Grant Thornton

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

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

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Appendices

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

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
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: • 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.
Audit Approach	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: • 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	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. The Pensions Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.
Audit Adjustments	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. These adjustments are summarised in paragraph 4.1.
Unadjusted Errors	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.
Other Matters	No material weaknesses in internal control were identified during our audit.