

Annual Audit Letter

September 2006



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London Pensions Fund Authority

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the Members of the London Pensions Fund Authority (the Authority), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Authority's website.
- 2 This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Authority

- 3 We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including pension fund authorities.
- 4 As the Authority's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Authority achieving its objectives. It is the responsibility of the Authority 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 Authority is fulfilling these responsibilities.

The scope of our work

- 5 Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Authority's accounts and the accounts of its Pension Fund; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Authority. A list of all reports issued to the Authority in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

The audit of the accounts

- 7 We gave an unqualified opinion on the financial statements on 20 September 2006.
- 8 A complete set of draft accounts was not available for audit until three weeks after the Authority's internal target date. Our audit identified a number of significant amendments to the financial statements and additional audit work was required to provide assurance that the accounts were materially correct. We have made recommendations to the Authority to ensure the closedown and accounts preparation process is more robust in future years. There are no other significant issues which required reporting to the Authority in relation to the underlying financial systems that were also reviewed.

Recommendation

R1 Review the Accounts preparation process to ensure that appropriate resources are allocated and that the closedown timetable is realistic.

Use of resources

Financial position

- 9 The financial position of the pension fund continues to improve, with net assets increasing by £479 million (16 per cent) during the year, and based on the accounts, assets are estimated to meet 83 per cent of the fund's liabilities (81 per cent as at 31 March 2004).

Value for money conclusion

- 10 We are required to issue a conclusion on whether we are satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion and requires the review of the following criteria agreed by the Audit Commission in relation to the Authority's arrangements for:
 - monitoring and scrutiny of performance;
 - maintaining a sound system of internal control;
 - managing its significant business risks;
 - managing and improving VFM;
 - ensuring that its spending matches its available resources;
 - managing performance against budgets; and
 - promoting and ensuring probity and propriety in the conduct of its business.

- 11 Our conclusion was that the Authority has adequate arrangements in place in relation to all of the above criteria and an unqualified value for money conclusion was issued. Recommendations for improvement were included in our Annual Governance Report.

Closing remarks

- 12 This letter has been discussed and agreed with the Director of Corporate Resources. A copy of the letter will be presented at the Board on 5 October 2006, and copies will be provided to all Authority members.
- 13 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year. These are listed in the following table.

Table 1

Report	Actual date of issue
Audit Plan 2005/06	June 2005
Annual Governance Report, including opinion on accounts and VFM conclusion	September 2005
Annual Audit Letter	September 2005

- 14 I would like to take this opportunity to thank the Authority for its assistance and co-operation during the course of the audit.

Jon Hayes
District Auditor

20 September 2006