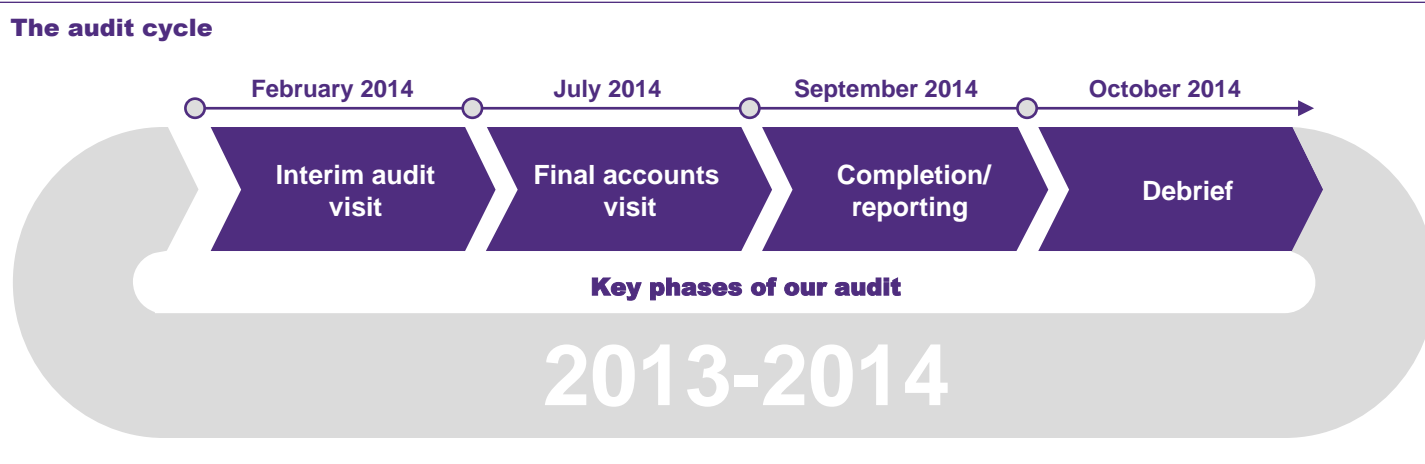
Scope

As part of the interim audit work, and in advance of our final accounts audit fieldwork, we will consider:

- the effectiveness of the internal audit function
- internal audit's work on the Pension Fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements with a view to gaining an understanding of the work it has undertaken during 2013/14. Our review of internal audit's work on the Pension Fund's key financial systems has not identified any additional risks of material misstatement to the financial statements to consider in our audit strategy.	We have concluded that we can take assurance from their work in our overall assessment of the internal control environment at the Pension Fund. However, no direct reliance on internal audit is planned.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. The risk areas we have identified are as follows: <ul style="list-style-type: none"> • Investments • Scheme contributions • Member data • Benefit payments 	No issues were identified from our walkthrough test. In year internal controls were observed to have been implemented in accordance with our documented understandings. We will review the controls at the fund managers upon receipt of the ISAE3402 Internal Control Reports as part of our year-end testing.
Journal entry controls	We will review the pension fund's journal entry policies and procedures as part of determining our journal entry testing strategy. We will then test pension fund journals raised during 2013/14. We will extract and test any 'unusual' and large journal entries.	This testing will be undertaken as part of our post statements testing. The results of this will be reported to the General Purpose and Audit Committee and the Pension Committee in September 2014.
Review of IT controls	Our information systems specialist will perform a high level review of the general IT control environment at the Council, as part of the overall review of the internal controls system, undertaken as part of the main Council audit.	Work is in progress and any findings will be reported to the General Purpose and Audit Committee and the Pension Committee in September 2014.

Logistics and our team



Date	Activity
February 2014	Planning meetings
February 2014	Interim site work
June 2014	The audit plan presented to the General Purpose and Audit Committee
14 July 2014	Year end fieldwork commences
August 2014	Audit findings clearance meeting
September 2014	Findings reported to the General Purpose and Audit Committee and the Pension Committee

Our team

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Fees and independence

Fees

	£
Pension fund audit	21,000

Our fee assumptions include:

- Our fees are exclusive of VAT
- 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 Pension Fund and its activities have not changed significantly
- The Pension Fund will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	£
None	Nil

Independence and ethics

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 therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, 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 those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. 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 Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension fund's key risks when reaching our conclusions under the Code.

The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their 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 issue 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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