



CITY OF LONDON PENSION FUND

AUDIT PLAN TO THE AUDIT AND RISK MANAGEMENT COMMITTEE
Audit for the year ending 31 March 2018

12 February 2018

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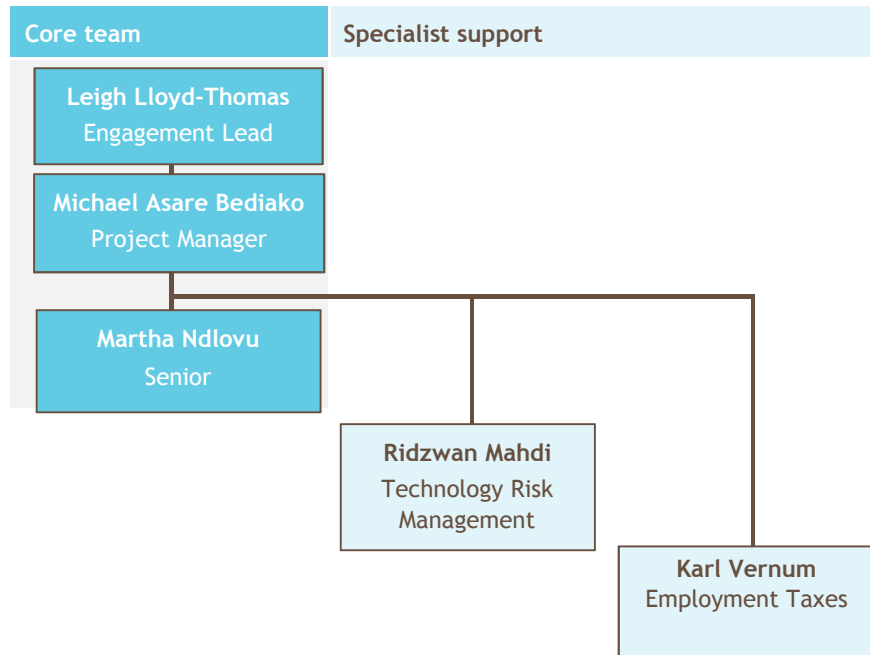
INTRODUCTION

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 2018. 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



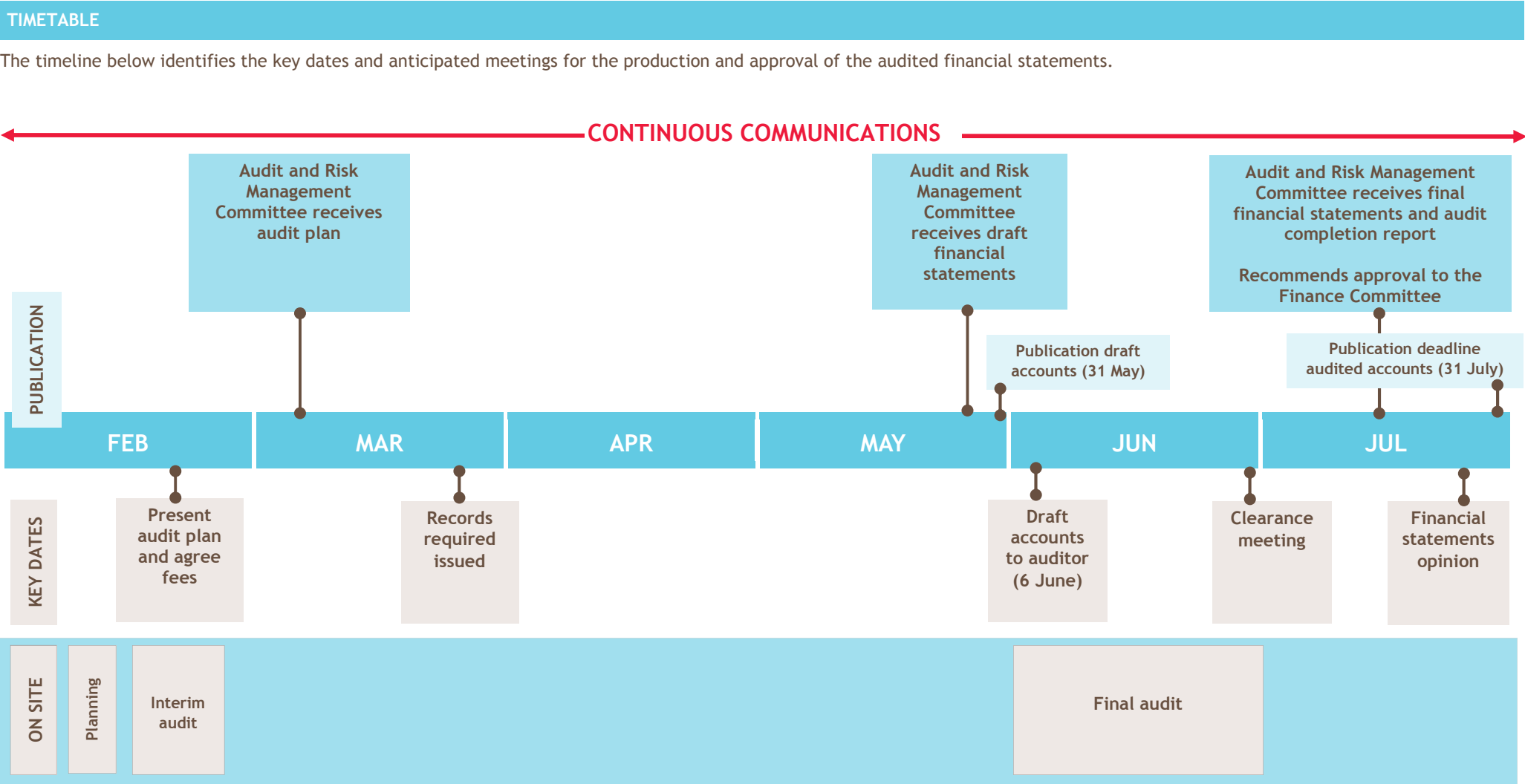
Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Michael Asare Bediako Project Manager	Tel: 020 7893 3643 Michael.asarebediako@bdo.co.uk	Management of the audit
Martha Ndlovu Senior	Tel: 0147 332 0851 martha.ndlovu@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
Karl Venum Employment Tax Manager	Tel: 020 7893 3549 karl.venum@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



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.	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	£9,667,000	£193,000
Specific materiality for other financial statement areas:		
- Fund account	£1,620,000	£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 asset amounts and contributions receivable. 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 risks during our planning visit 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 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 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 or 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.

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 auditing standards, 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 • Test a sample of significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
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 a roll-forward of data from the 2016 triennial valuation, updated where necessary, 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>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p>	<p>We will compare the assumptions used by the scheme actuary with assumptions used by other local government actuaries (provided by PwC consulting actuaries) to assess the reasonableness of the assumptions and impact on the calculation of the present value of estimated future pension payments.</p> <p>We will also check whether the actuary had applied assumptions in accordance with the range provided to PwC.</p> <p>We will compare the disclosure in the financial statements to the information provided by the actuary</p> <p>We will review the data provided to the actuary to ensure that is accurate and complete</p>	We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.

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 investments (infrastructure and private equity)	<p>The investment portfolio includes unquoted infrastructure and private equity holdings valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments.</p> <p>Valuations 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) up to 31 March.</p> <p>There is a risk that investments valuations 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 manager and request copies, where applicable, of the audited financial statements of the underlying partnerships (and member allocations).</p> <p>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 the fund valuation and audited financial statements, where applicable, for the underlying partnerships.</p> <p>Assurance report on the operating effectiveness of internal controls within each of the fund manager organisation as well as the custodian.</p>
Fair value of investments (pooled funds)	<p>The fair value of other funds (principally unit trusts and pooled investments held through unitised insurance policies) is provided by individual fund managers and reported on a monthly 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 independent valuations, where available, provided by the custodian.</p> <p>We will obtain the controls reports of the custodian and each fund manager (either directly or through the Corporation) and existence of underlying investments in the funds.</p>	<p>Direct confirmation of investment valuations from fund managers and, where appropriate, from the custodian.</p> <p>Controls reports of the custodian and each fund manager.</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
Contributions receivable (normal and additional contributions for pension strain)	<p>Employers are required to deducted amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional 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 pension strain contributions due from employers.</p> <p>We will carry out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the 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.
Membership disclosure	<p>Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed.</p> <p>There is a risk that the membership database may not be accurate and up to date to support this disclosure.</p>	We will undertake sample testing of existing and movements of members to transactions recorded in the fund account.	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
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 '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>CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. This disclosure is a mandatory requirement for the 2017/18 financial statements.</p> <p>Management instructed fund managers to provide this information in the previous year. While most were able to provide this information, management will work with the remaining fund managers to provide this information in the current year.</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
Consideration of related party transactions	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>We will 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.
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 and also review the results of the checks undertaken by ATMOS on the existence of pensioners.</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 2018.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the City of London Corporation City Fund 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 confirmed that we have not provided any non-audit services to the pension fund.

We confirm that the firm complies with the Financial Reporting Council’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 and the planned year of rotation.

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
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Leigh Lloyd-Thomas - Engagement lead	3
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Michael Asare Bediako - Project manager	3
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FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18	2016/17
	£	£
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:

- instalment 1 £10,500 in July 2017.
- instalment 2 £5,250 in March 2018.
- instalment 3 £5,250 in June 2018.

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 being 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 and should not be relied upon by any other person, except where expressly agreed by our prior written consent. No responsibility to any third party is accepted.

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