



London Borough of Hillingdon

Report to the Audit Committee

On the 2008/09 Audit of the
Pension Fund

18 November 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. This report summarises the principal matters that have arisen from our audit of the Pension Fund 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 calculation 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 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 2.

Introduction (continued)

Identified misstatements and disclosure deficiencies

As outlined in our audit plan presented to the Audit Committee on 28 July 2009, we report on all individual identified misstatements in excess of £128,000.

Our audit identified that Investment Income was overstated by £30m and the Change in Market value was understated by the same amount. This error was corrected by management. We did not identify any unadjusted misstatements in excess of £128,000.

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 that was attached as an appendix of our Audit Plan as delivered on 28 July 2009.

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.

Audit status

We have completed our audit in accordance with our Audit Plan which was presented to you on 28 July 2009 and have issued an unqualified Auditors' report on the financial statements.

1. Key audit risks

Key audit risk

Contributions

Background

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.

The results of our work were satisfactory.

2. 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.

Financial reporting

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

Identified misstatements and disclosure deficiencies

Our Report to the Audit Committee dated 16 September 2009 set out a number of outstanding areas. These areas were satisfactorily completed at the time that the financial statements were approved. However, during the course of finalising these areas, we noted that the proceeds on the disposal of an investment of £30,426,000 was erroneously recorded as Investment Income and not as a sale of investments. Consequently, the Change in Market Value charge for the year was misstated by the same amount. This error was corrected by management.

3. 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. Accounting and internal control systems (continued)

Accuracy of data - Observation

During our testing on contributions made by non-Hillingdon employees in the year, we noted one instance where an active member had left the employment of the admitted body but her status had not been changed from 'Active' to 'Deferred' on the pension database. It should be noted that the payroll had been updated so that contributions were no longer being made on her behalf.

Recommendation

We recommend that on a monthly basis, a reconciliation of changes made to the payroll and those reflected on the pensions database is performed and any reconciling differences followed up on by management. This is particularly important as there is greater emphasis on the importance of pension schemes maintaining accurate data, which is then used in actuarial valuations.

Management response

We agree with this recommendation and have now requested a monthly report from the payroll system to identify all leavers in the previous month. This will then be reconciled with the pensions axise admin system and all mismatches investigated and records updated.

3. Accounting and internal control systems (continued)

Control observations

Trial Balance to statutory accounts reconciliation - Observation

No formal Trial balance (TB) to statutory accounts reconciliation is performed, showing all the adjustments made to amounts recorded in the TB to arrive at the values shown in the accounts. As a consequence, a number of adjustments were made to arrive at the amounts included in the draft accounts, notably to the investments balance, that management were initially unable to explain. One of the adjustments included recording £196k withholding tax within the investments balance, affecting the change in market value. When this adjustment was reversed, management were had difficulty in identifying the corresponding Fund Account caption.

Recommendation

We recommend that a formal TB to statutory accounts reconciliation is performed at each year end. All adjustments or reclassifications reflected in this reconciliation should be booked in order that the brought forward balances are appropriately updated.

Management response

We agree with this recommendation and a formal TB to statutory accounts reconciliation will be undertaken. A review of accounting processes, particularly financial controls around separation of GF and Pension Fund ledgers has begun and it is proposed that such reconciliations will be carried out throughout the year and monitored via the Financial Digest.

3. Accounting and internal control systems (continued)

Control observations

Investment manager reports - Observation

Investment managers are not supplying bid price information to the custodian – rather they continue to supply information based on mid value. The impact of this is that the year end reconciliation between the custodian's valuation and the investment managers' valuations do not agree the values reflected in the statutory accounts.

Recommendation

Given that investments are no longer valued at mid price in the statutory accounts, investment managers should be encouraged to supply relevant bid price information to the custodian, who can then prepare his reconciliation based on amounts that will be reflected in the financial statements.

Management response

We agree with this recommendation. Fund managers have confirmed they are able to provide bid price information, allowing the custodian to prepare the reconciliation on amounts that will be reflected in the accounts.

4. 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.

5. 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
18 November 2009



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