

Annual Audit Letter

London Pensions Fund Authority

Audit 2007/08

January 2009



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Status of our Reports

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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Summary

Key messages

- 1 I issued an unqualified opinion on the Authority's financial statements on 24 November 2008. The target date for the Authority to publish audited accounts by 30 September 2008 was not met. To comply with legislation the Authority published its unaudited accounts by the due date.
- 2 The financial statements presented for audit contained material errors and did not comply with applicable accounting standards and legislation. We reported to those charged with governance (the Audit Committee) that the arrangements for the production of the accounts were inadequate. The Authority has recognised the seriousness of the failings and has taken action to strengthen its financial reporting arrangements and increase the capacity within its finance department.
- 3 I also issued a qualified value for money conclusion on the 24 November 2008. The Authority put in place effective arrangements to secure economy, efficiency and effectiveness in the use of its resources except that it did not put in place arrangements to maintain sound system of internal control.

Recommendations

Recommendation	
R1	Implement the recommendations made in our Annual Governance report which includes measures to: <ul style="list-style-type: none">• strengthen the finance function;• improve internal controls; and• ensure compliance with accounting standards and relevant legislation.

Purpose, responsibilities and scope

- 4 This Annual Audit Letter (letter) summarises the key issues arising from our work carried out during the year. I have addressed this letter to Authority members as it is the responsibility of the Authority to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Authority in meeting its responsibilities.
- 5 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at www.audit-commission.gov.uk.
- 6 I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.
- 7 As your appointed auditor I am 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, I 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.
- 8 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations for the Authority to consider. The closing remarks section at the end of this letter contains a list of all reports issued to the Authority relating to the 2007/08 audit.

Audit of the accounts

- 9 I issued an unqualified opinion on your on 24 November 2008. I reported the issues arising from our 2007/08 audit to those charged with governance (in this case the Audit Committee) on 9 September 2005 and on 5 November 2008.
- 10 The financial statements presented for audit contained material errors and did not comply with the CIPFA Statement of Recommended Practice. The legal basis for a material transfer between two pension fund accounts could not be verified during the course of the audit and was subsequently reversed.
- 11 There was insufficient knowledge and expertise within the finance function to respond quickly and easily to technical accounting issues identified during the course of the audit. We also found that a key internal control within the Authority's bank system had not operated effectively throughout the year.
- 12 We are pleased to note that Authority has responded positively the recommendations in our Annual Governance Report. Actions to date include:
 - obtaining interim support for the Head of Finance;
 - developing a recruitment plan to fill key vacancies within the finance function;
 - developing an action plan to mitigate key risk areas; and
 - close monitoring by members and officers to ensure action plans are delivered.

Use of resources

Value for Money conclusion

- 13 I concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources except that it did not put in place arrangements to maintain sound system of internal control. Consequently, I issued a qualified value for money in this respect on 20 November 2008.
- 14 The control weaknesses identified during the course of my audit related to the bank system; regular bank reconciliations had not been carried out to an adequate standard during the year which resulted in outstanding items not being resolved in a timely manner; and receipts being deposited in the wrong account.

National Fraud Initiative

- 15 The National Fraud Initiative is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud.
- 16 The Authority has been proactive in following up the resultant data matches.

Closing remarks

- 17 I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present a copy of the letter at the Audit Committee on 10 February 2009, and provide copies to all Authority members.
- 18 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 Table 1 below.

Table 1

Report	Date of issue
Audit plan	June 2007
Annual Governance Report including opinion on accounts and VFM conclusion	November 2008
Annual audit letter	February 2009

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- 19 The Authority has taken a positive and constructive approach to our audit. I would like to thank the Authority for its help and cooperation during the audit.

Andrea White
District Auditor
December 2008

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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