



Haringey Council

Agenda item:

Pensions Committee

On 16 September 2010

Report Title: **Annual Governance Report 2009/10 – Grant Thornton**

Report of **Director of Corporate Resources**

Signed : *J Parker* 7/9/10

Contact Officer : **Nicola Webb – Corporate Finance**
Telephone 020 8489 3726

Wards(s) affected: **All**

Report for: Non key decision

1. Purpose of the report

- 1.1 To present the statutory Annual Governance Report of Grant Thornton, which reports on their annual audit of the Pensions Fund statutory accounts.

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 Committee consider the contents of this report and any further verbal updates given at the meeting from Grant Thornton.
- 4.2 That the Committee agree the changes to be made to the Pension Fund Accounts for 2009/10.

5. Reason for recommendations

- 5.1 To ensure the final version of the accounts for 2009/10 complies with all accounting guidelines.

6. Other options considered

- 6.1 None applicable.

7. Summary

- 7.1 Grant Thornton have audited the draft annual report and accounts submitted to the Pensions Committee on 21st June 2010 and prepared their Annual Governance Report.
- 7.2 The auditors have recommended that four changes be made to the accounts to ensure full compliance with accounting guidance.

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 comment 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 The auditors have reported a small number of changes required to the 2009/10 Pension Fund accounts and officers have ensured these are being made. A

review of how these issues arose will ensure that processes can be improved in future.

12. Use of appendices /Tables and photographs

Appendix A: Annual Governance Report, Grant Thornton

Appendix B: Letter of Representation

Appendix C: Audit Opinion

13. Local Government (Access to Information) Act 1985

Draft 2009/10 Pension Fund Annual Report & Accounts submitted to Pensions Committee on 21st June 2010.

Audit Plan 2009/10 submitted by Grant Thornton to Pensions Committee on 21st June 2010.

14. Background

- 14.1 At the Pensions Committee meeting on 21st June 2010, the draft Pension Fund Annual Report and Accounts 2009/10 was presented and it was noted that it would be subject to audit over the summer. Also at the same meeting Grant Thornton presented their plan detailing how they would undertake the audit.
- 14.2 The Audit Commission's statutory Code of Practice for Local Government bodies requires the external auditor to report to those charged with governance on matters arising from their audit before it is finalised. The Annual Governance Report prepared by Grant Thornton attached fulfils this requirement.
- 14.3 Officers have worked closely with Grant Thornton throughout the audit to provide all the information requested.

15. Annual Governance Report

- 15.1 The Annual Governance Report from Grant Thornton is attached at Appendix A. This sets out their findings in detail. This is marked as "draft" to allow the Committee to make any comments before it is finalised.
- 15.2 During the course of the audit four amendments to the accounts were identified and the Council agreed to make the changes as follows:
- A downward revision of the value of property related investments by £708k due to inconsistencies in valuations between the fund manager and the custodian.

- An upward revision of the value of private equity investments by £522k due to delays in receiving up to date valuations from the fund manager
- Correction of the reallocation of employer deficit contributions for 2008/09 of £101k. This has no impact on the fund account, but facilitates year on year comparisons.
- Accounting convention is that the correction of prior year investment management fees should have been carried out in 2009/10, rather than restating 2008/09. This reversal has been agreed to.

15.3 In addition, one item not considered sufficiently significant to have an adverse impact on the presentation of the fund was identified as follows:

- The value of debtors in respect of employer and employee contributions was overstated by £8,210.

15.4 A revised set of accounts, fully adjusted for the above changes is available for inspection by members.

16. Next Steps

16.1 The Director of Corporate Resources is required to sign a letter of representation to acknowledge the responsibility for the fair presentation of the information in the financial statements and the Pension Fund Annual Report. A proposed draft of this letter is contained at Appendix B of this report.

16.2 At Appendix C is the proposed audit opinion prepared by Grant Thornton, which will be inserted into the final version of the Pension Fund Annual Report and Accounts. This shows that the auditors' conclusion is that the pension fund accounts show a true and fair view.

16.3 Officers will undertake a review of the issues raised by the auditors to determine what improvements can be made in accounting processes. The timing of the receipt of investment valuations for the Fund's less liquid assets – property and private equity - is an on-going issue in terms of the statutory timetable for production of the accounts. However a review with the custodian and the fund managers for property and private equity will be undertaken to identify any further steps which can be taken to address the issue.



Grant Thornton

London Borough of Haringey Pension Fund ("The
Fund")

Audit of Financial Statements 2009/10
Report to those Charged with Governance

Draft

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Draft

1 Executive Summary

ISAUK 260 requires communication of:

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

1.1 Purpose of report

The London Borough of Haringey ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2010 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts present fairly the financial position of the Council. Those accounts are required to include, as a separate appendix, the accounts of the Council's pension fund.

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Pensions Committee of London Borough of Haringey Pension Fund ('the Fund') to specifically consider the key issues affecting the Fund, and the preparation of the Fund's accounts for the year ended 31 March 2010. We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the accounts of the Council.

In consequence, our work did not encompass a detailed review of all aspects of the system and controls and cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Pensions Committee.

1.2 Status of audit

Our audit of the Fund is substantially complete. No matters remain unresolved which will prevent the full accounts being recommended for approval at the General Purposes Committee meeting on 23 September 2010.

1.3 Audit conclusions

Overall, our review of the Pension Fund concluded that the pensions department operates with the level of efficiency we would expect for a fund of its size. The working papers produced supporting the disclosures in the accounts were clear to understand. Documents were suitably annotated, demonstrating those that had been subject to peer review, by whom, and when the review had taken place.

In section 2 we highlight new issues identified during the course of the audit. Section 3 provides a summary of how matters raised during previous audits have progressed.

In section 4, we highlight how potential adjustments identified during the audit were concluded.

1.4 Acknowledgements

We would like to record our appreciation for the positive co-operation and assistance provided to us by the finance department and other staff at the Council during the course of our audit.

Grant Thornton UK LLP

September 2010

Draft

2 Detailed findings during the 2009/10 audit

2.1 Evaluation of key controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Fund's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.

We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact our audit of the accounts.

2.2 Additional contributions deduction testing

At the request of the Pensions Committee, in addition to testing contribution deductions from the main payroll, the payroll for members from an additional employer was also tested to ensure that contributions were being deducted and paid over at the correct rates. The Employer chosen this year was Enterprise. No issues arose from that testing.

2.3 Anomalies in relation to Investment valuations

When preparing the accounts, reports obtained from the custodian are used as the basis for preparing the accounts. Quarterly reconciliations are carried out, and significant differences are pursued with the custodian. Our work includes obtaining, and comparing, independent valuation reports from both the custodian and fund managers to ensure consistency with the accounts, and with each other.

For the purposes of our audit, differences greater than 0.3% between individual fund manager and custodian valuations are investigated further.

Two issues were noted:

ING

The total value reported in the draft accounts in relation to ING is £45.7m. The valuation report obtained by directly from ING by Grant Thornton disclosed a value of £45.2m, a difference of 1.2%, £0.5m.

Further enquiries were made of both Northern Trust and ING, and it was confirmed that in relation to five funds held, there were net pricing errors of £708k; the impact being to reduce investment values by this amount. It was also noted that for two funds, ING had used incorrect prices, overvaluing assets by £193k. As the pricing used by the custodian was correct, no adjustment is required in respect of this amount. These two amounts account for the £0.5m difference indicated above.

Our discussions with the custodian noted that these differences arose due to the requirement to provide valuations soon after the month end. It was noted that the accuracy of the valuation provided can be affected if insufficient time is allowed to obtain the most reliable pricing source for that particular investment.

Pantheon

The normal valuation date for the private equity funds held with Pantheon is 31 December. The value in the accounts takes into account cash movements from the valuation date to the end of the financial year.

The custodian confirmed a valuation of £13.4m, based on valuations as at 30 September 2009, adjusted for cash movements to 31 March 2010. As part of our audit procedures, we obtained valuations based on the audited accounts of the funds as at 31 December 2009. Taking into account cash movements from January 2010 to 31 March 2010, this gave a value of £13.9m. An adjustment to increase the net assets of the fund of £522k is proposed.

It should be noted that audited accounts in relation to the Pantheon investments were not available until 24 June. It is probable that an adjustment to the accounts presented to the June Committee meeting will often be required. The extent of any potential adjustment is dependent upon the information available to the custodian when producing the valuation as at 31 March 2010, and the fluctuation in market conditions between that date and when audited information becomes available, and is outside the control of management.

It is recommended that further discussion takes place with the custodian and fund managers to ensure that valuations provided by them meets the expectations of management to enable the fund's financial statements to be prepared within a realistic timeframe.

2.4 Reallocation of prior year contribution disclosure

CIPFA conducted a global review of the 2008/09 LGPS pension audit process. One of the key conclusions was that the presentation of employer contributions was not fully compliant with the SORP. Guidance was provided directing the preparers of LGPS accounts to highlight the fact that normal monthly employer contributions include an element relating to funding the past service deficit. In order to ensure fair year on year comparison, a reallocation of £10,750k to the comparative employer contributions figure has been made. This reallocation does not impact on the total contributions disclosed, nor the net assets of the fund.

2.5 Misallocation of income

During our testing of contributions receipts it was noted that receipts from four employers, amounting to £8,210, which had been received in the year, had been included as an amount owing to the fund at the year end.

Whilst recognising that this amount is not material to the accounts as a whole, it is recommended that the process for monitoring, and recording, contributions receipts is reviewed.

2.6 Timeliness of processing transfers out

Normally, quoted transfer values are valid for three months. We would therefore expect transfers out to be processed within 90 days from the date of request. Of the eleven items tested during the audit, three were found to have taken more than 90 days to be finalised. It was confirmed that of these, two were interfund transfers, which are not subject to a three month guarantee. At the time these three transfers took place, in order to complete the transactions, additional guidance from the Government Actuary's Department (GAD) was required, the receipt of which was delayed. The transfers were subsequently settled within a month of the additional guidance being received.

On this basis, where delays occur in processing transfers, it appears to be in relation to factors outside the control of the administration team.

3 Update on matters identified in prior years

3.1 Use of shared bank accounts

As previously highlighted, cash balances are held in shared bank accounts with Council main funds, and concerns were raised over the suitability of this practice in the longer term. Our previous reviews concluded that good controls are in place to ensure balances relating to the fund are easily identifiable from Council funds.

Whilst accepting that the use of shared bank accounts was in accordance with existing regulations, our recommendation that consideration is given to the Fund having its own bank accounts separate from those of the Council remained.

Update to the year ended 31 March 2010

It is noted that in the year to 31 March 2010, a number of money market deposits have been established, within which identified surplus pension cash is transferred to on a monthly basis. In the light of revised regulations due to come into force from April 2011, we understand that separate banking arrangements will be in place by the end of the calendar year.

3.2 Timeliness of contributions receipts

Regulations require that contributions deducted from members' salaries are paid over to the fund by no later than the nineteenth day following the calendar month from which the contributions have been deducted.

During the year ended 31 March 2009 it was noted that for two of the scheduled and admitted bodies, contributions were late for between one and two months up to a maximum of five occasions each. This represented a significant improvement on our review for the year ended 31 March 2008.

Update to the year ended 31 March 2010

Our review this year revealed the following:

Payroll type	Total receipts	On time	Late, between 1 day and a month	More than a month late
Council	82	76	6	-
Scheduled bodies	60	53	5	2
Admitted bodies	107	87	13	7

In the case of Works Facility (Europa), contributions for eight months were paid late, with one month remaining unpaid for five months.

Following discussions with management, we understand a project is already underway reviewing the process in relation to the timely receipt of contributions.

4 Audit adjustments

As highlighted in section 2, certain potential adjustments were identified, and have been actioned as detailed in the following paragraphs. The net effect of the processed adjustments is to decrease net assets by £186k.

4.1 Adjusted changes

The following items have been processed by management:

- Variances between the custodian and fund manager valuations have resulted in a net decrease to net assets of £186k.

4.2 Unadjusted changes

- Overstated contributions debtors amounting to £8,210 was not considered material in the context of the accounts as a whole. As such, no adjustment was proposed.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
- To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

Matters Reported under ISA 260

Area	Key Messages
<p>Independence</p>	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none"> • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation every 5 years • We comply with the Auditing Practices Board's Ethical Standards.
<p>Audit Approach</p>	<p>Our approach to the audit was set out in our 2009/10 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Fund for final accounts audit purposes.

Area	Key Messages
Accounting Policies	<p>We consider that the Fund has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the Local Government Pension Scheme Regulation 2007 (As Amended) and with guidelines set out in the Code of Practice of Local Authority Accounting in the United Kingdom 2008. The financial statements also comply with Statement of Recommended Practice, Financial Reporting of Pension Schemes (Revised May 2007), as applicable to Local Government Pension Schemes.</p> <p>The Pensions Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.</p>
Audit Adjustments	<p>We have discussed with management a number of adjustments to the accounts primarily to improve the fair presentation of the financial statements as well as the clarity and presentation of disclosure notes.</p> <p>These adjustments are summarised in paragraph 4.1.</p>
Unadjusted Errors	<p>From the audit results mentioned previously we have identified one unadjusted error which was not material to the pension fund accounts. This has been disclosed in paragraph 4.2.</p>
Other Matters	<p>No material weaknesses in internal control were identified during our audit.</p>

Our Ref
Your Ref PD/SB/MHC/H05806062

APPENDIX B

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

16th September 2010

Dear Sirs

London Borough of Haringey Pension Fund - financial statements for the year ended 31 March 2010

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other members, related parties, controlling bodies, management and staff of The London Borough of [council name] ('the authority'), with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements, in accordance with the terms of your audit plan for 2009/10.

- i We acknowledge our responsibilities for ensuring that financial statements are prepared which give a true and fair view of the financial position of the pension fund and for making accurate representations to you.
- ii As far as we are aware:
 - there is no relevant audit information of which you are unaware; and
 - we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that you are aware of that information.
- iii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iv All the accounting records of the pension fund have been made available to you for the purpose of your audit and all the transactions undertaken by the pension fund have been properly recorded in the accounting records and reflected in the financial statements.
- v All other records and related information, including minutes of all management and Committee meetings, have been made available to you.
- vi The financial statements are free of material misstatements, including omissions.

- vii We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- viii We have no knowledge of fraud or suspected fraud affecting the pension fund involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements;
- ix We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- x We are not aware of any instances of actual or possible non-compliance with laws, regulations, contracts, agreements or the Council's constitution that might result in the pension fund suffering significant penalties, other loss or affecting the financial statements. No allegations of such irregularities, including fraud, or such non-compliance have come to our notice
- xi Except as stated in the accounts:
 - there are no unrecorded liabilities, actual or contingent
 - there are no employer related investments
 - none of the assets of the pension fund have been assigned, pledged or mortgaged
 - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- xii All related parties have been identified to you and there were no transactions with related parties which should be disclosed in the financial statements, that are not already disclosed in the notes to the accounts.
- xiii There are no claims, legal proceedings or other matters which may lead to a loss falling on the authority or which could result in the creation of an unrecorded asset, that should be disclosed in the financial statements.
- xiv The pension fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- xv We are not aware of any instances of actual or possible non-compliance with laws and regulations which might affect the view given by the financial statements.
- xvi No significant events having an effect on the financial position of the pension fund have taken place since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto.

Approval

The approval of this letter of representation was minuted by the Pensions Committee at its meeting on 16th September 2010.

Signed on behalf of The London Borough of Haringey Pension Fund

Name Julie Parker

Position Director of Corporate Resources

Date 16th September 2010

Independent auditor's report to the Members of London Borough of Haringey Pension Fund

We have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Haringey Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer's responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities on page 27.

Our responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the fund year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the management report, the investment report, the administration report, the funding report, the governance compliance statement, the current statement of investment principles, the communications policy and the current funding strategy statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In our opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the fund year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Paul Dossett
Senior Statutory Auditor
For and behalf of Grant Thornton UK LLP
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