

# Informing the audit risk assessment for Brent Pension Fund 2020/21



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Brent Pension Fund external auditors and Brent Pension Fund's Audit & Standards Committee , as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit & Standards Committee under auditing standards.

### Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit & Standards Committee . ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit & Standards Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit & Standards Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit & Standards Committee and supports the Audit & Standards Committee in fulfilling its responsibilities in relation to the financial reporting process.

### Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Brent Pension Fund management. The Audit & Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	None
2. Have you considered the appropriateness of the accounting policies adopted by Brent Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Not aware of any events or transactions that may cause us to change or adopt new accounting policies.
3. Is there any use of financial instruments, including derivatives?	The pension fund invests contributions from its members in a range of financial instruments in line with its investment strategy in order to pay member benefits and reduce the funding deficit. These will be disclosed in the accounts in line with the CIPFA Code of Practice.
4. Are you aware of any significant transaction outside the normal course of business?	Not aware of any significant transaction outside the normal course of business.

# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Not aware of any changes in circumstances.
6. Are you aware of any guarantee contracts?	Not aware of any guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Not aware of the existence of loss contingencies and/or un-asserted claims.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Brent Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Brent Pension Fund only used in house solicitors during the year.

# General Enquiries of Management

Question	Management response
9. Have any of the Brent Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None reported.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Hymans Robertson – Actuarial and investment consultancy advice Ernst and Young – tax advice on investments



# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Standards Committee and management. Management, with the oversight of the Audit & Standards Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Brent Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit & Standards Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Standards Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Brent Pension Fund's management.

# Fraud risk assessment

Question	Management response
<p>1. Have Brent Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Pension Fund's risk management processes link to financial reporting?</p>	<p>All material risks are considered as part of annual planning.</p> <p>There is a risk management framework in place corporately which requires all departments to identify, assess and manage all risk.</p> <p>Additionally we have a fraud risk assessment document for each department.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Whereas all financial systems are inherently at risk of fraud, we are satisfied that there are currently none which exceed management's risk appetite.</p> <p>Additionally, Internal Audit work with management annually to identify all areas where independent assurance may be helpful. This includes identifying which key financial systems and processes should be included in the audit plan if there are any emerging risk factors.</p>

# Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Brent Pension Fund as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>All counter fraud work is reported quarterly to CMT and the Audit Committee. Papers are available online.</p>
<p>4. Have you identified any specific fraud risks?  Do you have any concerns there are areas that are at risk of fraud?  Are there particular locations within Brent Pension Fund where fraud is more likely to occur?</p>	<p>As above - fraud risk is inherent in all organisations. We manage this risk as part of our RM framework</p>
<p>5. What processes do Brent Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>As above</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Brent Pension Fund, including:</p> <ul style="list-style-type: none"><li>• the existence of internal controls, including segregation of duties; and</li><li>• the process for reviewing the effectiveness the system of internal control?</li></ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>These functions are part of the overall corporate governance and RM framework. Internal Audit provide independent assurance on the effectiveness of these arrangements via annual plan delivery and reporting to those charged with governance.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No areas are at elevated risk for misreporting, there are a range of controls in place, and the council's internal audit team monitor the effectiveness of controls across the council, and monitor implementation of action plans to address any risks identified.</p>

# Fraud risk assessment

Question	Management response
<p>8. How do Brent Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Fraud awareness programme, Intranet/Yammer communications; induction</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Within finance, the highest risk areas are around changing supplier's and staff bank details, and making payments, so there are a range of controls in place to reduce risk of fraud and corruption including segregation of duties and procedures for approval.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>I'm not aware of specific risks of related party relationships or transactions that could give rise to instances of fraud. The Council requires members and staff to declare any potential conflicts of interest. Managers are required to monitor and approve or reject some declarations by their members of staff. Members' interests are declared to the monitoring officer and disclosed publically.</p>

# Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit &amp; Standards Committee ?</p> <p>How does the Audit &amp; Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>As above - quarterly reporting on the work of the counter fraud team to the Audit Committee. Audit Committee challenge and review these reports. Outcome is enhanced profile of the work of the counter fraud team.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>We have a formal whistle blowing policy and reporting route. All whistle blowers are responded to and appropriate action undertaken.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

# Law and regulations

## Issue

### **Matters in relation to laws and regulations**

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit & Standards Committee, is responsible for ensuring that Brent Pension Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit & Standards Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Brent Pension Fund have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?</p>	<p>Management gain assurance in this area from the range of management controls in place to manage all services - e.g. including recruitment and training of appropriately qualified staff, a robust policy and procedure framework and effective management oversight and control. Legal and Financial implications are required to be included in all reports for decisions by Cabinet members and member level decision-making bodies as well as in all key decision report to officers. Additionally, independent and objective assurance is provided by the Internal Audit function as well as other external assurance providers.</p> <p>We are not aware of any changes to the Authority's regulatory environment that may have had a significant impact on the Authority's financial statements.</p>
<p>2. How is the Audit &amp; Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Internal Audit annual plan is the key source of assurance for ASAC. This plan is focused on the highest risk areas for the Council. Each Audit review will consider compliance with policy, plans, laws and regulation as part of the scope for that review.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No actual or potential litigation or claims have been identified.</p>



## Impact of laws and regulations

Question	Management response
5. What arrangements does Brent Pension Fund have in place to identify, evaluate and account for litigation or claims?	Claims will be evaluated on a case by case basis with support from the Council's internal legal team.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None.

# Related Parties

## Issue

### Matters in relation to Related Parties

Brent Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Brent Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the Pension Fund that gives it significant influence over the Pension Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Pension Fund, or of any entity that is a related party of the Pension Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Pension Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Brent Pension Fund's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Brent Pension Fund</li> <li>• whether Brent Pension Fund has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	<p>No changes. The related party is the Brent Council as the Pension Fund is administered by Brent Council.</p>
<p>2. What controls does Brent Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All pensions sub committee members, board members and officers are required to declare conflicts of interest in line with the relevant Council policy. The Council requires members and staff to declare any potential conflicts of interest. Managers are required to monitor and approve or reject some declarations by their members of staff.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Council's standard operating procedures apply to these items, including segregation of duties.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>All transactions require the relevant approvals to be processed.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit & Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit & Standards Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	No significant additional accounting estimates.
2. How does the Pension Fund's risk management process identify and addresses risks relating to accounting estimates?	Included in Corporate Risk Register and Internal Audit Reviews. Please see risk register.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Review by finance team, audit committee and pension fund sub-committee. Same as previous years.
4. How do management review the outcomes of previous accounting estimates?	Review outturn against accruals made. Make improvements to accrual methodology based on this analysis.  Sample checks of estimates.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes made.

# Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	External advisors are engaged where this is usual practice or relevant.
7. How does the Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	There will be senior finance review of all accruals. Chief Accountant provide regular guidance on accounting estimates and year-end activities.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Senior Finance review of all accruals proposed by Service and material estimates
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul data-bbox="98 844 697 986" style="list-style-type: none"><li>- Management's process for making significant accounting estimates</li><li>- The methods and models used</li><li>- The resultant accounting estimates included in the financial statements.</li></ul>	Senior finance review of material estimates. Using third party evidence and confirmations where possible.

# Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit & Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through this process

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 2 Investments	Asset valuations are provided by Northern Trust, the Fund's custodian on a monthly basis.	Estimates are provided by the Fund custodian Northern Trust	Northern Trust	Uncertainty for valuation is inherent for more illiquid asset classes. Estimates provided at fair value in line with the CIPFA code.	No
Level 3 Investments	Asset valuations are provided by Northern Trust, the Fund's custodian on a monthly basis.	Estimates are provided by the Fund custodian Northern Trust	Northern Trust	Uncertainty for valuation is inherent for more illiquid asset classes. Estimates provided at fair value in line with the CIPFA code.	No
Actuarial PV of Retirement Benefits	The promised retirement benefits are projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019.	Estimates are provided by the Fund actuary Hymans Robertson	Hymans Robertson	The assumptions used are those adopted for the Administering Authority's IAS19 report. These assumptions will be supplied by the actuary at year end.	No
Contribution Accruals	Estimates based on amounts collected in previous months	Analysis of actual contributions received through the year.	No	Fairly certain – contributions are linked to staffing levels at a fixed % of payroll.	No





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