



CITY OF LONDON PENSION FUND

AUDIT PLAN TO THE AUDIT AND RISK MANAGEMENT COMMITTEE
Audit for the year ending 31 March 2017

18 April 2017

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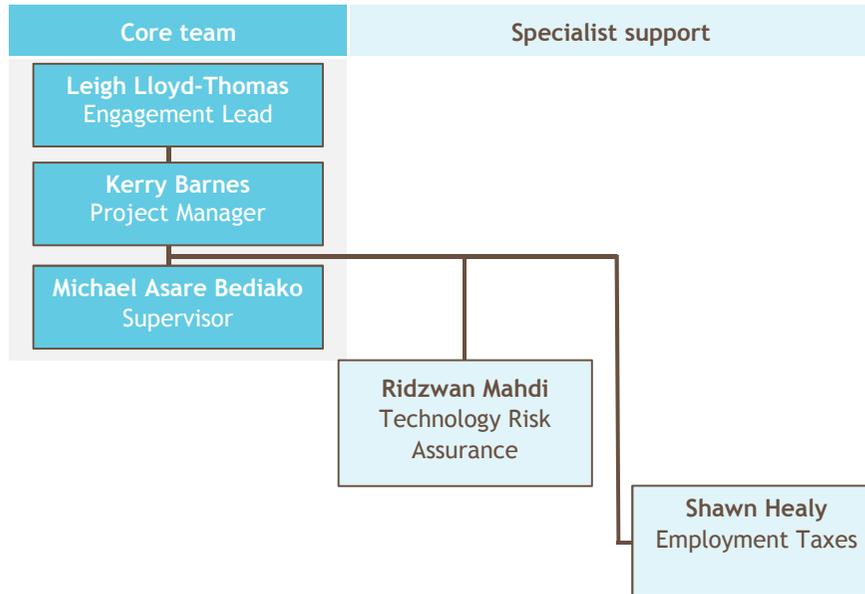
INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the pension fund for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Risk Management Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Kerry Barnes Project Manager	Tel: 020 7893 3837 kerry.l.barnes@bdo.co.uk	Management of the audit
Michael Asare Bediako Senior/Supervisor	Tel: 020 7893 3646 michael.asarebediako@bdo.co.uk	Day to day supervision of the on-site audit
Ridzwan Mahdi Technology Risk Assistant Manager	Tel: 020 7893 3126 ridzwan.x.mahdi@bdo.co.uk	Manage IT review for audit purposes
Shawn Healy Employment Tax Principal	Tel: 020 7893 2433 shawn.healy@bdo.co.uk	Manage employment tax review for audit purposes

Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

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

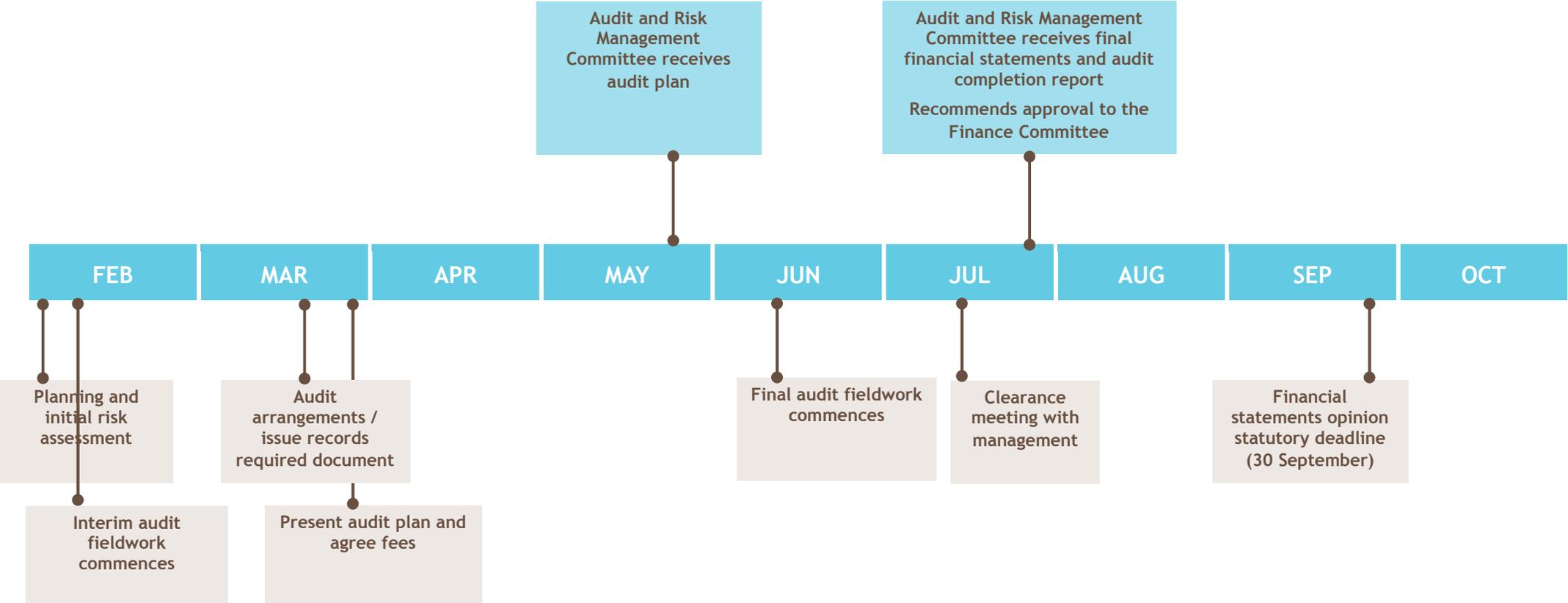
He is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

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

← **CONTINUOUS COMMUNICATIONS** →



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

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

MATERIALITY

MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Pension fund overall materiality	£8,000,000	£160,000
Specific materiality for other financial statement areas:		
- Fund account	£1,600,000	£32,000

Please see Appendix I for detailed definitions of materiality and triviality.

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

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

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

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

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

Our starting point is to document our understanding of the pension fund and the specific risks it faces. We discussed the changes to the fund, such as scheme regulations, and management's own view of potential audit risk during the planning stage of the audit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

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

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

Risks and planned audit responses

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

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

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Internal audit

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

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit and whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Management assessment of fraud

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

Management believe that the risk of material misstatement due to fraud in the pension fund financial statements is low. Potential fraud could include failure to receive all contributions due from employers, paying for fictitious pensioners or continuing to pay pensions to deceased pensioners. Management consider that controls in operation would prevent or detect material fraud in these areas. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

The Audit and Risk Management Committee has 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. This is discharged through the reviews undertaken by internal audit.

To corroborate the responses to our inquiries of management, please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the fund's policies, aims and objectives and to manage the risks facing the fund; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
Contributions receivable (normal and augmented)	<p>Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary, including current funding and past service deficit funding. Augmented contributions are also required against pension strain for early retirements.</p> <p>There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.</p>	<p>We will perform an examination, on a test basis, of evidence relevant to the amounts of normal contributions receivable to the fund including checking to employer payroll records, where relevant.</p> <p>We will review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month.</p> <p>We will perform tests over augmented contributions due from employers for pension strain costs.</p> <p>We will carry out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate.</p>	We will check a sample of contributions receivable from the Corporation and Museum of London to the payroll records to ensure that the correct amounts have been paid by the employee and employer.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Fair value of private equity and infrastructure investments	<p>The investment portfolio includes unquoted infrastructure and private equity holdings of approximately £48 million (at 31 March 2016) valued by the General Partner or fund manager using valuations obtained from the underlying partnerships ventures.</p> <p>In some cases, the valuations of the underlying ventures are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations.</p> <p>There is a risk that investments are not appropriately valued in the underlying ventures or may not be appropriately adjusted to include additional contributions or distributions at the year end.</p>	<p>We will obtain direct confirmation of investment valuations from the General Partner or fund managers and request copies of the audited financial statements (and member allocations) from the fund.</p> <p>Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, we will confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds.</p> <p>We will obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.</p>	<p>Direct confirmation of fund valuation and audited financial statements for the underlying partnership ventures.</p> <p>Assurance report on the operating effectiveness of internal controls within each of the fund manager organisation and the custodian</p>
Fair value of investments (pooled investments)	<p>The fair value of pooled investment vehicles is provided by individual fund managers and reported on a quarterly basis.</p> <p>There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.</p>	<p>We will obtain direct confirmation of investment valuations from the fund managers and agree valuations, where available, to readily available observable data (such as Bloomberg or London Stock Exchange).</p> <p>We will obtain independent assurance reports over the controls operated by the fund managers.</p> <p>Although the Fund does not use the Custodian to value pooled investments, the Custodian does provide performance monitoring services to the pension fund. We will review the Custodian's performance monitoring reports and follow up valuations (provided by the Fund Manager and used to as the valuation in the financial statements) that appear unusual when compared to the Custodian's independent performance monitoring report.</p>	<p>Direct confirmation of investment valuations from fund managers.</p> <p>Assurance report on the operating effectiveness of internal controls within each of the fund manager.</p> <p>Custodian's performance monitoring report.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p>	<p>We will review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.</p> <p>We will compare the disclosure in the financial statements to the information provided by the actuary</p>	We will use the PwC consulting actuary report provided to auditors for the review of the methodology of the actuary and reasonableness of the assumptions.
Fair value hierarchy disclosures	<p>The IFRS 13 scope exclusion for fair value investment disclosures for IAS 26: <i>Accounting and reporting by retirement benefit plan</i> has been removed and IFRS 13 fair value measurement disclosures apply in 2016/17.</p> <p>This will require enhanced disclosures around the fair value hierarchy of investments, and in particular any disclosed as 'level 3.' These types of valuations are subject to a significant level of assumption and estimation and valuations may not be based on observable market data. Information from the custodian, fund manager and /or other parties involved in valuing the investments will be required in order to disclose the information needed by IFRS 13.</p> <p>There is a risk that the pension fund may not be able to obtain the information needed in order to make the required IFRS 13 fair value investment disclosures in the financial statements.</p>	<p>We will review the fair value hierarchy disclosures and ensure that investment valuations have been correctly classified as a level 1, 2 or 3 in accordance with guidance issued by PRAG/Investment Association: <i>Practical Guidance on Investment Disclosures 2016</i>.</p> <p>Where investment valuations have been classified as level 3 we will ensure that the assumptions and estimation techniques used to value the investments have been disclosed and are consistent with information provided by either the custodian, fund manager and/or other parties that are responsible for valuing the investments.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Remuneration of key management personnel disclosure	<p>The 2016/17 CIPFA Code requires that amounts incurred by the pension fund for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.</p> <p>Key management personnel include officers employed by the Corporation therefore a percentage of their remuneration will be required to be disclosed to reflect the cost charged to the pension fund.</p> <p>We consider there to be a risk in the presentation of key management personnel services are provided by a separate management entity (the Corporation).</p>	<p>We will review the basis for apportioning costs between the pension fund and Corporation and ensure that costs relating to the provision of key management personnel services are accurately disclosed.</p>	Not applicable.
Consideration of related party transactions	<p>We consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.</p>	<p>We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review members' and Senior Management declarations to ensure that there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	Companies House searches for undisclosed interests.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Investment management expenses	<p>Local Government Pension Fund Accounts are required to disclose investment management expenses.</p> <p>Management expenses included in the pension fund accounts represents the fee for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on any 'hidden' fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments.</p> <p>The Financial Conduct Authority criticised the investment management industry for not reporting charges to investors sufficiently clearly. In particular, it criticised the annual management charge as failing 'to provide investors with a clear, combined figure for charges'.</p> <p>CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. While not mandatory to report these costs separately, there is a clear expectation that LGPS fund accounts do observe this guidance.</p> <p>CIPFA intends to make this a mandatory disclosure requirement from 2017/18.</p> <p>We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.</p>	<p>We will review the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Benefits payable	<p>Benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations.</p> <p>Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.</p>	<p>For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we will check a sample of calculations of pension entitlement. We will check the correct application of annual pension uplift for members in receipt of benefits.</p> <p>We will check a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member.</p> <p>We will review the results of the latest National Fraud Initiative data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches.</p> <p>Payments are cross checked to movements in the membership statistics.</p>	Not applicable.

INDEPENDENCE

INDEPENDENCE

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the City of London Corporation City Cash and pension fund. We do not consider this to be a threat to our independence and objectivity.

We have not identified any potential threats to our independence as auditors. We have provided no non-audit services to the Pension Fund.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table below sets out the length of involvement of key members of the audit team.

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

ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Leigh Lloyd-Thomas - Engagement lead	2
Kerry Barnes	2

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17	2015/16
	£	£
Code audit fee (pension fund)	21,000	21,000
Fees for audit related services	-	-
Fees for non-audit services	-	-
TOTAL FEES	21,000	21,000

Fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- instalment 1 £10,500 in July 2016.
- instalment 2 £5,250 in March 2017.
- instalment 3 £5,250 in June 2017.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the pension fund financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

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

CALCULATION AND DETERMINATION

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

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY

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

UNADJUSTED ERRORS

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



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

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