APPENDIX 2

Grant Thornton

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

Audit of Financial Statements 2011/12
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 2012 and its fund account 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 Corporate 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 2012. 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 Corporate 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 Corporate Committee.

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

27 September 2012

2 Detailed findings during the 2011/12 audit

2.1 Additional contributions deduction testing

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 CONEL (now called CHENEL). No issues arose from that testing performed.

2.2 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.

The following points were noted:

Pantheon

The normal valuation date for the private equity funds held with Pantheon is 31 December. The valuation in the financial statements as at 31 March takes into account cash movements from the valuation date to the end of the financial year. We concur that the valuation method adopted is in accordance with the accounting policy.

A choice is available when valuing such investments, the choices being to either adopt the March valuation or to start from the December valuation and adjust the value taking into account the cash movements to March. Either approach is acceptable under accounting standards and therefore we concur with the approach adopted.

Northern Trust

There was a purchase for £2.2m cost which was enacted pre year end and settled post year end. On obtaining the confirmation from the custodian Northern Trust it was noted that the transaction had been excluded from their report. At the year end the market value of this transaction was £2.4m. The pensions team perform their own reconciliation and the error had been identified and by them and the transaction had been included in the accounts. This was initially included at the market value of £2.4m but has since been corrected to recognise the purchase at £2.2m and increase in market value of £0.2m. This resulted from a breakdown in communications between the custodian and fund manager. We recommend that sales and purchases in the year continue to be monitored.

As part of the audit, we request direct confirmation from Northern Trust. A discrepancy was identified on the income report in that the irrecoverable tax per the report received directly was £94k compared with £556k on the report provided direct to management. Upon further investigation it was confirmed that the correct figure was £94k. A classification adjustment has therefore been proposed and agreed to adjust for the difference which will not have an overall impact on income but will have the effect of decreasing both the gross income and tax figures by £463k. There is no impact on the net assets at year end.

Capital Contributions

We tested a sample of capital contributions by tracing the amounts paid to the relevant calculations. For one of the items selected, the amount had been underpaid by £10k. This amount is not significant to the financial statements but has been brought to the Corporate Committee as it represents a control deficiency.

Recommendation:
We recommend that capital contributions receivable are reconciled to amounts received on at least a monthly basis with variances identified resolved.

Management response:
It is agreed to undertake this reconciliation on a quarterly basis commencing from September 2012.

Timeliness of contribution receipts

Our review this year revealed the following:

We noted during our contributions testing that five bodies of the pension fund had instances where they had not transferred contribution payments to the council within the nineteen day limit. In total there were twenty two late payments of which sixteen were less than one month late, four were between one and two months late and two were over two months late. The bodies with late payments were Mulberry School with three late payments, John Loughborough with six late payments, Rockley Dean Homes (now known as TLC) with nine late payments, Europa Services with two late payments and Churchill with two late payments.

Late payments are followed up and chased by the Pension Admin team on a monthly basis and the results are reported to the committee quarterly.

3 Update on matters identified in prior years

3.1 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 2011 it was noted that in total there were sixteen late payments across three of the scheduled and admitted bodies. Contributions were late for between one and two months up to a maximum of ten occasions for one employer.

Update to the year ended 31 March 2012

We refer you to the comments made in section 2.

4 Audit adjustments

As explained in section 2, a disclosure adjustment was identified in relation to irrecoverable tax. Management have agreed to adjust which has the effect of decreasing both the gross income and tax figures by £463k. There is no impact on the net assets at year end.

No unadjusted misstatements have been identified.

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 2011/12 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.
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 Corporate Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by accounting standards.

Area	Key Messages
Audit Adjustments	A disclosure adjustment was identified amounting to £463k, there was no effect to net assets at year end.
Unadjusted Errors	We have not identified any adjustments that we consider to be material to the financial statements.
Other Matters	No material weaknesses in internal control were identified during our audit.

B Adjustments to accounts

The following table presents all adjustments made to the accounts arising from the audit process which have been agreed with management to amend the draft accounts.

Adjustment Type

- **Misstatement** - A change to the value of a balance presented in the financial statements.
- **Classification** - The movement of a balance from one location in the accounts to another.
- **Disclosure** - A change to the way in which a balance is disclosed or presented in an explanatory note.

The overall effect of the adjustments listed below is to increase net assets in the fund by £140k.

Adjustment type	Accounts balance	Impact on financial statements	Impact on net assets £'000
Misstatement	Creditors/fund account	Audit fee accrual	(35)
Misstatement	Investment liabilities/change in market value	Unrealised gain on additional purchase of property unit trust investment	175
Classification	Investment income/taxes on income	Classification adjustment in respect of irrecoverable taxation - £463k	-
Classification	Contributions/administrative expenses	Classification adjustment in respect of legal and professional costs - £27k	-
Classification	Administrative expenses/ legal and professional fees	Classification adjustment in respect of legal and professional costs - £39k	-
Classification	Change in market value/sales	Classification adjustment in respect of sale of investments - £134k	-
		Impact on Net Assets	140

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