

Agenda item:

Pensions Committee

On 18/06/09

Report Title. Pension Fund Financial Statements for the year ending 31 March 2009, Audit Plan and Budget 2009/10

Report of The Chief Financial Officer

Signed :



Contact Officer : **John Hardy – Corporate Finance**
Telephone 020 8489 3726

Wards(s) affected: **All**

Report for: Decision

1. Purpose of the report

- 1.1. To consider the Pension Fund's financial statements for the year ending 31 March 2009. These statements have been prepared with the aim of giving clear and concise information about the financial affairs of the Pension Fund to trustees, the public and other stakeholders.
- 1.2. The Audit Plan of the external auditors, Grant Thornton, together with the additional audit fee is reported for approval.
- 1.3. To agree the 2009/10 Pension Fund budget.

2. Introduction by Cabinet Member

- 2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1. Not applicable.

4. Recommendations

4.1 That the Pension Fund's financial statements for 2008/09 be approved.

4.2 That the Audit Plan of Grant Thornton be agreed.

4.3 That the proposed fee of £38,500 be approved.

4.4 That the Pension Fund's budget for 2009/10 be approved.

5. Reason for recommendations

5.1. To approve the Pension Fund's accounts for 2008/09 and Budget for 2009/10.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 This report sets out the Pension Fund's financial statements for 2008/09 and budget for 2009/10, provides some interpretations for Trustees, and highlights key matters for Trustees consideration.

7.2 The final statement of accounts, including the Pension Fund, will be prepared in accordance with the Accounts and Audit Regulations 2003 and will be reported to the General Purposes Committee on 25 June 2009 for approval prior to audit. This meets the statutory deadline for the financial statements to be approved by the end of June 2009.

7.3 The external audit for the Council's 2008/09 accounts will commence on 1 July. The auditors will submit a report on the findings of their audit to General Purposes Committee on 24 September and then will subsequently complete their audit by issuing their formal opinion before the end of September.

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report and has no specific comments to make.

9. Equalities & Community Cohesion Comments

9.1. There are no equalities issues arising from this report.

10. Consultation

10.1. Not applicable.

11. Service Financial Comments

11.1 Performance of Fund Managers is being carefully monitored in the current volatile market conditions.

11.2 The need for any changes to the employer's contribution rate will be fully assessed as part of the triennial valuation as at 31 March 2010. Results will be available by early 2011. Budgetary implications will be considered as part of the Financial Planning process.

11.3 The fee estimated for the external audit of the Pension Fund accounts is £38.5k and this will be charged to the Pension Fund budget for 2009/10.

12. Use of appendices /Tables and photographs

12.1 Appendix 1 Financial Statements for the Pension Fund for the year ending 31 March 2009.

12.2 Appendix 2 Audit Plan of Grant Thornton

12.3 Appendix 3 Pension Fund budget 2009/10.

13. Local Government (Access to Information) Act 1985

Final accounts working papers.

Quarterly Fund Performance update reports to Pensions Committee.

14. Background

14.1 This report sets out the Pension Fund's financial statements for 2008/09, provides some interpretations for Trustees, and highlights key matters for Trustees consideration.

14.2 The appended financial statements are recommended for approval.

14.3 The Use of Resources element of the Comprehensive Performance Assessment (CPA) includes requirements that the Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers, and that the Council publishes its accounts in accordance with statutory requirements.

14.4 The budget for 2009/10 is also set out for approval.

15. Pension Fund financial statements

15.1 The financial statements for the Pension Fund for the year ending 31 March 2009 are appended to this report for consideration by Members. These statements have been prepared in accordance with the Accounting Code of Practice in Great Britain (ACOP), the Best Value Accounting Code of Practice (BVACOP) and the new Pensions Statement of Recommended Practice (SORP).

15.2 The statements have been prepared with the aim of giving clear and concise information about the affairs of the Pensions Fund to the trustees, the Public and other stakeholders.

15.3 The statements are also being reported to General Purposes Committee on 25 June for approval to meet the statutory deadline as part of the Council's overall final accounts for the financial statements of the Council to be approved by the end of June 2009.

15.4 Summary accounts have been included in the Annual Report that will be reported to the Pensions Fund Annual General Meeting (AGM) on 23 July and is also being sent to each scheme member.

15.5 The Pension Fund Account (Appendix 1) shows the contributions to the Fund during the year and benefits paid from it. This shows a net decrease in the value of the fund during the year of £117.6 million (19.4%) from £605.1 million to £487.5 million due to the following:

- £142.9 million is due to a decrease in the market value of investments and this is partially offset by £10.7 million of non-investment income (mainly employee and employer contributions) exceeding expenditure (mainly the cost of pension benefits);
- £14.6 million income from investments (net of investment management expenses and taxation).

15.6 The Net Asset Statement (Appendix 1) sets out the position on assets and liabilities for the Fund.

15.7 The formal level of funding as a whole for the Fund is 77.7 per cent as at end of March 2007 at the last triennial actuarial valuation. The level of funding is determined as part of independent actuarial valuations of the Fund. The interim actuarial valuation

as at 31 March 2009 shows that the level of funding has reduced to 53 per cent. This deterioration is largely due to investment performance being lower than expectations due to stock market volatility.

- 15.8 The actuary does not propose to revise the minimum level of employer contribution rates as a result of this funding update even though the financial position has worsened significantly. The actuary advises that there is no power in the LGPS regulations to increase employer's contributions between triennial valuations due to market conditions (other than for admission bodies whose admission agreement is to end soon).
- 15.9 The approved contribution rate for the Haringey part of the Fund as at 31 March 2007 was 22.9 per cent. The need for any changes to the contribution rate will be fully assessed as part of the triennial valuation as at 31 March 2010. Results will be available by late 2010 or early 2011.
- 15.10 Performance from fund managers resulted in negative absolute returns of (21.65) per cent and this was, 2.31 per cent, below the benchmark that was in place for the year. There has been much volatility in the market due to credit issues that have arisen and are linked to the sub prime mortgage market in the USA leading to an impact on the financial sector and stock markets globally. This has impacted upon the performance of our portfolio. The Council are monitoring the position carefully.
- 15.11 Performance of the combined fund and of individual fund managers compared to benchmarks and targets has been regularly reported to previous meetings of the Committee in the quarterly Fund Performance update reports and will also be reported to the Pension Fund AGM that will be held on 23 July 2009.
- 15.12 Performance of the overall fund compared to benchmark and target is shown below. The benchmark and target are shown gross of fund manager's fees.

	12 months to end of March 2009
	%
Overall fund performance	(21.65)
Benchmark	(19.34)
Performance versus benchmark	(2.31)
Overall fund performance	(21.65)
Target	(17.70)
Performance versus target	(3.95)

15.13 This shows that in the 12 month period to March 2009:

- The performance of the combined Haringey fund has decreased in absolute terms by 21.65% and under-performed against the benchmark that was in place for the year by 2.31% and target by 3.95%.

15.14 This performance is disappointing, however It is important to view fund investment over the long term.

15.15 Pensions Committee completed the last full review of the fund's investment management strategy in 2006/07 and the new structure was largely implemented on 16 March 2007. It will take some further time to increase our holdings in property up to the new benchmark (10 per cent) and to fully build holdings in private equity given current volatile market conditions. Pensions Committee previously agreed to delay the introduction of active currency until market conditions improve.

15.16 The investment performance of the fund is a critical factor as it impacts directly on the level of employer's contributions that the employers are required to pay.

15.17 Trustees will remember that the Council's contribution rate is determined by the fund's actuary based on triennial actuarial valuations, the last review being at 31 March 2007. Following this valuation, the actuary has agreed that the Council's contribution rate can prudently remain at 22.9 per cent based on a 20 year recovery plan.

16. Disclosure of information about the movement in the net pension assets/liability

16.1 As at 31 March 2009, the Council had the following overall assets and liabilities for pensions.

	2008/09 £'000	2007/08 £'000
Present value of scheme liabilities	668,103	681,516
Present value of unfunded liabilities	47,938	51,338
Estimated assets in scheme	(409,413)	(505,436)
Net liability	306,628	227,418

16.2 The primary cause of the increase from an estimated net liability of £227m as at 31 March 2008 to an estimated net liability of £307m as at 31 March 2009 is the investment performance being lower than expectations due to stock market volatility.

16.3 The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The net liability of £307 million has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding this deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

16.4 Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years based on estimates of mortality rates, salary levels, etc. Liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. The main assumptions used in their calculations are:

	2008/09	2007/08
Rate of inflation	3.1%	3.6%
Rate of increase of salaries	4.6%	5.1%
Rate of increase in pensions	3.1%	3.6%
Rate for discounting scheme liabilities	6.9%	6.9%
Expected return on assets	6.2%	7.1%

16.5 Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

16.6 Assets in the fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the fund.

	Long term return %	31 March 2009 %	31 March 2008 %
Equity investments	7.0	60	70
Bonds	5.4	25	21
Property	4.9	7	5
Cash	4.0	8	4
		100	100

17. Audit Plan

17.1 The Audit Plan of the Council's external auditors, Grant Thornton, to perform the audit of the Pension Fund for the year ended 31 March 2009 is included in Appendix 2. Grant Thornton are attending the meeting to present their report and answer any questions from Trustees. Grant Thornton will report back to the September meeting of Pensions Committee with their findings in the audit of the Pension Fund's accounts.

17.2 A new charge, based on the standard Audit Committee fee Schedule is being levied for this work. This is £38,500 for the Haringey Fund. Members are asked to approve this.

18. Budget 2009/10

18.1 The 2009/10 budget for the Pension Fund is shown in Appendix 3. The Appendix also shows the 2008/09 outturn as previously requested for ease of comparison. Key information relating to the budget is detailed below.

18.2 Fund Administration and Membership - Haringey Council administers the Pension Fund under the provisions of the Local Government Superannuation Act, to provide benefits to its employees. The numbers of employees contributing to the fund, pensioners and dependents receiving benefits, and deferred pensions is shown in the following table.

	As at 31 March 2009	As at 31 March 2008
Employees contributing to the fund	6,820	6,954
Pensioners and dependents receiving benefits	5,771	5,657
Deferred pensioners	6,122	5,487

18.3 Staff of the following organisations contribute to the fund and benefit accordingly.

- Haringey Age Concern (admitted);
- Alexandra Palace Trading Co (admitted);
- Enterprise Ltd (admitted);
- Urban Futures (London) Ltd (admitted);
- Haringey CAB (admitted);
- Mitte Ltd (admitted);
- CONEL (scheduled);
- Greig City Academy (scheduled);
- Homes for Haringey (scheduled);
- John Loughborough (Community School);
- TLC Ltd (admitted);
- One Complete Solution Ltd (admitted);
- Fortismere School (Community School); and

- RM Education Ltd (admitted).

- 18.4 Actuarial Position – this is set out earlier in this report in paragraphs 15.7 to 15.9 and 15.17.
- 18.5 Management - The pension fund includes the costs, charges and expenses properly incurred in administering the fund. The internal administration costs include the apportionment of the costs of the relevant central services of the Council including the Pensions Team.
- 18.6 The fund management structure has resulted in the management of the fund's investments being placed with five independent fund managers. It will take time to become fully invested in property and private equity. In addition a master custodian is used.
- 18.7 Fees payable to fund managers have been based upon fees paid in 2008/09. Fees are related to the market value of the fund at the end of each month/quarter and therefore will increase should the market value of the fund increase.
- 18.8 Investment income shown is an estimate and will depend upon market conditions.
- 18.9 Pensions and other benefits have been inflated to include the pensions increase of 5.0% from 6 April 2009 set by the Government.
- 18.10 Additional Voluntary Contributions (AVC's) paid by scheme members are not included within the accounts as these are managed independently of the fund by three specialist AVC fund providers, Prudential, Clerical Medical and Equitable Life Legacy Fund.

SECTION 5
PENSION FUND
2008/09

Scheme Advisors

Scheme Registration Number:	00329316RX
Administering Authority:	London Borough of Haringey
Secretary to the Committee:	Head of Local Democracy and Member Services
Scheme Administrator:	Chief Financial Officer
Actuary:	Hymans Robertson
Investment Managers:	Alliance Bernstein Capital International Fidelity ING Pantheon Legal & General (no funds allocated)
Custodian:	Northern Trust
Investment Consultants:	Hymans Robertson (until 31 July 2008) Hewitt (From 1 August 2008) Howard Jones - Independent Advisor to Trustees
Bankers:	Royal Bank of Scotland
Legal advisors:	Head of Legal Services
AVC providers:	Equitable Life Assurance Society Prudential Assurance Clerical and Medical
Independent Auditors:	Grant Thornton UK LLP

Pension Fund Financial Statements

Introduction

The financial statements have been prepared and audited in accordance with regulations made under the Audit Commission Act 1998.

Nature of the scheme

The Scheme is a defined benefit Scheme and was established on 1 April 1965 to provide retirement pensions and lump sum allowances, survivor dependant's and death gratuities to all eligible employees of Haringey Council. Certain other organisations also participate in the Scheme and details of these are set out below.

The Fund's income is derived from employees, contributions from employing authorities and income from investments.

Management of the Scheme

The overall responsibility for administering the Scheme is vested in the Pensions Committee, the members of which are set out below. The day-to day-running of the Scheme has been delegated to the Chief Financial Officer.

Pensions Committee consists of seven elected Councillors, Quasi-Trustees, with full voting rights and three representatives. Trustees are selected by their respective political Groups, and their appointment is confirmed at the next meeting of the Full Council. They are not appointed for a fixed term but the membership is reviewed regularly by the political Groups.

The three representatives are appointed by their peer groups and generally serve for a period of one year. The constituency of Pensions Committee for 2008/09 financial year is as follows:

<p>Cllr Gmmh Rahman Khan -Trustee – (Chair of Pensions Committee) Cllr Sheikh G I Thompson -Trustee (appointed 19 May 2008) Cllr Charles Adje –Trustee Cllr Dhiren Basu-Trustee Cllr Toni Mallett Trustee (until 19 May 2008) Cllr Ron Aitken -Trustee (until 19 May 2008) Cllr David Beacham - Trustee Cllr Ed Butcher - Trustee Cllr Richard Wilson - Trustee</p> <p>David Fishman - Pensioner representative (appointed 24 July 2008) Roger Melling – Employee representative Earl Ramharacksing – Admitted and Scheduled Bodies representative (appointed 18 September 2008)</p>
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Committee Meetings

Committee meetings are generally held 6 times a year. In the year under review the Committee met on 8 occasions.

The day to day management of the Fund's investments is the responsibility of the Fund's five professional fund managers: Alliance Bernstein, Capital International, Fidelity, ING and Pantheon.

Overall investment strategy is the responsibility of the Pensions Committee, who receive advice from the Chief Financial Officer and the Independent Advisor to Trustees and external investment advisors.

The current investment management structure was largely implemented on 16 March 2007 following a full review of strategy by the then Pensions Panel that was advised by the Chief Financial Officer, the Independent Advisor to Trustees and the Pension Fund's (then) external investment advisors, Hymans Robertson.

As part of this review, the Pensions Panel agreed to introduce a 5 per cent allocation (approximately £30 million) to Private Equity investments. Pantheon was appointed as our Private Equity manager in April 2007.

In addition it was agreed as part of the review to increase the Fund's property allocation from 6 per cent of fund investments to 10 per cent and to introduce an active currency overlay.

However, both the target allocations for Private Equity investments and property allocation have yet to be achieved due to the continuing economic uncertainty in these markets.

Three other firms of managers have been appointed but at present no cash allocations have been made. Legal & General have been appointed as a passive Fund Manager, and Record Currency Management and Investec as currency overlay managers. However, in view of the volatility in stock markets, Pensions Committee have agreed to defer the introduction of active currency mandates until stock markets are less volatile.

Fund administration and membership

At 31 March 2009, there were 6,820 (2008: 6,954) employees contributing to the Fund and 5,771 (2008: 5,657) pensioners and dependents receiving benefits. There were also 6,122 (2008: 5,487) deferred pensioners.

Staff in the following organisations contribute to the fund and benefit accordingly.

Organisation	Participation type
Haringey Age Concern	Admitted
Alexandra Palace Trading Co	Admitted
Enterprise Ltd	Admitted
Urban Futures London Ltd	Admitted
Haringey CAB	Admitted
Mitte Ltd	Admitted
CONEL	Scheduled
Greig City Academy	Scheduled
Homes for Haringey	Scheduled
John Loughborough Ltd	Scheduled
TLC Ltd	Admitted
One Complete Solution Ltd	Admitted
Fortismere School	Scheduled
RM Education Ltd	Admitted

Actuarial position

The Fund is independently valued every three years by a firm of actuaries to assess the adequacy of the Fund's investments and contributions to meet its long term obligations.

The last triennial valuation of the Fund was as at 31 March 2007. The actuaries report was approved by trustees at the Pensions Committee meeting in January 2008.

The 2007 valuation was carried out in accordance with the Funding Strategy Statement and Guidelines GN9: Retirement Benefits Schemes – Actuarial reports published by the Institute of Actuaries. The valuation method used was the projected unit method. The resulting contribution rates reflected the cost of providing year-by-year accrual of benefits for the funded members and the level of funding for each employer's past-service liabilities.

The main economic and statistical assumptions used were:

<u>Asset class</u>	<u>Rate of Return Nominal % p.a</u>
Equities	6.5
Bonds	4.9

Rate of pensionable salary increases (excluding increments)

Compound	4.7% p.a
Rate of price inflation/ Pension increases (Compound)	3.2% p.a

The Market value of the Fund at the time of the last triennial valuation as at 31 March 2007 was £620m. Against this sum liabilities were identified of £798m equivalent to a funding deficit of £178m. The movement in the actuarial deficit is analysed below:

Reason for change	Amount Funding Level	
	£m	%
Interest on surplus	(37)	
Investment returns higher than expected	99	
Changes in demographic assumptions	(24)	
Experience items	37	
Change in financial assumptions	<u>(71)</u>	
	4	
Deficit brought forward	<u>(182)</u>	69
Deficit carried forward	(178)	77.7

The level of funding on a full buy-out basis has increased from 69 per cent to 77.7 per cent between the triennial actuarial valuations as at end of March 2004 and as at end of March 2007. The main reasons for the increase in the funding level are an improvement in investment earnings and value, and planned stepped increases in employer's contributions since 2004.

The funding policy of the Scheme is to be fully funded. As this policy had not been achieved at the valuation date it has been agreed with the actuary that the past service deficit will be recovered over a period not exceeding 20 years. This maximum recovery period is considered prudent for a statutory body with tax raising powers. Concerning the identified past service deficits of the admitted and scheduled bodies (with the exception of Best Value Admission Bodies) these are to be recovered over the expected future lifetime of the remaining scheme members. Past service deficits in respect of Best Value Admission Bodies should be recovered over the period of the employer's contract.

Following the valuation as at 31 March 2007, the actuary agreed that the Council's contribution rate can remain at the 2007/08 rate of 22.9 per cent of pensionable salaries. The 2008/09 contribution rate is split 8.8 per cent between the past service adjustment to fund the deficit over 20 years and the future service rate of 14.1 per cent.

The actuary has recently undertaken an interim actuarial valuation. The funding level has reduced to 53 per cent as at 31 March 2009 and improved to 58 per cent as at 8 May 2009.

The above deterioration is largely due to the fall in the funding level mainly because investment performance was lower than expectations due to stock market volatility.

The actuary does not propose to revise the minimum level of employer contribution rates as a result of this funding update even though the financial position has worsened significantly.

The Actuary advises that there is no power in the LGPS regulations to increase employers contributions between triennial valuations due to market conditions (other than for admission bodies whose admission agreement is to end soon).

The need for any changes to the contribution rate will be fully assessed as part of the triennial valuation as at 31 March 2010. Results will be available by early 2011.

Statement of Investment Principles (SIP)

A statement of investment principles was approved by trustees at Pensions Committee in June 2008. The SIP is regularly updated to reflect any changes made to investment management arrangements and reports the extent of compliance with Myners principles. The SIP is published on the Council's internet web site.

Related party transactions

In 2008/09 the Pension Fund paid £0.630m to the Council for administration (£0.542m in 2007/08). As at 31 March 2009 £10.125m was due from the Council to the fund (£4.996m in 2007/08). During 2008/09 four trustees were also members of the Pension Fund. There were no other material related party transactions.

Currency Hedging

The Council permits its Pension Fund managers to use forward contracts as a currency hedging tool between sterling and the base currency. Cross hedging is not permitted. When the managers use these instruments it is generally because a strong view is held on the likely movement of a specific currency. The principle objective of using the instrument is to lower the risk profile of the portfolio.

Advisors

From time to time the Committee reviews its advisors. During the year a review was undertaken into the provision of actuarial services and the provision of investment advice. Following tendering Hymans Robertson were retained as the Scheme actuary but were replaced as the investment adviser. Hewitt were appointed as investment advisers with effect from 1 August 2008.

A complete list of all scheme advisors may be found at the front of this report.

Accounting Policies and Principles

Basis of preparation

The financial statements have been prepared in accordance with the LGPS Regulations 2007 (As Amended) and with guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2008, having regard to the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007) – ((The SORP) (May 2007)).

The SORP (May 2007) is being adopted for the first time this year, which has required certain changes to be made to the disclosures in the accounts summarised below. The previous years accounts only need to be restated if changes are material.

- investments that were valued using the mid-market prices are now required to be valued at bid prices;
- derivatives are required to be valued at fair value. These were previously accounted for by using an effective economic exposure basis;
- new classifications of Employer contributions have been established;

- direct transaction costs are required to be separately disclosed.

The purpose of these changes is to provide a fairer reflection of the balances and transactions in the accounts. Unless the change in presentation is material:

- changes to comparative figures have not been made but there have been some reclassifications made particularly in respect of the analysis of investments (see note 9);
- opening balances to the net asset statement have not been re-stated;
- no comparative figures are provided for information being disclosed for the first time;
- where the impact on Fund Account items, has resulted in re-analysis of the comparative figures, no explanation is given.

This approach is in accordance with the SORP (May 2007).

Fund account

The following items are included on the accruals basis:

Employer normal contributions - amounts relating to wages and salaries for the Scheme year.

Employer additional contributions - amounts receivable in accordance with actuarial advice.

Member normal contributions - amounts deducted from wages and salaries during the Scheme year.

Benefits - amounts due in respect of the year.

Dividends - accrued by reference to the ex-dividend date.

Withholding tax - accrued on the same basis as the income to which it relates.

Interest on fixed interest investments, index linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from derivatives contracts is recognised as follows:

- Futures contracts - All realised and unrealised gains and losses are included within change in market value. All interest receivable is accrued on a daily basis;
- Forward foreign exchange contracts - All realised and unrealised gains and losses are included within change in market value. All interest receivable is accrued on a daily basis.

Transfers in and out - accounted for when the transfer value is paid or received.

Administrative expenses – amounts payable in respect of the year.

Investments

Investments are stated at fair value on the final working day of the accounting year as follows:

- Listed securities are stated at bid value. Previously listed securities were shown at mid value. As the change in valuation methodology is not material the 2007/08 values have not been restated (notes 9, 9a, 10 and 11 refer);
- Unquoted securities are stated at the estimate of fair value provided by the investment manager;
- Units in managed funds and pooled investment vehicles are stated at bid prices or at the single closing price where single prices are quoted.

Derivatives are valued at fair value as follows:

- Futures contracts are valued at the relevant exchange prices at the accounting date;

Foreign currency translation – the valuation of foreign equities is calculated by using the overseas bid price current at the relevant date and the exchange rate for the appropriate currency at the time to express the value as a sterling equivalent.

Investment management and administrative expenses - the fees of investment managers are paid in accordance with their investment management agreements and are linked to the current value of the portfolio on an ongoing basis. A proportion of relevant Council officers time, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment related matters.

Valuation of Private Equity Holdings – the Private Equity valuation in the accounts is assessed by the Private Equity Fund Manager on a fair value basis as determined at 31 December 2008.

Pension Fund Account

The Pension Fund shows the contributions to the Fund and the benefits paid from it during the 2008/09 year end.

Pension Fund Account	Notes	2008/09 £'000	2007/08 £'000
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable	1	(44,239)	(41,332)
Transfers In	2	(2,562)	(5,418)
Other Income		0	(5)
Benefits payable	3	28,846	26,696
Payments to and on account of leavers	4	6,612	4,484
Administrative Expenses	5	673	595
Net additions from dealings with members		(10,670)	(14,980)
Returns on Investments:			
Investment Income	6	(18,339)	(18,026)
Change in market value of investments	9	142,861	45,083
Taxation	7	197	254
Investment management expenses	8	3,541	2,605
Net returns on investments		128,260	29,916
Net decrease/(increase) in the fund during the year		117,590	14,936
Add: Opening net assets of the scheme		(605,103)	(620,039)
Closing net assets of the scheme		(487,513)	(605,103)

Net Assets Statement

The Net Assets Statement sets out the assets and liabilities for the Fund as at 31 March 2009. The Fund is separately managed by the Council acting as trustee and its accounts are separate from the Council's.

Net Assets statement	Notes	2008/09 £'000	2007/08 £'000
Investment assets	9	482,291	600,141
Net current assets and liabilities	12	5,222	4,962
Total Assets		487,513	605,103

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

Notes to Pension Fund Account**1. Contributions Receivable**

	2008/09 £'000	2007/08 £'000
Employers' normal contributions	33,015	31,896
Employers' deficit funding contributions	66	125
Employers' other contributions	900	523
	33,981	32,544
From members		
- normal	10,258	8,788
	10,258	8,788
Total	44,239	41,332

Deficit Funding contributions relate to payments by Haringey CAB, Mittie Limited and Alexandra Palace Trading. These are to cover the deficit positions of employers who do not admit new members and whose payroll is thought likely to decrease in the inter-valuation period. Employers' other contributions relate to capital cost payments and cover the cost to the Fund of members awarded early retirement before age 60 or otherwise after age 60 but before their normal protected retirement date.

1a. Analysis of Contributions Receivable

	2008/09 £'000	2007/08 £'000
Contributions receivable		
Administering authority	37,717	34,400
Scheduled bodies	5,375	5,478
Admitted bodies	1,147	1,454
Total	44,239	41,332

2. Transfers In

	2008/09 £'000	2007/08 £'000
Individual transfers in from other schemes	2,562	5,418
Total	2,562	5,418

3. Benefits Payable

	2008/09 £'000	2007/08 £'000
Pensions	23,603	22,143
Commutation of pensions & lump sum retirement benefits	4,195	3,974
Lump sum death benefits	1,048	579
Total	28,846	26,696

Benefits payable are further analysed in the following note.

3a. Analysis of Benefits Payable

	2008/09 £'000	2007/08 £'000
Benefits payable		
Administering authority	26,410	24,451
Scheduled bodies	1,470	1,438
Admitted bodies	966	807
Total	28,846	26,696

4. Payments to and on account of leavers

	2008/09 £'000	2007/08 £'000
Refunds of contributions	9	13
Individual transfers out to other schemes	4,164	4,471
Group transfers out to other schemes	2,439	0
Total	6,612	4,484

Group transfers in 2008/09 relate to the transfer of Magistrates Court staff to the London Pensions Fund Authority (LPFA) scheme.

5. Administrative Expenses

	2008/09 £'000	2007/08 £'000
Council Administration charges	630	542
Legal and other fees	43	53
Total	673	595

6. Investment Income

	2008/09 £'000	2007/08 £'000
Interest from fixed interest securities	535	2,004
Dividends from equities	9,141	9,743
Income from index-linked securities	143	535
Income from pooled investment vehicles	6,743	4,015
Interest on cash deposits	1,777	1,729
Total Investment Income	18,339	18,026

Overseas irrecoverable withholding tax is required to be shown separately under the SORP and therefore 2007/08 accounts have been restated.

7. Taxation

	2008/09 £'000	2007/08 £'000
Irrecoverable withholding tax on investment income	197	254
Total	197	254

Overseas irrecoverable withholding tax is required to be shown separately under the SORP and therefore 2008/09 accounts have been restated with the corresponding entry being to increase investment income (see note 6).

8. Investment management expenses

	2008/09 £'000	2007/08 £'000
Fund managers fees	3,265	2,247
Custodian fees	139	151
Trustees advisor fees	15	17
Investment consultant fees	85	122
Other	37	68
Total	3,541	2,605

9. Investment Assets

	Value as at 1 April 2008 £'000	Purchases at Cost & Derivative payments £'000	Sales Proceeds and derivative receipts £'000	Changes in market value £'000	Value as at 31 March 2009 £'000
Fixed Interest securities	42,336	44,350	(46,539)	(21,481)	18,665
Equities	259,510	114,546	(111,842)	(91,048)	171,166
Index-linked securities	27,421	9,476	(2,146)	(20,478)	14,273
Pooled Investment vehicles	240,542	123,484	(113,232)	(7,281)	243,513
Derivative Contracts	0	34	(30)	(4)	0
	<u>569,809</u>	<u>291,890</u>	<u>(273,789)</u>	<u>(140,292)</u>	<u>447,617</u>
Cash Deposits	25,886			(2,168)	31,852
Other Investment Balances	4,446			(401)	2,822
Net Investment Assets	<u>600,141</u>			<u>(142,861)</u>	<u>482,291</u>

The market value of the fund decreased by £142.9m during the year, this mainly comprises realised net losses of £55.7m and unrealised net losses of £87.6m. There has been much volatility in the market due to credit issues that have arisen and are linked to the sub prime mortgage market in the USA. This has impacted upon the performance of our portfolio, is still ongoing and the Council are monitoring the position carefully.

Transaction costs are included in the cost of purchases and sales. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £469k (2007/08: £479k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

The Fund's investment assets are further analysed between quoted and unquoted, UK and overseas.

9a. Analysis of Investments held

<u>FIXED INTEREST SECURITIES</u>	2008/09	2007/08
	£'000	£'000
UK Public Sector quoted	18,612	41,876
UK Corporate quoted	53	460
	<u>18,665</u>	<u>42,336</u>
	2008/09	2007/08
	£'000	£'000
<u>EQUITIES</u>		
UK quoted	87,800	141,412
UK unquoted	0	59
Overseas quoted	83,180	117,567
Overseas unquoted	186	472
	<u>171,166</u>	<u>259,510</u>
	2008/09	2007/08
	£'000	£'000
<u>INDEX LINKED SECURITIES</u>		
UK Public sector-quoted	13,018	25,924
UK Other -quoted	1,123	1,336
Overseas Other- quoted	132	161
	<u>14,273</u>	<u>27,421</u>
	2008/09	2007/08
	£' 000	£' 000
<u>POOLED INVESTMENT VEHICLES</u>		
Unit Trusts:		
-property -UK	24,674	39,415
-other -UK	26,422	31,867
-other -Overseas	11,083	9,116
Other managed funds		
-Property-overseas	7,779	9,375
Other-UK	99,386	55,786
Other-Overseas	74,168	94,983
	<u>243,513</u>	<u>240,542</u>

9b. Derivative contracts

<u>DERIVATIVE CONTRACTS</u>	2008/09	2007/08
	£' 000	£' 000
Forward Foreign exchange	(4)	0
Futures	4	0
	<u>0</u>	<u>0</u>
	Economic	Market
	Exposure	Value
	Value	Value
<u>FUTURES</u>	£'000	£'000
Foreign equities index traded	<u>155</u>	<u>4</u>
The £4k market value represents the value of open positions at year end.		

Derivative receipts and payments represent the realised gains and losses on futures contracts. The scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

The Pension Fund managers are permitted to use certain derivatives in managing their portfolios, including warrants, futures, convertible securities and swaps. As at 31 March 2009 the economic value of Futures contracts held was £155k, outstanding margin settlement was £4k and forward foreign exchange outstanding margin was a loss of £4k. The Pension Fund did not hold any options as at 31 March 2009.

Council 'Cash/Deposits' in 2007/08 includes £9.35 million, representing the un-utilised balance of cash earmarked on transition to the new structure in March 2007 to invest in property. It also includes £9.5 million of cash generated from surplus contributions in 2007/08 and earmarked in accordance with the strategic review to fund the Private Equity mandate. The cash held within the Council at end of March 2009 also includes £3.65m that is earmarked for future private equity calls.

10. Fund Management

Fund Manager	Funds Managed as at 31/03/09 £ million	% Fund Managed	Funds Managed as at 31/03/08 £ million	% Fund Managed
Alliance Bernstein	90.4	18.7	146.1	24.3
Capital International	158.6	32.9	187.7	31.2
Fidelity	162.6	33.7	192.0	32.0
ING	35.7	7.4	51.5	8.6
Pantheon	11.5	2.4	2.7	0.5
Haringey	23.5	4.9	19.6	3.3
Transition Manager		0.0	0.5	0.1
Total	482.3	100.0	600.1	100.0

11. Top Ten shares held

As at 31st March 2009					As at 31st March 2008				
Company	Rank	Market Value of shares £'000	% Equities	% Net Assets	Company	Rank	Market Value of shares £'000	% Equities	% Net Assets
Shell	1	8,733	3.1	1.8	Shell	1	12,739	3.1	2.1
BP	2	8,654	3.1	1.8	BP	2	9,546	2.3	1.6
Vodafone	3	7,206	2.7	1.5	Vodafone	3	8,244	2.0	1.4
Glaxosmithkline	4	5,680	2.0	1.2	RBS	4	6,442	1.6	1.1
HSBC	5	4,676	1.7	1.0	HBOS	5	6,389	1.6	1.1
Astrazeneca	6	3,959	1.4	0.8	Glaxosmithkline	6	5,958	1.5	1.0
BHP Billiton	7	2,625	0.9	0.5	HSBC	7	5,457	1.3	0.9
Roche Holdings	8	2,482	0.9	0.5	Barclays	8	5,402	1.3	0.9
Tesco	9	2,371	0.9	0.5	Aviva	9	4,562	1.1	0.8
Aviva	10	2,307	0.8	0.5	BAE Systems	10	4,038	0.9	0.7

In accordance with the new SORP both years now show the percentage of net assets for each company rather than the market value of equities.

The SORP also requires that investments in one or more holdings (excluding UK Government Securities) that exceed 5 per cent of the total value of the net assets of the scheme to also be stated; namely

	£'000	%
Fidelity Institutional Exempt America OEIC	28,004	5.7
Capital International UK Corporate Bond Fund	26,422	5.4

12. Net current assets and liabilities

	2008/09 £'000	2007/08 £'000
<u>CURRENT ASSETS</u>		
Contributions due from :		
Administering Authority in respect of the Council	91	87
Admitted Bodies in respect of employers	55	61
Scheduled Bodies in respect of employers	71	81
Contributions due from :		
Administering Authority in respect of members	25	23
Admitted Bodies in respect of members	25	18
Scheduled Bodies in respect of members	15	22
Cash balances	5,489	4,996
Reimbursement of Advisor Fees	8	0
Other -Reimbursement of Fund management expenses (Fidelity)	137	168
	5,916	5,456
<u>CURRENT LIABILITIES</u>		
	2008/09 £'000	2007/08 £'000
Unpaid benefits in respect of:		
Administering Authority	289	0
Admitted bodies		
Scheduled Bodies		
Fund manager and advisor fees	405	494
	694	494
Net current assets	5,222	4,962

13. Contingent Liabilities and Post Balance Sheet Events

There are no material contingent liabilities or Post Balance Sheet events.

14. Additional voluntary contributions (AVC's)

AVC's paid by scheme members are not included within the Pension Fund accounts in accordance with regulation 5(2)c of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). AVC's are managed independently by three specialist providers, Equitable Life Assurance Society, Prudential Assurance and Clerical and Medical Investment Group Ltd.

Key information regarding the AVC's administered for Haringey are as follows:

Equitable Life Assurance Society	
	£
Value of Fund as at 6 April 2008	474,753
Contributions in Year	9,046
Retirement Benefits & Charges	(40,550)
Change in market value	(19,119)
Value of Fund as at 5 April 2009	424,130
Number of Active Members	43
Number of members with preserved benefits	18

Prudential Assurance	
	£
Value of Fund as at 1 April 2008	743,097
Contributions in Year	177,475
Retirement Benefits & Charges	(133,330)
Change in market value	(45,671)
Value of Fund as at 31 March 2009	741,571
Number of Active Members	97
Number of members with preserved benefits	16

Clerical and Medical	
	£
Value of Fund as at 1 April 2008	29,866
Contributions in Year	5,948
Retirement Benefits & Charges	0
Change in market value	(6,154)
Value of Fund as at 31 March 2009	29,660
Number of Active Members	2
Number of members with preserved benefits	2

AVC Investments

<u>Equitable Life Assurance Society</u>	<u>Market Value as at</u>	
	<u>3 April 2009</u>	
	<u>£</u>	<u>%</u>
Fund		
Equitable with -profits	230,420	54.3
Equitable unit-linked funds	103,382	24.4
Equitable Building Society Pension Fund	90,328	21.3
Total	424,130	100.0

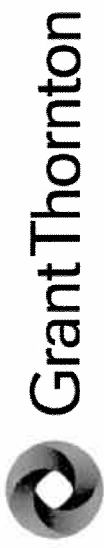
<u>Prudential</u>	<u>Market Value as at</u>	
	<u>31 March 2009</u>	
	<u>£</u>	<u>%</u>
Prudential with - profits cash accumulation	490,936	66.2
Prudential Deposit Fund	14,749	2.0
Prudential Unit Linked	235,886	31.8
Total	741,571	100.0

<u>Clerical Medical</u>	<u>Market Value as at</u>	
	<u>31 March 2009</u>	
	<u>£</u>	<u>%</u>
Clerical Medical with-profits	3,459	11.7
Clerical Medical unit-linked	26,201	88.3
Total	29,660	100.0

Audit Approach Memorandum
London Borough of Haringey Pension Fund
For the year ended 31 March 2009

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To the Pension Committee of London Borough of Haringey Pension Fund

We are pleased to be engaged to perform the audit of London Borough of Haringey Pension Fund for the year ended 31 March 2009. This memorandum highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention [except as disclosed in 'The small print']. This memorandum has been prepared on the basis of the limitations set out in 'The small print'.

We look forward to working with you during the course of the audit.

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This memorandum has been prepared for the benefit of discussion between Grant Thornton and the Pension Committee of London Borough of Haringey Pension Fund.

Chartered Accountants
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Grant Thornton UK LLP is a limited liability partnership registered in England and Wales. No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

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1 Our audit approach

1.1 Engagement objectives

Our engagement objectives are as follows:

- to audit the financial statements of London Borough of Haringey Pension Fund
- to produce a concise and constructive report of key issues to the Pension Fund (ISA 260 letter)
- to draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Pension Fund's staff.

In summary our audit strategy comprises:

- updating our understanding of the operation of the Fund through discussions with management
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the highest risk areas of the financial statements

- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing appropriate audit procedures
- reviewing the adequacy of material disclosures in the financial statements
- verifying all material balance sheet accounts and performing analytical review of income and expenditure streams.

1.3 Identified high risk areas

In summary, our audit approach in respect of high risk areas will concentrate on the following:

- the existence and valuation of investments
- the completeness and accuracy of contributions
- the completeness, accuracy and validity of benefits

These are further detailed in table 2.1

1.4 Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements. These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example non-compliance with the SORP. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

1.5 Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

1.6 Reliance on internal audit

We will work with the internal audit function to ensure our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the internal audit function.

1.7 Audit of IT and outsourced systems

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Pension Fund's internal controls in the information technology (IT) environment.

2 Key audit issues and financial reporting matters

We will report to you the findings from our work, and the conclusions in respect of each of the risks that we have identified in our ISA 260 letter.

2.1 Key audit issues

Issue	Audit approach
Investments - valuation	<ul style="list-style-type: none"> • obtain direct confirmations from the individual fund managers • agreement of the custodians' confirmations to the portfolio valuations produced by the fund managers • obtain independent confirmation of market prices for a sample of investment holdings using providers such as Bloomberg
Investments - existence	<ul style="list-style-type: none"> • obtain direct confirmation from the global custodian as to holdings which the fund managers hold on behalf of the Fund
Contributions - completeness and accuracy	<ul style="list-style-type: none"> • obtain confirmation from the admitted and scheduled bodies of the amounts and timing of contribution payments • checks that pension contribution deductions are calculated and paid over correctly for a sample of individuals • estimating total contributions with reference to pensionable salaries, average numbers of members, and average contributions rates and comparing to contributions receivable disclosed in the accounts • reviewing contributions received on a monthly basis to ensure any unusual trends are satisfactorily explained.
Benefits - completeness	<ul style="list-style-type: none"> • rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year • compare pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained • comparison of membership movements to transactions in the accounting records
Benefits - accuracy and validity	<ul style="list-style-type: none"> • for each benefit type, select a sample of transactions and agree to supporting documentation maintain on individual member files

2.2 Financial reporting matters	
Issue	Audit approach
Ensure compliance with the Pensions SORP, as applicable to LGPS	<ul style="list-style-type: none"> the accounts are checked with reference to the SORP disclosure checklist
2.3 Update on previous period's unresolved key audit issues	
Issue	Audit approach
Use of shared bank accounts with the Council	
Late contributions receipts from admitted and scheduled bodies	We will review how each area has been actioned during the year, and report back to the Committee accordingly.
Timely settlement of benefit liabilities	
Reducing the number of members with more than record in the admin. system	
2.4 Update on previous period's financial reporting matters	
Issue	Audit approach
Expansion of accounting policies for investments to include a separate policies for each asset class held	
Additional explanatory notes for why special contributions are received	We will review how these comments have been adopted in the light of the requirement to comply with the revised Pension SORP (May 2007), as applicable to LGPS this year.
Present investment movements by asset class as opposed to by fund manager	
Consider use of parenthesis to denote income streams / asset values	

3 Logistics

3.1 Information required

The information required from management during the course of the audit will be supplied in due course. The type of information being requested has not changed from last year.

3.2 Timetables and milestones

The following proposed timetable highlights the key dates of the audit process:

Event	Date
Planning meeting with management	23.04.09
Commence fieldwork	20.07.09
Manager visit to review work	28.07.09
Partner to review work	10.08.09
Issue draft ISA 260 letter for management review	14.08.09
Second partner review	04.09.09
Audit clearance	14.09.09
Issue ISA 260 letter for Committee	14.09.09
Committee meeting to discuss audit findings	17.09.09
Sign accounts	TBC

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. During the course of the audit process, we will meet with management as necessary, to co-incide with the weekly meetings held with the main Council audit team.

3.3 Engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
Martin Grundy	Engagement partner	T: 0207 865 2302 E: martin.grundy@gtuk.com
Matthew Cass	Audit manager	T: 0207 865 2242 E: matthew.h.cass@gtuk.com
Samuel Attuah-Asante	In Charge Accountant	T: 01536 315934 E: samuel.attuah-asante@gtuk.com

3.4 Fees

Our fee estimate for the audit of the Fund, which is exclusive of VAT, is £38,500. This is based on the guidance issued by the Audit Commission for London borough Local Government Pension Schemes.

We have proposed this fee on the basis that:

- draft accounts are presented to us by 20 July 2009 for audit, subject only to routine audit adjustments
- a trial balance, and supporting schedules for all figures in the accounts are supplied by the agreed dates
- all books and records are made available to us
- your staff are available to help us locate information and to provide explanations

Our ability to deliver to the agreed timetable and fee will depend upon this. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

Any work outside the scope of this proposal will be billed separately after discussion with you.

3.5 Billing and payment schedule

Our proposed schedule is as follows:

Billing date	£
By 31 May 2009	5,000
By 31 July 2009	10,000
By 31 August 2009	18,500
By 30 September 2009	5,000

Fee notes are payable within 30 days of receipt

4 The small print

Engagement terms

Our engagement will be carried out in accordance with the Audit Commission's Code of Practice on auditing and the statement of responsibilities which sets out the roles of audited bodies and of auditors.

Ethical standards

We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of adverse or unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the Council. Such communication will be made either informally or via our ISA 260 letter.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with management and documented for the Pension Committee's consideration.

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton UK LLP also conducts internal quality reviews of engagements.

We would be happy to discuss further the firm's approach to quality assurance.

Independence and robustness

To maintain our independence as auditors we ensure that:

- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Pension Fund
- our fees paid by the Pension Fund do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

Audit and non-audit services

Other than the audit of the Pension Fund, no other services have been provided to the Fund during the course of the year.

Communication with those charged with Governance

Communication with those charged with governance is an essential element of the audit. We will discuss with the Pension Committee the scope of our work in advance. We propose that we meet with them following the conclusion of our procedures in order to communicate the matters arising. We would also be interested to hear if there are other matters that the Pension Committee would like us to address and to understand more fully the Committee's expectations and

requirements from the audit process.

Roles and responsibilities

The Pension Committee is responsible for the preparation of the financial statements which show a true and fair view of the Pension Fund's affairs and for making available to us all the information and explanations we consider necessary.

Legislation requires that such books and records are maintained as will be sufficient to show the nature of all transactions and disclose, at any time, the financial position of the Pension Fund.

The Pension Fund's management is responsible for:

- the identification, assessment, management and monitoring of risk
- developing, operating and monitoring the system of internal control
- providing assurance to the Board that this has been done.

The Pension Committee is required to review the Pension Fund's internal financial controls. In addition, the Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk. The Pension Committee should receive reports from management as to the effectiveness of the systems they have established, as well as the conclusions of any testing conducted by internal audit.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

Appendix 3

Pension Fund Budget 2009/10

	2008/09 Outturn £'000	2009/10 Budget £'000
Contributions and benefits:		
Employee Contributions	(10,258)	(10,500)
Employer Contributions	(33,981)	(34,700)
Transfer Values Received	(2,562)	(4,000)
Other income	0	0
Total income	(46,801)	(49,200)
Expenditure:		
Pensions and other benefits	28,846	30,300
Transfer values paid	6,612	4,000
Other expenses	673	800
Total expenditure	36,131	35,100
Net addition from dealings with members	(10,670)	(14,100)
Returns on Investment:		
Investment income	(18,339)	(18,300)
Taxation	197	200
Investment management expenses	3,541	3,600
Net return on investments	(14,601)	(14,500)