

The Audit Findings for the London Borough of Haringey Pension Fund

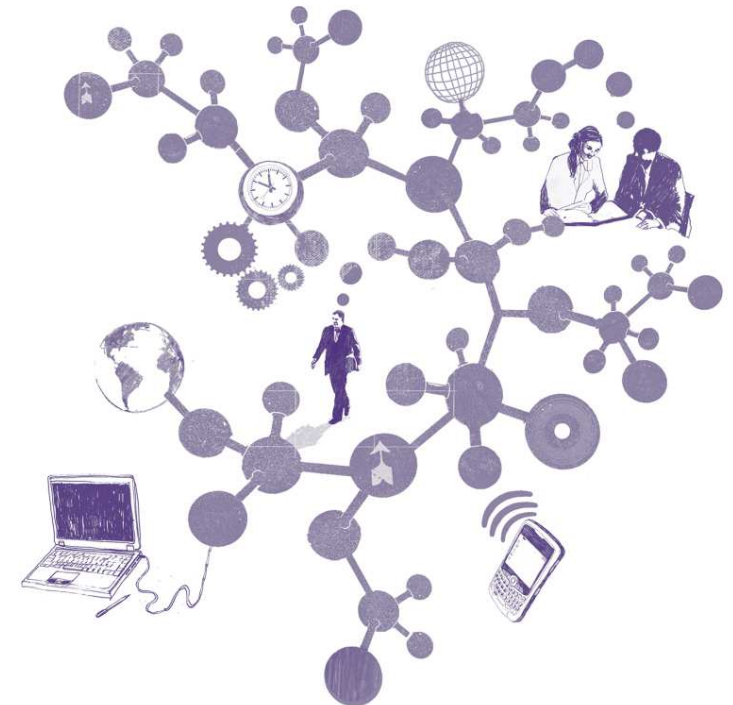
Year ended 31 March 2015

September 2015

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September 2015

Dear Members of the Pension Fund Committee

Audit Findings for London Borough of Haringey Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of London Borough of Haringey Pension Fund, the Pension Fund Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which 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 financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Emily Hill

Engagement lead

Chartered Accountants

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of London Borough of Haringey Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have added one risk to those reported to you in our Audit Plan dated March 2015. As the level of purchases and sales were material we have added a risk that there is a potential for these to be misstated. The risk has been addressed on page 12 of this report

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- internal control reports from CQS request confirming that their controls remain unchanged from the last report in September 2014
- completion of final specialist partner review
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We cannot formally conclude the audit and issue an audit certificate until the Corporate Committee have approved the Council's financial statements in which the pension fund is included. We also need to complete our consideration of an objection raised by a local elector in relation to the Council's financial statements.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- the quality of the financial statements and supporting working papers were of a good standard.
- response to audit queries were received in time for us to complete our fieldwork to our timetable.
- we identified one adjustment affecting the financial statements and a few minor presentational issues.
- Management has amended the financial statements for all recommended disclosure changes.

We have identified one adjustment affecting the Fund's reported financial position. The draft financial statements for the year ended 31 March 2015 recorded a net surplus for the year of £142,433k ; the audited financial statements show a net surplus of £146,011k This change relates to updating the Pantheon investments to the valuation at 31 March 2015. An the time of preparing the draft financial statements the March 2015 valuation for assets invested with Pantheon had not been finalised. Therefore, the draft statements were prepared using the valuation at 30 September 2014.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council as the administering authority.

Findings

We draw your attention to one control issue. Our testing of scheduled and admitted body contributions identified that TLC Limited had been applying the employee contribution rates of the old LGPS scheme and had not updated these at 1 April 2014 as required. The amounts were trivial. However, this highlighted the need for an additional control at the Council to check the reasonableness of the monthly information provided by the admitted and scheduled bodies.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Chief Operating Officer, Assistant Director of Finance and the finance team.

We have made one recommendation, which is set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Operating Officer and Assistant Director of Finance.

Acknowledgment

We appreciate that this has been a busy year for the Pension Fund with the implementation of the Career Average Revalued Earnings Scheme. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Section 2: Audit findings

01. Executive summary

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04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Pension Committee on 24 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 24 March 2015 except for the additional risk we identified which is set out on page 12 below.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix B.

We also propose to give an unqualified consistency with opinion on the financial statements in the Annual Report.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|---|---|--|
| 1. | <p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.</p> | <p>Our audit work including the testing of contributions and investment income has not identified any issues in respect of revenue recognition.</p> |
| 2. | <p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p> | <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p> |
| 3. | <p>Level 3 Investments – Valuation is incorrect</p> <p>Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgmental matters. Level 3 investments by their very nature are subject to a significant degree of estimation uncertainty.</p> | <ul style="list-style-type: none"> • We gained an understanding of management controls over the valuation of hard to value investments • Tested valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date • Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. | <p>At the time of preparing the draft financial statements, the March 2015 valuation for assets invested with Pantheon had not been finalised. Therefore, the draft statements were prepared using the valuation at 30 September 2014. The valuation of the Pantheon investments for March 2015 were £3,578k higher than the valuation included in the draft financial statements.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|--|---|--|
| <p>Investment values – Level 2 investments</p> | <p>Valuation is incorrect</p> | <p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances. | <p>Our audit work has not identified any significant issues in relation to the risks identified.</p> |
| <p>Contributions</p> | <p>Recorded contributions not correct.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • rationalised contributions received with reference to changes in member body payrolls and numbers of contributing members. | <p>Our audit work has not identified any significant issues in relation to the risks identified.</p> |

Audit findings against other risks continued

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|--------------------------------|--|---|--|
| <p>Benefit payments</p> | <p>Benefits improperly calculated/claims liability understated</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested a sample of new individual pensions in payment by reference to member files • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year | <p>Our audit work has not identified any significant issues in relation to the risks identified.</p> |
| <p>Member data</p> | <p>Member data not correct.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested controls over verifications with individual members • tested a sample of changes to member data made during the year to source documentation. | <p>Our audit work has not identified any significant issues in relation to the risks identified.</p> |




New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan

| | Issue | Commentary | Assurance gained & issues arising |
|----|--|---|--|
| 1. | <p>Investment activity not valid Purchases and sales are significant.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • reviewed the reconciliation of purchases and sales provided by the fund managers, the Custodian and the Pension Fund's own records. | <p>Our audit work has not identified any significant issues in relation to the risks identified.</p> |

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|--|--|---|
| Revenue recognition | Income and expenditure to the Fund are accounted for on an accruals basis with the exception of transfers. | The revenue recognition policy is consistent with the Code of Practice of Local Authority Accounting and the findings from our audit of the financial statements. Refer to earlier comments on revenue recognition on Page 9. |  |
| Estimates and judgements | The key estimates and judgements included within the financial statements is the actuarial valuation of the fund at 31 March 2013. Valuation of unquoted level 3 investments with Pantheon and Allianz. | <ul style="list-style-type: none"> The policies adopted for accounting estimates are appropriate under the Fund's accounting framework. Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best available information. The actuarial valuation has been undertaken by the actuary as a management expert. The level 3 investments were reconciled with audited financial statements. The level of judgement required by the Fund is low. Estimates used are supported by adequate working papers. Disclosure of accounting policies in the financial statements is in line with the recommended disclosures. |  |
| Other accounting policies | We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice of Local Authority Accounting and accounting standards. | Our review of accounting policies has not highlighted any issues which we wish to bring to your attention |  |

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|----|--|---|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Pension Fund Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit. |
| 2. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations. |
| 3. | Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund. |
| 4. | Disclosures | <ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements |
| 5. | Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed |
| 6. | Confirmation requests from third parties | <ul style="list-style-type: none"> We requested and obtained direct confirmations from all Fund Managers and the Custodian for cash and investment balances included within the Accounts. |
| 7. | Going concern | <ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis. |

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| | Assessment | Issue and risk | Recommendations |
|----|------------|--|---|
| 1. | ● | Our testing of admitted and scheduled bodies contributions identified that one of the smaller bodies (TLC Limited) were not applying the correct employee contribution rates to staff salaries. This highlighted that there were no reasonableness checks undertaken on scheduled and admitted body returns. | Undertake a reasonableness check of admitted and scheduled bodies monthly returns to ensure that employee and employer contributions are in line with expectations. |

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

| Detail | Fund Account £'000 | Net Asset Statement £'000 |
|--|--|---------------------------------------|
| 1 At the time of preparing the draft financial statements the March 2015 valuation for assets invested with Pantheon had not been finalised. Therefore, the draft statements were prepared using the valuation at 30 September 2014. The valuation of the Pantheon investments for March 2015 were £3,578k higher than the valuation included in the draft financial statements. | Increase Change in Market Value of Investments £3,578k | Increase Investments value by £3,578k |
| Overall impact | £3,578 | £3,578 |

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|-----------------|----------------|---------------------|--|
| 1 Disclosure | 17,260 | Level 3 Investments | Infrastructure debt investments were classified as Level 2 on page 107. However, confirmation from the fund manager are that the assets are unquoted and should be disclosed as Level 3. The Council has amended the accounts. The amendment has no impact on the Net Assets Statement. |
| 2 Disclosure | 13,150 | Credit rating note | The internal cash exposure on page 110 of £44,458k was the balance for the Council and not the Pension Fund. The balance has been amended to £13,150k. This is an amendment to a disclosure note and has no impact on the main statements. |
| 3 Disclosure | 40,410 | Commitments | Commitments for Pantheon investments were based on reports prior to 31 March 2015 and Commitments in CBRE Investments were excluded from the note. The total commitments have been increased from £33,809k to £40,410k. This is an amendment to a disclosure note and has no impact on the main statements. |

Section 3: Fees, non-audit services and independence

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Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

| | Per Audit plan £ | Actual fees £ |
|------------------------|---------------------|------------------|
| Pension fund scale fee | 21,000 | 21,000 |

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 4: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code of Audit Practice.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Compliance with laws and regulations | | ✓ |
| Expected auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

Appendix A: Action plan

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---|--|
| 1 | Undertake a reasonableness check of admitted and scheduled bodies monthly returns to ensure that employee and employer contributions are in line with expectations. | Medium | A quarterly review of the monthly contributions paid by employers for reasonableness (overall monetary value) and an annual check that the correct contribution rate is being paid will be undertaken | 31 October 2015 Head of Treasury and Pensions |

Appendix A: Audit opinion

We anticipate we will provide the Council with an unmodified audit report on the Pension Fund

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF HARINGEY

We have audited the pension fund financial statements of the London Borough of Haringey for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund account comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of the London Borough of Haringey, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, other than liabilities to pay pensions and benefits after the end of the fund year, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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September 2015



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