

The Audit Plan for the City of Westminster Pension Fund

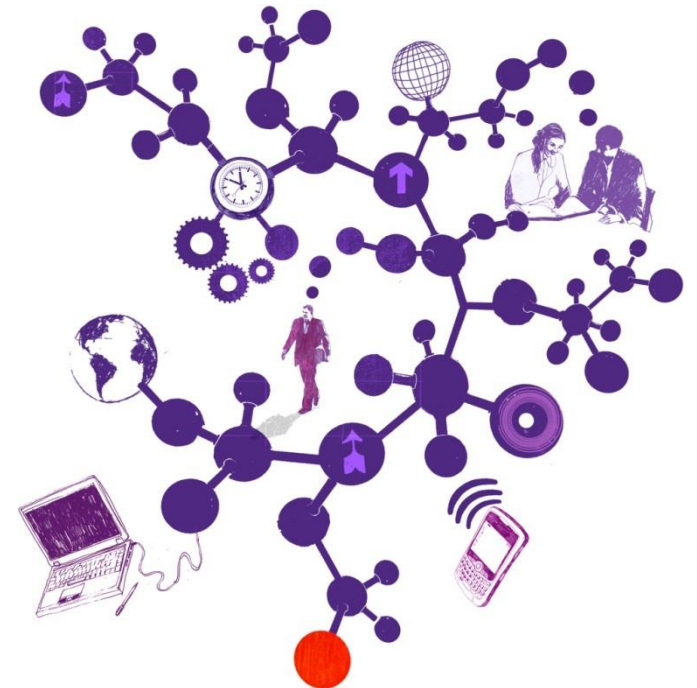
Year ending 31 March 2016

March 2016

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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.

City of Westminster Pension Fund
Westminster City Hall
64 Victoria Street
LONDON
SW1E 6QP

22 March 2016

Dear Members of the Pension Fund Committee

Audit Plan for City of Westminster Pension Fund for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of City of Westminster Pension Fund, the Audit & Performance 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 Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the 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
- give an opinion on the Pension Fund Annual Report.

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.

Yours sincerely

Elizabeth Olive
Engagement Lead

Chartered Accountants

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Understanding your business

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

Challenges/opportunities

1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals were to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

4. Local Government Outsourcing

- As many Councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.



Our response

- 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.

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund.

Developments and other requirements relevant to your 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 Pressures

- There is increasing pressure on pension funds to have an investment strategy that pays benefits and this may lead to disinvestment decisions from investment assets. There is a need to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income as the fund matures and there are fewer active contributors.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure on going compliance with the Code.

3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- CIPFA produced guidance in 2014 aimed at improving the transparency of management cost data. This suggested that funds should include a note to the accounts with a breakdown of management costs that they are contractually liable for across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.



Our response

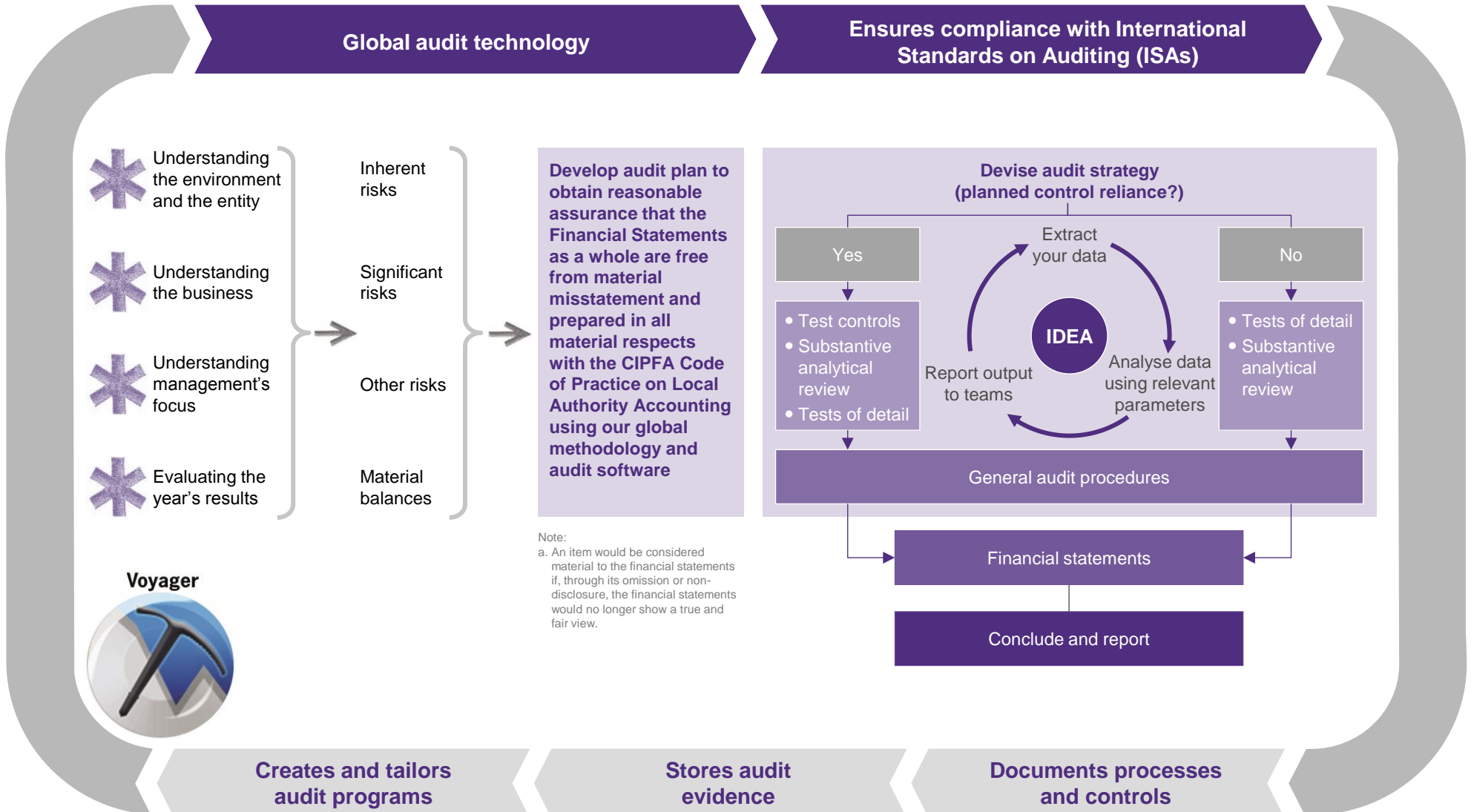
- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will ensure that the Pension Fund financial statements materially comply with the requirements of the Code through our substantive testing.

- We will continue to review the arrangements that the fund has in place for the quality of its' membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.

Our audit approach



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

Materiality

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 standard states that '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'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit, we have determined overall materiality in the context of a reader of the whole statement of accounts to be £9,891k (being 0.9% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this. Our reason for selecting this level of materiality is based on the risks associated with the new financial ledger system which was implemented from 1 April 2015 under the Managed Services programme. This programme has resulted in significant risk to the Council and impacts on the Pension Fund as the journals processed during the year and for accounts preparation are through the system.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial in the context of a reader of the whole statement of accounts 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 £494k.

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.

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	<p>Under ISA 240 there is a presumed risk that revenue 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 Westminster City Council 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 Westminster City Council who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable • The split of responsibilities between the Authority, the Custodian and its Fund Managers provide a very strong separation of duties reducing the risk around investment income • 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 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Managed services partnership (<i>risk of incomplete transfer of data from the old system to the new system</i>)</p>	<p>The tri-borough councils implemented a new financial ledger through a managed services partnership with BT from 1 April 2015. There have been a number of difficulties with the implementation which give rise to a significant risk of completeness of the balances in the financial statements, including:</p> <ul style="list-style-type: none"> • Reconciliations are not carried out timely and there are a large number of unreconciled items in the income and cash balances • Expenditure payments are not being made correctly • Some income received by the council is unallocated and being held in a suspense account • Payroll information is not up to date and not all employees are being routinely paid <p>The Council is proactively managing the service problems and is in regular contact with BT, including finance officers visiting the BT office on a monthly basis. Improvements are being made in the transactional processing every month but there remains a risk to the audit opinion.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have gained an understanding of the Council's relationship with the managed service provider, including the position as at December 2015 for the service issues currently being faced in delivering the expected contractual commitments for the council • Review of the testing carried out by the finance team to date to gain assurance over the accuracy of transactions being made by BT. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review the latest service provision arrangements to ensure that the Council has sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2016 • Discussions with Internal Audit to review the work completed and assurance level planned for the Head of Internal Audit opinion • IT audit review of the general controls in operation in the financial ledger and overall IT control environment • We will carry out substantive testing of all items in the financial statements that are greater than tolerable error set for the Pension Fund accounts. The main focus will be on the journal testing and contributions.

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 (UK & Ireland) 315).

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

Other risks	Description	Audit approach
Investment values – Level 2 investments	Valuation is incorrect – fair value measurements priced using inputs that are observable either directly or indirectly (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. No material issues were arising from this work We have sent letters to the custodian and fund managers requesting direct confirmation of ownership, existence and valuation of investment balances at 31st March 2016 and of income receivable throughout the year <p>Work planned:</p> <ul style="list-style-type: none"> We will review the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian, where available We will review the reconciliation between information provided by the custodian, fund managers and the Fund's own records and seek explanations for any variances 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) and an overall unit reconciliation for all material unitised pooled investment vehicles
Investment Income	Investment activity not valid / Investment income not accurate (Valuation Gross)	<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. No material issues were arising from this work <p>Work planned:</p> <ul style="list-style-type: none"> We will test a sample of investment income back to fund manager reports to ensure it is appropriate We will complete a predictive analytical review for different types of investments
Investment purchases and sales	Investment activity not valid (Valuation Gross)	<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. No material issues were arising from this work <p>Work planned:</p> <ul style="list-style-type: none"> We will test a sample of purchases and sales to fund manager records to ensure they are appropriate

Other risks identified (continued)

Other risks	Description	Audit approach
Contributions	Recorded contributions not correct (Existence, 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. No material issues were arising from this work <p>Work planned:</p> <ul style="list-style-type: none"> We will test a sample of contributions to source data to gain assurance over their accuracy and occurrence. We will 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)	<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. No material issues were arising from this work <p>Work planned:</p> <ul style="list-style-type: none"> We will test a sample of individual pensions in payment by reference to member files. We will perform controls testing over, completeness, accuracy and occurrence of benefit payments, 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.
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. No material issues were arising from this work <p>Work planned:</p> <ul style="list-style-type: none"> We will document the existence of key 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 therefore test the key controls identified in these areas. We will perform sample testing of changes to member data made during the year to source documentation

Other risks identified (continued)

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 section but will include:

- Cash deposits
- Current Assets
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments
- Level 1 investments

Other audit responsibilities

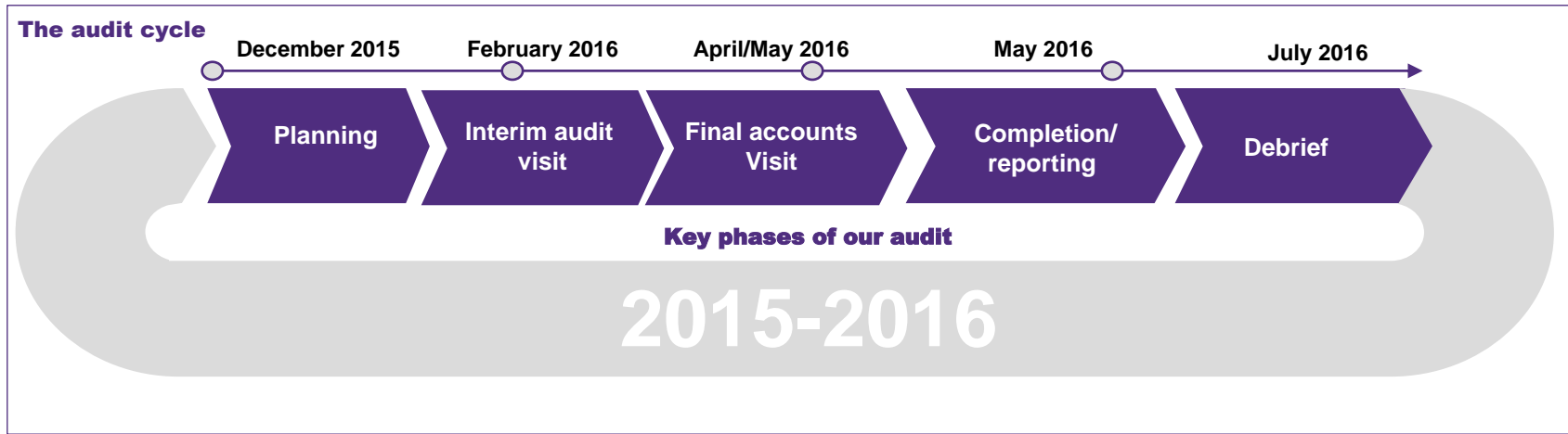
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice. Westminster City Council will provide a statement that covers both the Council and Pension Fund.

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.	Our review of internal audit work has not identified any material weaknesses which impact on our audit approach.
Entity level controls	<p>We are obtaining an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <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 to date has identified no material weaknesses which are likely to adversely impact on the fund's financial statements.
Walkthrough testing	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	Our work has not identified any material weaknesses which impact on our audit approach.

Key dates



Date	Activity
December 2015	Planning
February 2016	Interim site visit
22 March 2016 / (3 February 2016)	Presentation of audit plan to Pension Fund Committee / (Risks presented to those charged with governance – Audit & Performance Committee)
11 April - 6 May 2016	Year end fieldwork
3 May 2016	Audit findings clearance meeting with the City Treasurer
12 May 2016	Report audit findings to those charged with governance (Audit and Performance Committee)
21 June 2016	Report audit findings to the Pension Fund Committee

Fees and independence

Fees

	£
Pension Fund Scale Fee (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

Service	Fees £
Audit related services:	Nil
Non-audit services	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

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 requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report 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 Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Administering Authority'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.

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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