

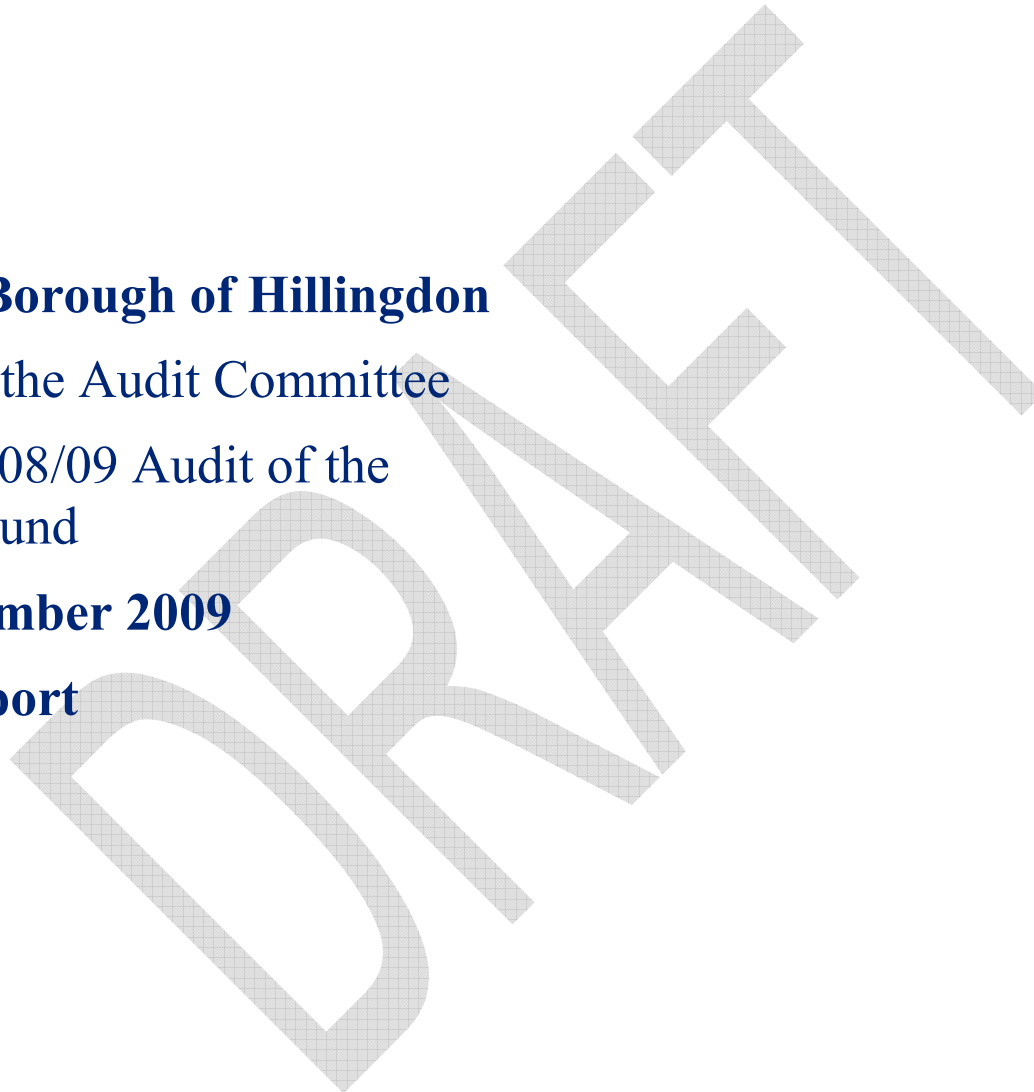
London Borough of Hillingdon

Report to the Audit Committee

On the 2008/09 Audit of the
Pension Fund

22 September 2009

Final Report



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Introduction

We have pleasure in setting out in this document our report to the Audit Committee of London Borough of Hillingdon Pension Fund for the year ended 31 March 2009 for discussion at the meeting scheduled for 22 September 2009. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2009.

Audit Scope

Based on guidance issued by the Audit Commission, auditors are asked from this year (i.e. 2008/09), for audit purposes, to treat the Local Government Pension Scheme (LGPS) as a stand-alone body, with a separate audit plan and reports to those charged with governance.

Our audit of the Pension Fund was planned and performed in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the financial statements and there is no requirement for a Value for Money conclusion on the Pension Fund financial statements specifically.

The Pension Fund financial statements remain part of the financial statements of the Council as a whole. However, as part of the same agenda to improve accountability and audit arrangements for the pension scheme, the LGPS Regulations have been amended to require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual financial statements from 2008/09 onwards.

Our audit report on the Council financial statements covers the Pension Fund section of that document but has been re-formatted to better reflect the separate nature of the Pension Fund audit. In addition, we have been asked by the Commission to issue a separate audit report for inclusion in the annual pension fund report which reports on whether the financial statements contained in the annual report are consistent with the Council's separate financial statements and that other information is not inconsistent with those financial statements.

Introduction (continued)

Key audit risks

We have identified the following key audit risk:

1. Employer and employee contributions:

Unlike the position in the private sector, we are not required to issue a separate statement on contributions. Nevertheless, in view of the complexity arising from the participation of different employers within the scheme, we identified the identification and payment of contributions as an area of specific risk.

As a result of the regulations introduced from 1 April 2008, whereby a new benefit regime was put in place, active members may now contribute to the Pension Fund based on a tiered contribution structure as opposed to a single contribution rate that applied previously. Therefore we have also considered this as a specific audit risk.

We have performed focused audit procedures to address these identified risks and conclude that no material misstatements arise from these areas.

Other matters

We have performed detailed testing around benefits paid during the year. For a sample of benefits payments we have agreed through to supporting documents including acknowledgements from the recipient.

Materiality

Materiality of £6,390,000 is consistent with our determination of planning materiality previously advised to the Audit Committee. As outlined in our audit plan to the Audit Committee, we report on all unadjusted misstatements greater than £128,000 unless they are qualitatively immaterial.

Accounting policies and financial reporting

As part of our audit, we consider the quality and acceptability of the Pension Fund's accounting policies and financial reporting. Our findings are discussed in section 3.

Introduction (continued)

Identified misstatements and disclosure deficiencies

At the time of writing, we have not identified any unadjusted misstatements in excess of £128,000.

We have provided comments to management regarding the disclosures on the draft financial statements. We will update the Audit Committee as to whether there are any uncorrected disclosure deficiencies at the meeting on 22 September 2009.

Accounting and internal control systems

We did not identify any material weaknesses in the financial reporting systems.

Detailed control observations noted are explained in section 3.

Independence

Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity.

These were set out in the “Independence policies and procedures” section of our Briefing on audit matters document as provided.

We reconfirm our independence and objectivity to the Audit Committee for the year ended 31 March 2009.

Terms of audit appointment

Local LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements. We refer you to the Briefing on audit matters document attached as an appendix to our Audit Plan as delivered on 28 July 2009 as well as to the Statement of responsibilities of auditors and audited bodies published by the Audit Commission.

Introduction (continued)

Current market conditions

On 27 November 2008, the Financial Reporting Council published an analysis of some of the challenges for audit committees arising from current market conditions and some suggested questions that audit committees may need to address. In addition, the FRC published an Update for Directors of Listed Companies: Going Concern and Liquidity Risk. The update brings together the key accounting requirements and the disclosures relevant to going concern and liquidity risk and sets out the main points of interaction between the judgements made by directors and auditors. Subsequently, the Auditing Practices Board issued a bulletin setting out guidance to auditors on this subject. We confirm that to the extent considered necessary we have taken this into account in the planning and performance of our audit.

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Introduction (continued)

Audit status

We have substantially completed our audit in accordance with our Audit Plan which was presented to you on 28 July 2009. However, at the time of writing, certain procedures are still outstanding and need to be finalised before we can finalise our audit opinion:

- Completion of audit of the valuation of investments;
- Agreement of investment values to investment manager reports and custodian reports and to the reconciliation between the two reports;
- Completion of audit of membership movements;
- Receipt of bank letter;
- Final review of draft financial statements;
- Sundry outstanding items; and
- Internal review process.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from the completion of these matters.

On completion of the above we anticipate issuing an unqualified Auditors' report on the financial statements.

1. Key audit risks (continued)

Key audit risk

Background

Contributions

The correct deduction of contributions depends on systems-based processing of membership data and salary details, together with a robust internal control framework. Errors in processing contributions can lead to non-compliance with the agreed rate of contributions schedule, and deducting incorrect amounts from active members' payroll.

Furthermore the Hillingdon Pension Fund has an additional complexity introduced by the participation of more than one employer in the scheme and the introduction of the new benefit structure with its tiered contribution rates.

Deloitte response

We have tested the design and implementation of controls present at the Council for ensuring contributions from all admitted bodies are identified and calculated correctly.

In addition the following procedures were performed:

- Analytical review of amounts received;
- Assessment of compliance with the Rate of Contributions schedule; and
- Recalculated a sample of member contributions in the period.

We have not yet completed the reconciliation of the membership numbers to the draft financial statements nor the detailed testing on contribution rates by other admitted bodies. We will update the Audit Committee of our findings at our meeting on 22 September.

1. Accounting policies and financial reporting

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the council's accounting policies and financial reporting are discussed below.

Accounting policies

There were no accounting policy matters which are significant to the 2008/09 financial statements, except in relation to investment valuation and the implementation of the new SORP which are discussed above.

Financial reporting

There were no financial reporting presentational or disclosure matters which are significant to the 2008/09 financial statements.

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2. Accounting and internal control systems

During the course of our audit we identified a number of control observations, the most significant of which are detailed below.

Control observations

Investment valuation processing - Observation

We note that the investment values obtained from the custodian were used for preparing the financial statements, but that the trial balance was not updated for these valuations. While there is no resulting misstatement in the financial statements, the internal figures held for the fund do not reflect the actual year end position.

Recommendation

We recommend that management update the trial balance at year end to include the full year change in investment valuation.

Management response

We agree with this recommendation. This issue has already been identified internally and developments in the better use of the financial system to produce the financial statements are already underway, and will be fully utilised in the production of the 2009/10 statements.

3. Matters for communication to those charged with governance

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Independence

We consider that we comply with APB Ethical Standards and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.

Non-audit services

We are not aware of any inconsistencies between APB Ethical Standards and the council's policy for the supply of non audit services or of any apparent breach of that policy.

In the period from 1 April 2008 to 31 March 2009, Deloitte has earned £40,000 in professional fees relating to the Pension Fund audit.

International Standards on Auditing (UK and Ireland)

We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit and adjusted our audit approach as deemed appropriate. The results of this were that no specific reliance was placed in any areas relating to the Pension Fund.

Written representations

A copy of the representation letter to be signed on behalf of the board is included in Appendix 1. Non-standard representations have been highlighted where they are appropriate.

4. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you on 28 July 2009 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

We would be happy to consider a request to perform a more extensive study of these matters and, where compatible with our independence as auditors, assist you with implementing any improvements. As you will appreciate, such an exercise would be a separate engagement to our audit appointment, since the scope and context of our audit work in these areas is necessarily limited.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP
Chartered Accountants

Birmingham
22 September 2009

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Appendix 1: Representation Letter

Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ3

Our Ref: GK/HP/GM

Date:

Dear Sirs

London Borough of Hillingdon Pension Fund (“The Scheme”)

This representation letter is provided in connection with your audit of the financial statements of the Scheme for the year ended 31 March 2009 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Scheme in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP).

We acknowledge as members of the Audit Committee our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of contributions received in respect of active members of the Scheme and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations:

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Scheme have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and members’ meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you all significant facts relating to any frauds or suspected frauds affecting the Scheme involving:
 - (i). management;
 - (ii). employees who have significant roles in internal control; or
 - (iii). others where the fraud could have a material effect on the financial statements.

Appendix 1: Representation Letter (continued)

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Scheme's financial statements communicated by members, former members, employers, regulators or others.
6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
7. We have considered the uncorrected misstatements and disclosure deficiencies detailed in the appendix to this letter. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.
8. Where required, the value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the members of the Audit Committee, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Scheme. Any significant changes in those values since the year end date have been disclosed to you.
9. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Scheme and confirm that we have disclosed in the financial statements all transactions relevant to the Scheme and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice: Financial Reports of Pension Schemes or other requirements.
10. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the scheme. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Scheme's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
11. We confirm that the Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Scheme should change
12. You have been informed of all changes to the Scheme rules.
13. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Scheme's financial statements.
14. No claims in connection with litigation have been or are expected to be received.

Appendix 1: Representation Letter (continued)

15. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
16. There have been no events subsequent to 31 March 2009 which require adjustment of or disclosure in the financial statements or notes thereto.
17. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.

We confirm the above representations are made on the basis of adequate enquiries of other officials of the Scheme (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of London Borough of Hillingdon



Deloitte.

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