

Annual Audit Letter

October 2007



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London Pension Fund Authority

Audit 2006/07

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

Your District Auditor has prepared this report to summarise the Audit Commission's work at the Authority during 2006/07.

In this report, the Commission summarises findings and conclusions from the statutory audit, the appointed auditor has previously reported to you. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, exercise their professional judgement independently of the Commission (and the audited body). Findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; auditors take no responsibility to any member or officer in their individual capacity, or to any third-party.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Summary

Key messages

- 1 The Authority has made significant improvements to the closedown processes that support the preparation of the draft financial statements. However, further improvements are required to ensure that future draft statements and supporting working papers are of the standard of 2004/05 and previous years.
- 2 The Authority has revised its approach to strategic and business planning and has produced a focused and ambitious Corporate Plan for 2007-2010. This now needs to be supported by a robust medium term financial strategy to ensure that the resources to deliver the strategy are identified and planned for appropriately.
- 3 We gave an unqualified opinion on the Accounts and an unqualified value for money conclusion on 14 September 2007.

Recommendations

<i>Recommendations</i>
<i>R1 Secure further improvements to the processes for compiling the draft financial statements.</i>
<i>R2 Prepare a medium-term financial strategy to underpin the resource demands of the Corporate Plan.</i>

Purpose, responsibilities and scope

- 4 The purpose of this letter is to summarise the key issues arising from the work we have carried out during the year.
- 5 We have addressed this letter to Members as it is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Authority in meeting its responsibilities.
- 6 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition, the Authority is planning to publish it on its website.
- 7 As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we review and report on:
 - the Authority's accounts; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion).
- 8 We have listed the reports issued to the Authority during 2006/07 at the end of this letter.

Audit of the accounts

- 9 We issued an unqualified opinion on the Authority's accounts and the accounts of the Pension Fund on 14 September 2007.
- 10 Last year, we reported a number of significant issues arising from our audit of the 2005/06 accounts. During 2006/07, the Authority has reviewed its processes that support the production of the financial statements and many of the weaknesses have been addressed. A complete set of draft accounts was available by the Authority's internal deadline. There was a notable improvement in the quality of the draft accounts, although further improvements need to be made to the working papers to bring them the high standard of 2004/05 and preceding years.
- 11 Before giving our opinion, we reported to the Audit Committee on the issues arising from the 2006/07 audit. Our report stated that some amendments were required to the draft statements to ensure full compliance with accounting standards and that these were made with the agreement of officers.

Authority's use of resources

- 12 We are required to conclude whether we are satisfied 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 conclusion.

Value for money conclusion

- 13 We concluded that the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources. Our work did identify scope for improvement in certain areas and recommendations to address these were included in our Annual Governance Report. The key areas related to:
- the need to prepare a medium term financial strategy to underpin the new Corporate Plan for 2007-2010; and
 - the need to define more clearly the outputs and expected outcomes from internal reviews aimed at improving value for money.

National Fraud Initiative

- 14 The National Fraud Initiative (NFI) is a computerised data matching exercise designed to identify overpayments to suppliers and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in January 2007. The Authority has been proactive in reviewing the output from NFI which primarily relates to pension payments made to deceased pensioners where the Authority had not received notification of the death. The Authority is now seeking to recover over £80,000 of such payments made.

Specific risk-based work

- 15 We also carried out a specific piece of risk-based work. In 2004, we ran an all-staff survey to establish the level of awareness of the Authority's anti-fraud and corruption arrangements. While the results compared favourably to other local authorities where the survey had been completed, the Authority wanted to evaluate whether various anti-fraud initiatives introduced subsequently were having the desired impact. We therefore ran the survey again in 2007.
- 16 The results showed that staff are aware of the Authority's commitment to anti-fraud and they are now more confident about reporting their concerns. However, more needs to be done to raise awareness of counter-fraud arrangements, such as the register of interests and codes of practice. An action plan has been agreed to secure improvements.

Other work

Certification of claims and returns

- 17 We are required to certify one grant return in respect of 2006/07. Our audit is yet to be completed. In 2005/06, we certified two grant claims and there were no significant issues arising.

Closing remarks

- 18 We have discussed and agreed this letter with the Chief Executive and the Director of Corporate Resources. We will present the letter at the Audit Committee February 2008 and we will provide copies to all Authority members.
- 19 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 1 Reports issued

Report	Date of issue
Audit plan	June 2006
Changing organisational cultures	May 2007
Annual governance report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Annual audit letter	October 2007

- 20 The Authority has taken a positive and constructive approach to our audit work, and I wish to thank the Authority's staff for their support and co-operation during the audit.

Jon Hayes
District Auditor

October 2007