Hillingdon Pension Fund

Audit Planning Report

Year ending 31 March 2025

28 April 2025

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28 April 2025

Audit Committee
London Borough of Hillingdon
Uxbridge
UB8 1UW Address

Dear Audit Committee Members

Audit Planning Report

Attached is the Audit Planning Report for the upcoming meeting of the Audit Committee. This report aims to provide the Audit Committee of Hillingdon Pension Fund (the Fund) with a basis to review the proposed audit approach and scope for the 2024/25 audit. This is in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements. This report summarises our evaluation of the key issues driving the development of an effective audit. We have aligned our audit approach and scope accordingly. The report also addresses the broader impact of Government proposals aimed at establishing a sustainable local audit system.

As the Fund's body charged with governance, the Audit Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Fund's wider arrangements to support a timely and efficient audit. Failure to achieve this will affect the level of resources required to fulfil our responsibilities. We will report on any issues identified in the Fund's external financial reporting arrangements as part of our Audit Results Reports and communications with those charged with governance. We direct Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be, and should not be used, by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 14 May 2025 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson

Debbie Hanson

For and on behalf of Ernst & Young LLP

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Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of the London Borough of Hillingdon. Our work has been undertaken so that we might state to the Audit Committee and management of the London Borough of Hillingdon those matters we are required to state to them in this 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 Audit Committee and management of the London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 2024/25 audit strategy overview

2024/25 audit strategy overview

Context

Timely, high-quality financial reporting and audit of local bodies play a crucial role in our democratic system. It aids in effective decision-making by local bodies and ensures transparency and accountability to local taxpayers. There is a consensus that the delay in publishing audited financial statements by local bodies has reached an unacceptable level, and it is acknowledged that cooperation among all stakeholders in the sector is necessary to address this issue. The reasons for the backlog are well-documented and include:

- Insufficient capacity within the local authority financial accounting profession.
- Increased complexity of reporting requirements within the sector.
- Insufficient capacity within audit firms with public sector experience.
- Heightened regulatory pressure on auditors, leading to an expanded scope and extent of audit procedures performed.

The Ministry for Housing, Communities and Local Government (MHCLG) has collaborated with the Financial Reporting Council (FRC) and other system partners to develop and implement measures to address the backlog. SI 2024/907, along with the NAO Code and the Local Authority Reset and Recovery Implementation Guidance, have been created to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). In February 2025, responsibilities for leadership of the local audit system transferred from the FRC back to MHCLG. This change follows the December 2024 launch of the Government’s strategy for reforming the local audit system in England, which includes plans to establish a Local Audit Office. The approach to addressing the backlog consists of three phases:

- Phase 1: Reset; clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024. This is largely complete.
- Phase 2: Recovery from Phase 1; from 2023/24, use backstop dates to prevent a recurrence of the backlog and allow assurance to be rebuilt over multiple audit cycles. The backstop date for the audit of the 2024/25 financial statements is 27 February 2026. Auditors are waiting for guidance from the system leader to effectively, efficiently and consistently build back assurance over disclaimed audit periods.
- Phase 3: Reform; involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

The resetting phases noted above have implications for the audit of the London Borough of Hillingdon Council.

The audit of the Pension Fund has however been completed successfully, and we have issued unmodified opinions for the years 2022/23 and 2023/24. We issued our opinion on the 2023/34 accounts on 17t March 2025.

2024/25 audit strategy overview (cont'd)

Responsibilities of management and those charged with governance

The Administrating Body's Section 151 Officer is responsible for preparing the financial statements of the Fund in accordance with proper practices and confirming they give a true and fair view at the 31 March 2025. To complete the audit in a timely and efficient manner, it is essential that the financial statements are supported by high-quality working papers and audit evidence, and that Pension Fund resources are available to support the audit process within agreed deadlines. The Audit Committee has an essential role in ensuring that it has assurance over both the quality of the financial statements and the Pension Fund's wider arrangements to support the delivery of a timely and efficient audit. Where this conditions are not met, we will:

- Consider and report on the adequacy of the Pension Fund's external financial reporting arrangements as part of our Audit Results Report and other communications with those charged with governance.
- Assess the impact on available audit resource and where additional resources are deployed, seek a fee variation from PSAA. We have set out the factors that will lead to a fee variation at Appendix B, together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.

2024/25 audit strategy overview (cont'd)

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Presumptive risk of management override of controls	Fraud risk	No change increase in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Valuation of hard to value investments (Level 3 Investments)	Significant risk	No change/increase in risk or focus	The Fund's Investments includes a significant balance of hard to value Level 3 investments. The Pension Fund held Level 3 assets valued at £268 million as at 31 March 2024 per the audited 2023/24 accounts. Judgements are taken by Investment Managers to value those investments where prices are not publicly available. There is a risk that these are materially misstated given the complexity of the measurement and degree of estimation involved.
Fair value classification of Level 2 and Level 3 investments	Significant risk	No change/increase in risk or focus	The assessment of Fair Value hierarchies can be subjective. For 2023/24, as part of our audit of fair value hierarchies of the Pension Fund's assets we agreed with the Fund that the classification of one investment of £19.2 million should be reclassified from Level 2 to Level 3. There were similar reclassifications in the 2022/23 and 2021/22 accounts of £64 million and £47 million respectively. We continue to consider this to be a significant risk in the current year and will work with the Pension Fund to agree proposed classifications early in the audit process. As part of this we will scrutinise and challenge the Pension Fund's proposed classifications.

2024/25 audit strategy overview (cont'd)

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Implementation of the new finance system (Oracle Fusion)	Significant risk	New significant risk	The Council (and therefore Pension Fund) upgraded its finance system in May 2024. Major changes to the finance system give rise to a risk that financial data is lost or changed during migration. The Council continued to use the old system for finalisation of the 2023/24 financial statements for the Council and Pension Fund after the main data migration occurred and has therefore had to manually replicate all transactions recorded after this date in the new system. This increases the risk of error or omission in relation to 2024/25 transactions and data. The implementation of the new system has not gone smoothly. Therefore, there is also an increased risk of misstatements arising as a result of challenges encountered in its implementation. As the Pension Fund uses the integrated system, there is risk related to the Pension Fund data as well. Given the pervasive nature of these risks, we consider that they pose a risk of material misstatement.

2024/25 audit strategy overview (cont'd)

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
IAS26 disclosure – actuarial present value of promised retirement benefits	Risk of material misstatement (ROMM)	No change in risk or focus	Every three years, a formal valuation of the whole Fund is carried out under the Local Government Pension Scheme Regulations 2013 to assess and examine the ongoing financial position of the Fund. The last fund valuation was 31 March 2022 when the fund's liability was recalculated by the actuary and was used to set employer contribution rates and underpin investment management strategy. IAS26 requires post-employment benefits plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including demographic and financial key assumptions. The estimate is based on a roll-forward of data from the last triennial valuation, updated where necessary, and takes into account various factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields. We consider there is a risk around the estimation process, data and assumptions used by the actuary when estimating the actuarial present value of promised retirement benefits.
Completeness of investment income	Risk of material misstatement (ROMM)	New ROMM	In both the 2023/24 and 2022/23 audits we have identified the same error in relation to income from the LCIV Mac fund. Distributions from this fund are reinvested at year end and, in both years, this was not communicated by the fund manager nor identified by the custodian. As a result, income was understated and profit/loss on disposal of investments and change in market value was overstated. The amounts involved were £3.4 million in 2023/24 and £4.2 million in 2022/23. We identified this as a control deficiency in addition to an error in the prior year to reflect that fact that management should have identified this error given that it had also happened in the prior year.

We will continue to keep the Audit Committee updated on our assessment of any changes to audit risk.

2024/25 audit strategy overview (cont'd)

Materiality

Planning materiality

£13.6m

Materiality has been set at £13.6 million, which represents 1% of the net assets of the scheme as at 31 March 2024

Performance materiality

£10.2m

Performance materiality has been set at £10.2 million, which represents 75% of materiality.

Audit differences

£0.69m

We will report all uncorrected misstatements relating to the Fund Account and Net Asset Statement greater than £0.69 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

We will continue to keep the Audit Committee updated on our assessment of any changes to audit risk.

2024/25 audit strategy overview (cont'd)

Audit scope and timeline

This Audit Planning Report covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Hillingdon Pension Fund (the Pension Fund) give a true and fair view of the financial transactions during the year ended 31 March 2025 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2025; and
- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the published financial statements of the London Borough of Hillingdon.

Our audit will also include the required mandatory procedures in accordance with applicable laws and auditing standards.

When planning the audit we consider several key inputs:

- strategic, operational and financial risks relevant to the financial statements;
- developments in financial reporting and auditing standards;
- the quality of systems and processes;
- changes in the business and regulatory environment; and
- management's views on all the above.

By considering these inputs, our audit is focused on the areas that matter, and our feedback is more likely to be relevant.

Considering the above, our professional duties require us to independently assess audit risks and take appropriate actions. The Terms of Appointment with the PSAA permit fee adjustments based on 'the auditor's assessment of risk and the work needed to meet their professional responsibilities'. Therefore, we outline these risks in this audit planning report and will discuss any impact on the proposed scale fee with management.

Effects of climate-related matters on financial statements

Public interest in climate change is growing. We recognize that climate-related risks may span a long timeframe, and while these risks exist, their impact on the current financial statements may not be immediately significant. However, it remains essential to understand these risks to conduct a proper evaluation. Additionally, comprehending climate-related risks may be pertinent in the context of qualitative disclosures in the notes to the financial statements.

We inquire about climate-related risks during every audit as part of our understanding of the entity and its environment. As we continually re-evaluate our risk assessments throughout the audit, we consider the information obtained to help us assess the level of inherent risk.

Audit scope and approach

We plan to adopt a substantive audit approach.

Timeline

An audit timetable has been agreed with management. In Section 06 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Presumptive risk of management override of controls*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Evaluating the business rationale for significant unusual transactions outside the normal course of business.
- Assessing accounting estimates for evidence of management bias

Having evaluated this risk, we have considered whether we need to perform other audit procedures not referred to above. We concluded that no other procedures are required.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of hard to value investments (Level 3 Investments)

Financial statement impact

Misstatements that occur in relation to complex investments valued at Level 3 fair value hierarchy such as private equities, private credit, pooled property and infrastructure investments.

The total of Level 3 investments held by the Fund at 31 March 2024 was £268 million per the 2023/24 audited accounts. This accounts for over 20% of the overall Fund's assets.

If the valuation of these investments was misstated, it would impact on Investment Assets and Net Assets in the Net Asset Statement and Return on Investments section of the Fund Account.

What is the risk?

The Fund's investments include Level 3 investments.

Judgements are made by the fund managers to value these investments, whose prices are not publicly available. The material nature of this type of investment, means that any error in judgement could result in a material valuation error.

What will we do?

Our approach will focus on:

- Analysing the schedule of investments to ensure correct classification, presentation and disclosure of items in the financial statements and corresponding notes.
- Understanding and evaluating of the work of the fund managers.
- Evaluating the ISAE 3402 report for the custodian and fund managers, where applicable.
- Reviewing the latest audited accounts for the relevant fund managers to ensure there are no matters arising that highlight weaknesses in the funds' valuation.
- Where the latest audited accounts are not as at 31 March 2025, make inquiries to establish what procedures management have performed to take account of this risk. We will also perform analytical procedures and check the valuation output for reasonableness against our own expectations.
- Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used.
- Reviewing investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 3 Investments have been appropriately made in the financial statements.
- Performing triangulation work to agree amount per the financial statements to fund managers and the custodian.
- Checking accounting entries have been correctly processed in the financial statements.
- Assessing any topside adjustments and journal entries for evidence of management bias and evaluating the business rationale.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Fair value classification of Level 2 and Level 3 investments

Financial statement impact

Misstatements may occur in relation to disclosure of fair value hierarchy of Level 2 and Level 3 investments. This may lead to incorrect disclosures, which can impact the transparency of financial statements These fair value hierarchy misstatements may lead to incorrect valuations of investments. This can result in either overstatement or understatement of asset values on the balance sheet.

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What is the risk?

The assessment of fair value hierarchies can be subjective. For 2023/24, as part of our audit of fair value hierarchies of the Pension Fund's assets we agreed with the Fund that the classification of an investment should be adjusted. This resulted in £19.2 million of investments being reclassified. There were a similar reclassifications in the and 2022/23 and 2021/22 years of 64 million and £47 million respectively.

As a result, we continue to consider this to be significant risk in current year and will work with the Pension Fund to agree proposed classifications early in the audit process. As part of this we will scrutinise and challenge the Pension Fund's proposed classifications.

What will we do?

Our approach will focus on:

- Gain an understanding of the Pension Fund's approach to classification and the nature of its investments and work with the Pension Fund to agree the proposed classifications early in the audit process
- Assess the significance of market inputs used in the hierarchy valuation as well as the sources of the inputs.
- Confirm the basis of the valuation of each class of investment asset and assess whether it is appropriate
- Obtain quoted prices directly from independent sources and compare these with the Pension Fund's assessment of observable market inputs (bid market price, current yields, and closing bid price) to confirm correct classification.
- Test accounting entries have been correctly processed in the financial statements.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Implementation of the new Finance System (Oracle Fusion)

Financial statement impact

We have assessed that the risk of material misstatement of the financial statements is most likely to occur as a result of:

- Data loss or error in the process of migration between the old and new systems;
- Incomplete and inaccurate recording in the new system of entries made to the old system after the main data migration; and
- Incorrect or incomplete entries being made in the new system as a result of errors in system configuration or other implementation issues.

Due to the nature of this risk, there is potential for misstatement to occur in all financial statement balances.

What is the risk?

The Council upgraded its finance system in May 2024. Major changes to the finance system give rise to a risk that financial data is lost or changed during migration. The Council also continued to use the old system for finalisation of its 2023/24 financial statements after the main data migration occurred and has therefore had to manually replicate all transactions recorded after this date from the old to the new system, which increases the risk of error and omission in relation to 2024/25 transactions and data.

The implementation of the new system has not gone smoothly. Therefore, there is an increased risk of misstatements as a result of challenges encountered in the implementation.

As the Pension Fund uses the integrated system, there is risk related to the Pension Fund data as well.

Given the pervasive nature of these risks, we consider that they pose a risk of material misstatement.

What will we do?

- Understand the governance processes around the new system implementation and the assurances obtained by the Council's own processes, including with regards to completeness of data migration and any subsequent issues with using the new system.
- With support from our own IT audit specialists, design and execute procedures which respond to the specific risks identified in the Council's implementation of the new system.

At this time we are not able to describe the detailed procedures we will perform as we are still working with management to understand the nature of the challenges the Council has faced with the system implementation and evaluate what financial statement risks these may give rise to. We will provide a further update to the Audit Committee once our detailed scope of work is determined.

Other areas of audit focus example area of audit focus

We have identified other areas of the audit, that have not been classified as significant risks but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be include in our Audit Results Report.

What is the risk/area of focus, and the key judgements and estimates?

IAS26 disclosure – actuarial present value of promised retirement benefits

IAS26 requires post employment benefits plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including demographic and financial key assumptions.

The estimate is based on a roll-forward of data from the last triennial valuation in 2022, updated where necessary, and takes into account assumptions.

The information disclosed is based on the IAS 26 report issued to the Fund by the Fund Actuary.

Accounting for the pension scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our response: Key areas of challenge and professional judgement

We will:

- Assess the work of the Pension Fund Actuary including the assumptions they have used by relying on the work of PWC as the consulting actuaries commissioned by the National Audit Office for all local government sector auditors, and considering relevant reviews by the EY actuarial team; and
- Evaluate the reasonableness of the Pension Fund Actuary's calculations by comparing them to the outputs of our own auditor's specialist model

What else will we do?

We will also ensure that the IAS 26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.

Other areas of audit focus example area of audit focus

We have identified other areas of the audit, that have not been classified as significant risks but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may included in our Audit Results Report.

What is the risk/area of focus, and the key judgements and estimates?

Completeness of investment income.

In both the 2023/24 and 2022/23 audits we have identified the same error in relation to income from the LCIV Mac fund. Distributions from this fund are reinvested at year end and, in both years, this was not communicated by the fund manager nor identified by the custodian.

As a result, income was understated and profit/loss on disposal of investments and change in market value was overstated. The amounts involved were £3.4 million in 2023/24 and £4.2 million in 2022/23.

We identified this as a control deficiency in addition to an error in the prior year to reflect that fact that management should have identified this error given that it had also happened in the prior year.

Our response: Key areas of challenge and professional judgement

We will:

- Agree the investment income back to the fund manager report for the LCIV Mac investment to ensure that the custodian has correctly treated any distributions reinvested in the fund.

What else will we do?

We will also evaluate the ISAE 3402 report for custodian and fund managers.

03 Audit materiality

Materiality

Materiality

For planning purposes, materiality has been set at £13.6 million. This represents 1% of the Pension Fund's net assets at 31 March 2024. It will be reassessed on receipt of the draft 2024/25 financial statements and throughout the audit process. We have chosen net assets as the Pension Fund reports on the net assets available to pay pension benefits and is asset-driven. The focus for the users of the financial statements relates to the valuation of the investments within the Pension Fund and the associated liability. The net assets of the Fund represent the net of these investment assets and liabilities. We have provided supplemental information about audit materiality in Appendix F.

Net asset
£1,362m

Planning materiality	Performance materiality	Component performance materiality
£13.6m	£10.2m	£.69m

We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £10.2 million which represents 75% of materiality. Our assessment reflects the strong control environment present at the Fund and our expectation of a relatively low level of misstatements based on results from previous audits.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee or are important from a qualitative perspective.

04 Scope of our audit

Audit process and strategy

Objective and scope of our audit

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- Whether the financial statements give a true and fair view of the Revenue and Fund Account and Net Asset Statement for the Pension Fund for the period in question, including on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the published financial statements of London Borough of Hillingdon ; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- Whether other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

- Reviewing and reporting on matters on which we report by exception as required.

Audit process and strategy (cont'd)

Audit process overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.
- Reliance on the work of other auditors where appropriate;
- Reliance on the work of experts in relation to areas, such as valuation of the Pension Fund and IT specialists with an expertise in data migration.

Our initial assessment of the key processes across the Fund has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use a data driven approach to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

05 Audit team

Audit team

Debbie Hanson*
Audit partner

Nimisha Dosa
Manager

Josna Jose
Senior

Specialist - Pensions
(PWC consulting actuary and EY Actuaries)

Specialist - IT
(EY IT Audit Specialists)

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Planning stage	Final stage
Pension Fund Valuation and Disclosures	Fund Actuary PWC as Consulting Actuary to the NAO on behalf of audit providers EY Pension Advisory Team
Implementation of the new finance system (Oracle Fusion)	EY IT Specialists

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

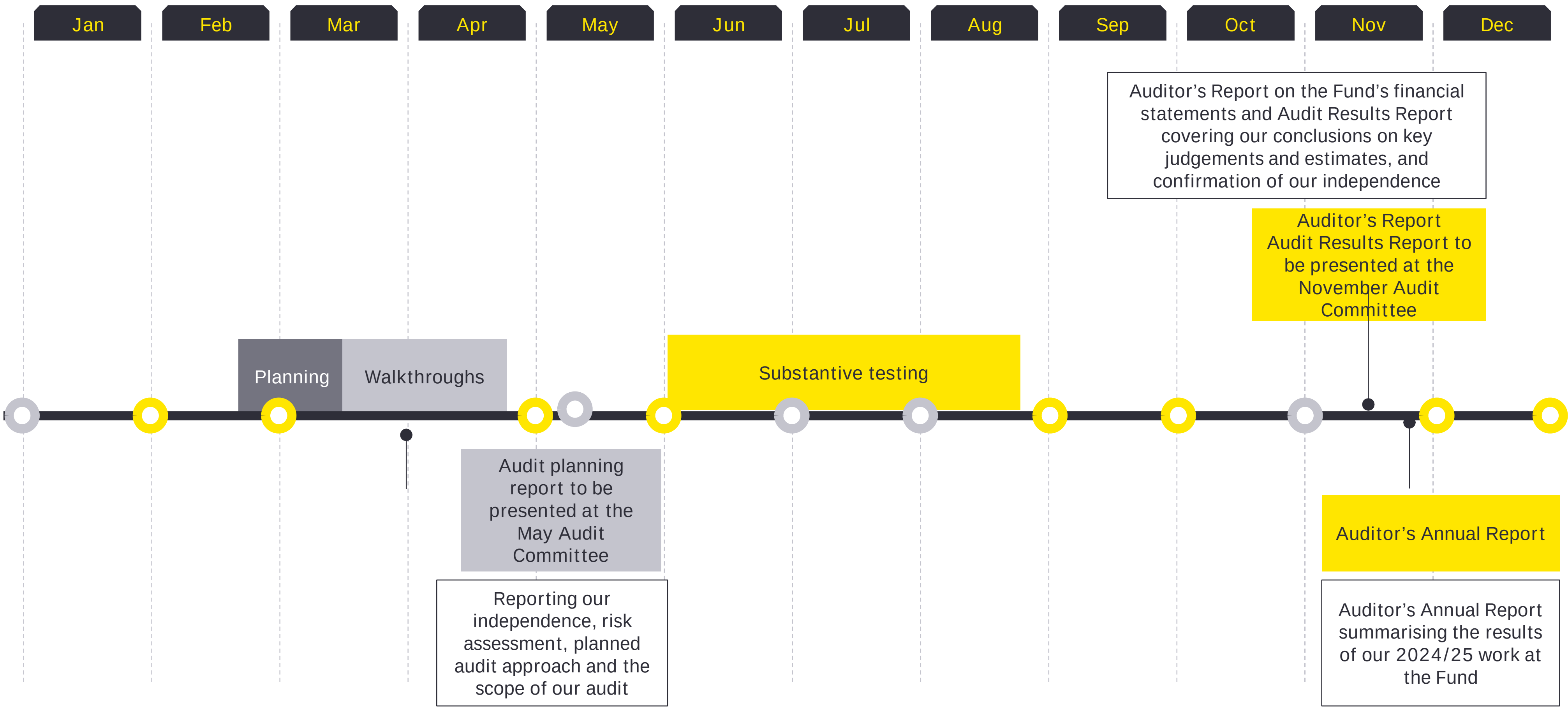
- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements

06 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the 2024/25 audit cycle. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.



07 Independence

Introduction

The FRC Ethical Standard 2019 and ISA (UK) 260 ‘Communication of audit matters with those charged with governance’, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▪ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▪ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▪ The overall assessment of threats and safeguards; ▪ Information about the general policies and process within EY to maintain objectivity and independence ▪ The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a “pre-approval” to provide the service). ▪ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.	▪ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▪ Details of non-audit/additional services provided and the fees charged in relation thereto; ▪ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▪ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▪ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▪ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▪ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However, we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary, agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, there are no non-audit fees to audit fees with Hillingdon Pension Fund. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Sel review threat

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2024

EY has policies and procedures that instill professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2024 and can be found here: EY UK 2024 Transparency Report.

08 Appendices

Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- Prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- Ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- Assign responsibilities clearly to staff with the appropriate expertise and experience;
- Provide necessary resources to enable delivery of the plan;
- Maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- Ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- Ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- During the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable, and the start date of the audit will be delayed.

Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statement opinion being unqualified;
- Appropriate quality of documentation is provided by the Council;
- An effective control environment; and
- Compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. . In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

	2024/25 Current Year	2023/24 Prior Year
	£	£
Code work – scale fee	92,572	81,688
Changes in work required to address professional and regulatory requirements and scope associated with risk	Note 2	Note 1
Total fees	TBC	TBC

All fees exclude VAT

(1) For 2023/24 the scale fee represents the base fee, i.e. not including any extended testing. We have submitted a scale fee variation of £9k to PSAA for determination. This is in relation to a number of areas of additional work, including the revision to ISA (UK) 315, which will continue to impact our scope and approach since implementation in 2022/23. This requires us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements.

(2) The impact of ISA (UK) 315 has been included in the scale fee for 2024/25. The scale fee may however also be impacted by a range of other factors which will result in additional work. These include but are not limited to:

- Non-compliance with law and regulation with an impact on the financial statements.
- Prior period adjustments.

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of: ▪ The planned scope and timing of the audit ▪ Any limitations on the planned work to be undertaken ▪ The planned use of internal audit ▪ The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report- April 2025
Significant findings from the audit	▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▪ Significant difficulties, if any, encountered during the audit ▪ Significant matters, if any, arising from the audit that were discussed with management ▪ Written representations that we are seeking ▪ Expected modifications to the audit report ▪ Other matters if any, significant to the oversight of the financial reporting process ▪ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	Audit results report- November 2025

Appendix C – Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▪ Whether the events or conditions constitute a material uncertainty ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The adequacy of related disclosures in the financial statements	Audit results report- November 2025
Misstatements	▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods ▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by management	Audit results report- November 2025
Fraud	▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▪ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▪ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▪ Any other matters related to fraud, relevant to Audit Committee responsibility	Audit results report- November 2025

Appendix C – Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▪ Non-disclosure by management ▪ Inappropriate authorisation and approval of transactions ▪ Disagreement over disclosures ▪ Non-compliance with laws and regulations ▪ Difficulty in identifying the party that ultimately controls the entity	Audit results report- November 2025
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence ▪ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▪ The principal threats ▪ Safeguards adopted and their effectiveness ▪ An overall assessment of threats and safeguards ▪ Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report – April 2025 Audit results report – November 2025
External confirmations	▪ Management's refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – November 2025
Consideration of laws and regulations	▪ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▪ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report – November 2025
Internal controls	▪ Significant deficiencies in internal controls identified during the audit	Audit results report – November 2025

Appendix C – Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – November 2025
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report – November 2025
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – November 2025
Auditors report	▪ Key audit matters that we will include in our auditor's report ▪ Any circumstances identified that affect the form and content of our auditor's report	Audit results report – November 2025

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EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

Ernst & Young LLP

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